Basel III - Pillar 3 Disclosures

30 June 2023

National Bank of Umm Al Qaiwain

.

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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), Umm Al-Qaiwain, 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.

2. Executive Summary:

The Central Bank of the UAE has published notice number CBUAE/BSD/N/2020/4980 in November 2020 and 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 in order 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

For 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, strategic & business risk, reputational risk, liquidity risk ,reputation risk, human resource risk, technology risk, FIRB vs standardize approach etc. The risk and capital assessment of these other areas are commonly referred as "Internal Capital Adequacy Assessment Process (ICAAP)". Under ICAAP report, the Bank assesses the above mentioned risk (where applicable) and measures that after combining the pillar 1+Pillar 2 risk the Bank can withstand the regulatory and internal capital requirements. The Bank submits ICAAP report to CBUAE on 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 the 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 the capital adequacy . This report is 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 on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. 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 13%. (Including 2.5% of capital conservation buffer)

1. *Overview of risk management and RWA*

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

	In AED'000	a T 30-Jun-23	b T-1 31-Mar-23	c T-2 31-Dec-22	d T-3 30-Sep-22	e T-4 30-Jun-22
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	4,873,595	4,767,195	4,583,381	4,684,668	4,408,136
1a	Fully loaded ECL accounting model	4,873,595	4,767,195	4,583,381	4,684,668	4,408,136
2	Tier 1	4,873,595	4,767,195	4,583,381	4,684,668	4,408,136
2a	Fully loaded ECL accounting model Tier 1	4,873,595	4,767,195	4,583,381	4,684,668	4,408,136
3	Total capital	4,997,255	4,886,156	4,704,340	4,807,931	4,526,208
3a	Fully loaded ECL accounting model total capital	4,997,255	4,886,156	4,704,340	4,807,931	4,526,208
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	10,865,460	10,471,181	10,627,427	10,877,644	10,462,176
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	44.85%	45.53%	43.13%	43.07%	42.13%
5a	Fully loaded ECL accounting model CET1 (%)	44.85%	45.53%	43.13%	43.07%	42.13%
6	Tier 1 ratio (%)	44.85%	45.53%	43.13%	43.07%	42.13%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	44.85%	45.53%	43.13%	43.07%	42.13%
7	Total capital ratio (%)	45.99%	46.66%	44.27%	44.20%	43.26%
7a	Fully loaded ECL accounting model total capital ratio (%)	45.99%	46.66%	44.27%	44.20%	43.26%
	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 (%)	35.49%	36.16%	33.77%	33.70%	32.76%

	Leverage Ratio					
13	Total leverage ratio measure	16,142,267	16,171,543	15,732,213	15,526,626	15,532,337
14	Leverage ratio (%) (row 2/row 13)	30.19%	29.48%	29.13%	30.17%	28.38%
14 a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	30.19%	29.48%	29.13%	30.17%	28.38%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	30.19%	29.48%	29.13%	30.17%	28.38%
	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	3,123,832	2,951,743	2,261,716	2,474,637	2,121,544
22	Total liabilities	9,388,983	9,175,339	9,106,295	9,020,433	8,971,441
23	**Eligible Liquid Assets Ratio (ELAR) (%)**	**33.27%**	**32.17%**	**24.84%**	**27.43%**	**23.65%**
	ASRR					
24	Total available stable funding	12,488,805	12,294,750	12,307,161	11,953,254	11,928,170
25	Total Advances	7,377,204	7,847,539	7,740,835	7,732,543	7,257,844
26	**Advances to Stable Resources Ratio (%)**	**59.07%**	**63.83%**	**62.90%**	**64.69%**	**60.85%**

Note: Leverage Ratio went live starting 31 December 2021 therefore the previous quarter data have been left blank.

1.2. *Table OVA: Bank Risk Management Approach*

1.3. *Template OV1: Overview of RWA*

		a	b	c
		RWA		Minimum capital requirements
In AED'000		T 30-Jun-23	T-1 31-Mar-23	T 30-Jun-23
1	Credit risk (excluding counterparty credit risk)	9,892,320	9,514,666	1,038,694
2	Of which: standardized approach (SA)	9,892,786	9,516,875	1,038,743
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)	-	-	-
7	Of which: standardized approach for counterparty credit risk	233	1,105	24
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	233	1,105	24
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	Securitization exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitization external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitization standardized approach (SEC-SA)	-	-	-
20	Market risk	97,265	78,897	10,213
21	Of which: standardized approach (SA)	97,265	78,897	10,213
22	Of which: internal models approach (IMA)			
23	Operational risk	875,409	875,409	91,918
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)**	**10,865,460**	**10,471,181**	**1,140,873**

2. *Composition of Capital*

2.1. *Template CC1: Composition of regulatory capital*

		a	b
		Amounts 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 (h) from CC2 template
2	Retained earnings	1,897,004	
3	Accumulated other comprehensive income (and other reserves)	1,266,902	
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**	5,163,906	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	7,224	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Securitisation gain on sale		
13	Gains and losses due to changes in own credit risk on fair valued liabilities		
14	Defined benefit pension fund net assets		
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
16	Reciprocal cross-holdings in CET1, AT1, Tier 2		
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	283,086	
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**	290,310	
25	**Common Equity Tier 1 capital (CET1)**	4,873,595	
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		CC2 (i)
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)**	**4,873,595**	
	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	123,660	
45	**Tier 2 capital before regulatory adjustments**	**123,660**	
	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)**		
52	**Total regulatory capital (TC = T1 + T2)**	**4,997,255**	
53	**Total risk-weighted assets**	**10,865,460**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	44.85%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	44.85%	
56	**Total capital (as a percentage of risk-weighted assets)**	45.99%	
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**		
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	35.49%	
	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)		
[redacted]			
66	Significant investments in common stock of financial entities		
[redacted]			
68	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	123,660	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%	

[redacted]			
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
73	*Current cap on CET1 instruments subject to phase-out arrangements*		
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
75	*Current cap on AT1 instruments subject to phase-out arrangements*		
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*		
77	*Current cap on T2 instruments subject to phase-out arrangements*		
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*		

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

AED 000 30-Jun-23	a	b	c
	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	2,679,568	1,527,569	a
Due from other Banks	3,019,668	3,020,794	
Loans and advances to customers	6,408,535	6,795,347	
Investment Securities	1,418,426	2,570,972	
Prepayments, accrued income and other assets	271,984	133,169	b
Investments in associates and joint ventures	667	667	
Customer Acceptances	189,213		
Property, plant and equipment	73,443	212,259	
Total assets	**14,061,504**	**14,260,777**	
Liabilities			
Customer accounts	8,275,856		
Accruals, deferred income and other liabilities	230,285		
Customer Acceptances	189,213		
Total liabilities	**8,695,354**	**-**	
Shareholders' equity			
Paid-in share capital	2,000,000	2,000,000	
Of which: amount eligible for CET1	2,000,000	2,000,000	
Retained earnings	1,897,004	1,897,004	d
Other reserves	1,469,146	1,266,902	c
Total shareholders' equity	**5,366,150**	**5,163,906**	

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

a) Exposures under scope of regulatory consolidation included accrued interest where as it is included in other assets in the financial statements. General / collective provision in netted from Loans and advances, due from banks and investments under Financials but not deducted for the purposes of Basel reporting where it is reported as Other liabilities.

b) Acceptances included in the financial statements whereas they are part of off-balance sheet exposure under Basel reporting.

c) Haircut of 55% is taken under Basel reporting along-with general reserves.

2.3. Template CCA: Main features of regulatory capital instruments

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

3. Macro prudential Supervisory Measures

3.1. Template CCyB1: Countercyclical Buffer

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

4. Leverage ratio

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

	In AED'000	a 30 Jun 2023
1	Total consolidated assets as per published financial statements	14,061,505
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(290,310)
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 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	466
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)	2,217,226
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	153,379
13	**Leverage ratio exposure measure**	**16,142,267**

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

		a	b
	In AED'000	**T** **30 Jun 2023**	**T-1** **31 Mar 2023**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	14,214,885	14,519,453
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)	(290,310)	(264,616)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	13,924,574	14,254,837
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	0.11	1,292
9	Add-on amounts for PFE associated with *all* derivatives transactions	333	286
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) *1.4**	466	2,209
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	3,341,647	2,943,078
20	(Adjustments for conversion to credit equivalent amounts)	(1,124,421)	(1,028,581)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	2,217,226	1,914,497
Capital and total exposures			
23	**Tier 1 capital**	4,873,595	4,767,195
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	16,142,267	16,171,543

Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	30.19%	29.48%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	30.19%	29.48%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	27.19%	26.48%

*Leverage Ratio started on 31st December 2021. Hence, previous period column has been left blank. It is evident from the ratio NBQ stands well above regulatory minimum of 3%.

5. Liquidity Risk Management

5.1. Template LIQ1: Liquidity Coverage Ratio (LCR)

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

5.2. Template LIQ2: Net Stable Funding Ratio (NSFR)

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

5.3. Template ELAR: Eligible Liquid Assets Ratio

		30-Jun-23	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	2,967,010	
1.2	UAE Federal Government Bonds and Sukuks	30,147	
	Sub Total (1.1 to 1.2)	2,997,157	2,997,157
1.3	UAE local governments publicly traded debt securities	126,674	
1.4	UAE Public sector publicly traded debt securities		
	Sub total (1.3 to 1.4)	126,674	126,674
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	**3,123,832**	**3,123,832**
2	Total liabilities		9,388,983
3	**Eligible Liquid Assets Ratio (ELAR)**		**33.27%**

5.4. *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 UAECB Liquidity Regulations.

			In AED'000
		Items	**Amount**
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	6,569,695
	1.2	Lending to non-banking financial institutions	140,406
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	9,636
	1.4	Interbank Placements	657,467
	1.5	**Total Advances**	7,377,204
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	5,444,010
		Deduct:	
	2.1.1	Goodwill and other intangible assets	0
	2.1.2	Fixed Assets	212,259
	2.1.3	Funds allocated to branches abroad	0
	2.1.5	Unquoted Investments	1,192
	2.1.6	Investment in subsidiaries, associates and affiliates	667
	2.1.7	**Total deduction**	214,118
	2.2	**Net Free Capital Funds**	5,229,892
	2.3	**Other stable resources:**	0
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	0
	2.3.5	Customer Deposits	7,258,913
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	7,258,913
	2.4	**Total Stable Resources (2.2+2.3.7)**	12,488,805
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	59.07

6. *Credit risk*

6.1. *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 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 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.

d) To identify early warning signals and initiate timely corrective action. Credit Risk Department has various units viz., Portfolio management unit, Remedial Unit and Risk Containment Unit. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required

6.2. *Template CR1: Credit quality of assets*

		a	b	c	d	e	f
		Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	518,273	6,123,695	233,433	160,764	72,669	6,408,535
2	Debt securities	0	456,696	546	0	546	456,150
3	Off-balance sheet exposures	56,339	1,622,220	3,341	0	3,341	1,675,218
4	**Total**	**574,612**	**8,202,611**	**237,320**	**160,764**	**76,556**	**8,539,903**

Non Performing Advances are defined as advances classified as Substandard, Doubtful and Loss, in which there is loss due to Defaults / past due for 90 days or more. This disclosure reconciled with published FS note # 6,7 & 13

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

		A 30-Jun-23
1	**Defaulted loans and debt securities at the end of the previous reporting period**	622,672
2	Loans and debt securities that have defaulted since the last reporting period	138,568
3	Returned to non-default status	7,427
4	Amounts written off	141,748
5	Other changes	(93,792)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	518,273

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

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

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6.4.1. Template CR3: Qualitative disclosure requirements related to credit risk mitigation techniques.

The Bank uses comprehensive approach under Basel III for risk mitigation.

		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	6,641,968	293,449	293,449				
2	Debt securities	456,696						
3	**Total**	**7,098,664**	**293,449**	**293,449**				
4	Of which defaulted	516,437	1,836	-				

The above is prepared in accordance with the "Standardized approach of Basel" III which recognizes only cash & equity shares as primary collateral, otherwise the actual collateral held by the Bank is significantly high and 76% of our loan book portfolio is secured.

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

		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	3,038,673		407,829	-	281,390	9%
2	Public Sector Entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	3,171,835	466	3,171,835	466	1,356,977	43%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	3,217,784	2,164,872	3,300,017	711,540	3,878,605	72%
7	Regulatory retail portfolios	350,354	861,210	350,603	18,457	347,746	29%
8	Secured by residential property	20,202	-	122,483	-	20,087	99%
9	Secured by commercial real estate	2,443,991	261,411	2,242,884	9,500	2,470,556	91%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11	Past-due loans	676,378	53,688	17,029	50,739	571,111	78%
12	Higher-risk categories	3,758	-	3,758	-	5,636	150%
13	Other assets	1,337,802	-	1,337,802	-	960,679	72%
14	**Total**	**14,260,777**	**3,341,647**	**10,954,241**	**790,703**	**9,892,786**	

On Balance Sheet, exposure is net of allowances as required by CBUAE pillar 3 reporting requirements

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

The column I total of this table reconciles with the above table total of On+Off BS post CRM & CCF exposure total

		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	2,757,283	-	-	-	-	281,390	-	-	**3,038,673**
2	Public Sector Entities	-	-	-	-	-	-	-	-	**-**
3	Multilateral development banks	-	-	-	-	-	-	-	-	**-**
4	Banks	-	1,104,909	-	1,863,264	-	204,126	3	-	**3,172,302**
5	Securities firms	-	-	-	-	-	-	-	-	**-**
6	Corporates	309,766	-	-	-	-	3,119,589	-	892,960	**4,322,314**
7	Regulatory retail portfolios	803,633	-	-	-	149,080	235,936	-	-	**1,188,649**
8	Secured by residential property	-	-	-	-	461	19,741	-	-	**20,202**
9	Secured by commercial real estate	40,535	-	-	-	-	2,470,556	-	-	**2,511,091**
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	**-**
11	Past-due loans	(1,205)	-	-	-	-	123,748	298,242	-	**420,785**
12	Higher-risk categories	-	-	-	-	-	-	3,758	-	**3,758**
13	Other assets	377,508	-	-	-	-	959,525	770	-	**1,337,802**
14	**Total**	**4,287,519**	**1,104,909**	**-**	**1,863,264**	**149,541**	**7,414,610**	**302,772**	**892,960**	**16,015,575**

7. *Counterparty Credit Risk*

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

		a	b	c	d	e	f
		Replacement cost	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1	SA-CCR (for derivatives)	0.10	333		1.4	466	233
2							
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5							
6	**Total**						

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

	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			466					466
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	**0**	**-**	**466**	**-**	**-**	**-**	**-**	**466**

7.3. *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

7.4. *Template CCR6: Credit derivative exposures*

Not applicable.

7.5. *Template CCR8: Exposures to central counterparties*

Not applicable.

8. *Securitisation*

No disclosures related to Securitisation are applicable to Bank, as we do not have any securitisation position.

8.1. *Template SEC1: Securitisation exposures in the banking book*

Not Applicable to the Bank

8.2. *Template SEC2: Securitisation exposures in the trading book*

Not Applicable to the Bank

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

Not Applicable to the Bank

8.4. *Template SEC4: Securitisation exposures in the banking book and associated capital requirements - bank acting as investor*

Not Applicable to the Bank

9. Market risk

9.1. 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 investment prices. The changes impact the Bank's earnings & capital and can have ramifications on the Bank's liquidity and profitability.

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 30.06.2022 are given in the table below:

9.2. 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.

AED 000 30-Jun-2023		a RWA (AED'000)
1	General Interest rate risk (General and Specific)	2,040
2	Equity risk (General and Specific)	43,545
3	Foreign exchange risk	51,680
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus method	0
7	Scenario approach	
8	Securitisation	0
9	**Total**	**97,265**