PILLAR III DISCLOSURES

31st DECEMBER 2019

Table of Contents

1. Al Hilal Bank Overview

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Federal Law No.2 of 2015, concerning commercial companies has come into effect from 1 July 2015, replacing the existing Federal Law No.8 of 1984.

These Pillar III disclosures are in line with the consolidated financial statements as at and for the year ended 31 December 2019 comprise the Bank and its subsidiaries set out in (Note 37 of Financial Statement) (together referred to as the "Group"). The Group is primarily involved in Islamic retail, corporate, investment banking and Islamic insurance ("Takaful") activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC ("ADCB") and the erstwhile Board of Directors of Union National Bank PJSC ("UNB") approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e. combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders owns approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retain ADCB's legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond ("bond") to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. This bond has been converted into 117,647,058 ADCB shares. Post acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 01 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank's rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets. (refer Financial Statement notes 12, 13, 18, 19, 21 and 31 for further details).

The consolidated Pillar III disclosure incorporate the portfolio of the Bank and entities controlled by the Bank and its subsidiaries.

2. Risk Overview

The Group operates with a branch network, ATMs/ CCDM as well as three branches of Al Hilal Islamic Bank Kazakhstan which is the subsidiary of the Bank.

The Group's key focus is to build and roll out a robust business model to tap the Retail market segments with specially tailored Shariah compliant products and develop efficient processes to deliver these products through a digital platform.

The Group's business philosophy also revolves around the theme of ensuring superior service quality, enabled by the best people and technology.

In its endeavor to develop itself into a dynamic Islamic financial institution, having the capabilities to provide personalized service to customers.

Post-acquisition, the Bank is primarily involved in Islamic retail banking activities, which are subject to risks that can adversely affect the business, operations and financial condition. These activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Islamic financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with Islamic financial instruments are a significant component of the risks faced by the Group.

Although the strategy is to be risk averse in a banking business, to generate revenue risk taking is part of the banking business, which may lead to trigger underlying risks, which are an inevitable consequence of such activities. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management function is an integral part of managing risks across the Group's business activities. Risk Management Division policies are designed and implemented to identify and analyze risks, to set appropriate risk limits and controls, to monitor risks with adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in regulations, markets, products and emerging best practice, in order to keep financial risk at a prudent and acceptable level within agreed risk appetite parameters. After acquisition, the Group has further improved its policies and process by aligning with ADCB standard practices.

One of the major risks incurred by the Group arises from extending credit to customers through its operations. Beyond credit risk, the Group is also exposed to other risk types such as market risk, operational risk, profit rate risk in the banking book and other risks that are inherent to the Group's strategy and product range.

3. Corporate Governance

The overall responsibility of risk management resides with the Board of Directors ("the Board") of the Bank and they are the principal decision maker. The Board has responsibility for management and strategy of the Group. In particular, it sets the goal, strategy and policies of the Group. The Board monitors the performance of businesses and supervises the Group's executive management. The Board ensures effective governance, controls and oversight around the Group processes. The shareholder, Abu Dhabi Commercial Bank, appoints Al Hilal Bank's Board members. The Board has full power to manage the Bank and represents the sole shareholder.

The core principles of the Group's corporate governance code comprise: (i) responsibility and the clear division and delegation of authority; (ii) accountability in the relationships between executive management and the Board and between the Board and the shareholders and other stakeholders; (iii) transparency and disclosure to enable stakeholders to assess Group financial performance and condition; and (iv) fairness in the treatment of all stakeholders.

In addition to the Board, AHB management also provide governance, controls and oversight. Management has been delegated responsibilities and act on day-to-day business management related activities. Management review and manage liquidity and capital on a regular basis.

The Bank's management monitors the performance of the Bank, subsidiaries and associates on an ongoing basis and advises the Board. The monitoring of the performance is carried out through a regular assessment of performance trends against budget, prior periods and peer banks in each of the market segments and collectively through various management committees.

The Board receives regular comprehensive reports on key risks vis-a-vis the achievement of strategic objectives of the Group in reference to credit risk, market and liquidity risk, capital adequacy and operational risk profiles.

4. Risk Management

Risk Management function is an integral to the operations and the culture of the Group. Risk is managed within the Group through the implementation of independent Risk Management Division (RMD)

The RMD structure ensures identification, measurement, monitoring and controlling risk in accordance with the Group's Risk Management Framework and Policies as well as regulatory guidelines provided by the CBUAE.

The Bank has revisited the RMD structure in 2019 as part of integration and alignment with ADCB to achieve efficiency in risk practices. This also enables the oversight of risk activities by ADCB, which makes the risk processes more prudent and reliable.

The Group's risk management philosophy revolves around "Five pillars of Risk Management":

- Strong Corporate Governance
- Robust Risk Architecture
- Adherence to Globally Accepted Risk Standards
- Skilled & Seasoned Manpower
- Robust Risk Culture

RMD's vision is to adopt best international standards and practices of risk management and to translate this into comprehensive risk infrastructure that supports this vision. RMD guide and assist the overall management of the Group's risks. RMD has firmly embedded, through its existing policies, the risk governance structure is use to control, manage and mitigate risk.

Managing risk is a process operated independent to the business units of the Group. It aims to promote a strong risk management culture through a comprehensive set of policies, processes and tools that are designed to effectively identify, measure, monitor and control risk exposures.

The Board of Directors and senior management are involved in the establishment of the risk infrastructure and periodic oversight and guidance of the RMD. The processes are subject to additional scrutiny by an independent Shariah Board, Compliance as well as Internal and External Auditors and the Regulator, which help further strengthen the risk management practices within the Group.

The Group has embraced a risk management and internal control structure referred to as the 'three lines of defense' to ensure the Group achieves its commercial aims while meeting regulatory and legal requirements. It is a key part of the Group's risk management process.

5. Capital Adequacy and Risk Profile

The Group complies with the Basel III framework for capital supply, which have been implemented in the UAE through the CBUAE guidelines issued in February 2017. The Basel framework is based upon three Pillars which are as below:

- Pillar I – Minimum capital requirements: defines rules for the calculation of credit, market and operational risk. According to the regulatory requirement other risks are not required to quantify as part of Pillar I risk,
- Pillar II – Supervisory review process: requires Banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) for other risks which allows banks and supervisor to assess whether the Bank is holding additional capital to cover other risks. This assessment also provides the strategic view about the Bank's risk, strategic targets and capital planning; and
- Pillar III – Market discipline: requires expanded disclosures to allow Investors and other market participants to understand the risk profiles of individual Banks. The purpose of Pillar III disclosure is to provide a consistent and comprehensive disclosure framework by requiring the bank to disclose details on the risk assessment processes and capital adequacy of the institution.

The Group is in compliance with Basel III regulations as published by the Central Bank of the UAE ('CBUAE'). The Group has adopted the Standardized Approach for Credit Risk and Market Risk and Operational Risk. As at December 2019, the Group's Basel III Capital Adequacy Ratio is 13.59%, which is well above the minimum regulatory requirement defined by the CBUAE.

The Risk Profile of the Bank is reviewed at least on a quarterly basis by management and Board. The overall risk profile of the Group remains stable.

The Group further endeavors to identify all material risks that may affect it. Identification is a continuous and pro-active process. It covers all the current activities of the organization as well as new products and initiatives. This process, which is informed by analysis of the Group's risk factors and results to the classification, mitigation and management of key risks.

6. Risk Appetite

Strategic and financial objectives set by the Board are the foundation for setting the overall risk appetite for the bank. The Risk appetite of the Bank is defined as the amount of risk it is willing to accept to achieve its stated objectives and achieve expected returns to its shareholder, while safeguarding against key sources of risk. The risk appetite measures have been developed and integrated into the strategic planning process of the Bank. Currently, the Banks risk appetite can be summarized across the following dimensions (but not limited to):

- Capital Adequacy
- Credit Risk
- Market & Liquidity Risk
- Operational Risk
- Compliance & Regulatory Risk
- Information Security & Technology Risk

The Group management understands that effective 'Risk Appetite' has an important role in linking risk to business decisions and achieving strategic goals.

In setting its risk appetite, the Group considers its broad financial targets, including projected income and capital levels.

Although the Group is in a stabilizing phase, it seeks to have a balanced capital adequacy profile. The Group endeavor to maintain the same even taking into account the economic, business and regulatory environment.

The Group regularly reviews and revises all the policies and procedures with respect to risk appetite. The risk appetite statement shall be approved by the Board and amendments to risk measures or the addition of new ones may be added every year.

7. Stress Testing

Stress testing is an important part of the risk management function in the Group. Stress testing is conducted based on the concept of 'proportionality and complexity' and its applicability to the Group. Relevant factors in this concept are size of the Bank, sophistication and diversification of its activities, materiality of different risk types and the Bank's vulnerability to them.

RMD conducts stress-testing based on stress scenarios across the Bank on an enterprise-wide basis, reflecting the Bank's business strategy and resultant risk exposures. The stress testing process involves working with appropriate business and risk personnel in assessing all the possible options that could be arises. This gives an indication of the actions and the associated adjustments that may be needed to manage the risk appropriately in the event this scenario occurs.

The results of the stress tests are used to assess potential unplanned demand for regulatory capital. The results demonstrated that the Bank would remain satisfactorily capitalized after taking account of assumed management actions to mitigate the effect of the scenarios in question.

The liquidity stress testing is conducted in order to circumvent the risk of unexpected drawdowns on banks funding sources in the form of new disbursements or funding run-offs. The adequacy of the liquidity buffers in place and their counterbalancing capability is ascertained by the use of liquidity stress test.

8. Risk Management Practices by Risk Types

Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligations is impaired resulting in financial loss to the Group. This credit risk arises mainly from both direct financing activities as well as contingent liabilities.

In addition to direct accounting loss, credit risk should be viewed in the context of economic exposures. This encompasses opportunity costs, transaction costs and expenses associated with a non-performing asset over and above the accounting loss.

Credit risk can be further sub-categorized on the basis of reasons of default. Credit risk does not necessarily occur in isolation. The same consequence that results in credit risk for the Group may also expose it to other risks. For instance, a bad portfolio may also impact the Group liquidity and funding profile.

Credit Risk Management

The Bank Credit profile changed during 2019 due to 'Master Transfer Agreement' with ADCB. As at December 2019 the Bank manages mainly retail portfolio in which credit approval process contains underwriting risk. The Bank manages its underwriting risk through a defined policy and procedural guideline to assess the underlying financial strength and repayment capability amongst other areas taking into account the regulatory approval requirements.

The Bank assigns credit approval authorities to individuals according to their qualifications, experience and training, and the same is reviewed periodically.

In addition, the bank relies on the retail scoring system used by ADCB. ADCB periodically calibrating the scoring methodology that provides more objective and granular view of customer's risk profile; strengthened its credit underwriting process by setting up a unified approach to credit analysis across the organization; and updating the policy basis on the evolving market regulation and condition.

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

- Credits are granted because of insight into the customer's circumstances and based on specific assessments that provide a context for such credit including a combination of qualitative and quantitative criteria.
- The exposure should match the customer's creditworthiness, wealth components, and the client should be able to substantiate his repayment ability.
- The Bank assumes risks within the limits of applicable legislation and other rules, including the rules regarding good business practice for financial enterprises.

Regular reviews of policies are undertaken to ensure credit quality is maintained and is based on an on-going portfolio review and prevailing market conditions. Product policies are realigned through deep dive analysis on the portfolio which includes monthly and quarterly reviews of the portfolio.

Liquidity Risk

Liquidity risk is the potential for loss to the Group arising from either its inability to meet its obligations as they fall due or to fund increases in assets as they fall due without incurring an unacceptable cost or losses. It arises when the cushion provided by the liquid assets are not sufficient to meet its obligation. In such a situation, banks often meet their liquidity requirements from the market. However, conditions of funding through market depend upon liquidity in the market and borrowing institution's liquidity.

Liquidity Risk Management

Liquidity risk management involves not only analyzing the Group's on and off-balance sheet positions to forecast future cash flows but also how the funding requirement would be met. The later involves identifying the funding market the Group has access to, understanding the nature of those markets, evaluating Group current and future use of this market and monitor signs of confidence erosion.

As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management center (Treasury) is well equipped to tap contingent funding sources during periods of market stress.

The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored by the management.

The Asset and Liability Committee (ALCO) manages the liquidity position of the Group on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset / liability mix of the Bank.

All liquidity policies and procedures are subject to regular/ annual review and approval by ALCO and the Board. Daily reports are produced covering the liquidity position of both the Group and operating subsidiaries.

Market Risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, spreads, foreign exchange rates and equity prices.

Market Risk Management

The Market and Liquidity Risk team is responsible to monitor, control and provide an assessment of market, profit rate and liquidity risks. These include enhanced levels of reporting at management and ALCO level, as well as the implementation of more sophisticated limit reporting.

The Market and Liquidity Risk team monitors market risk exposures of daily limit monitoring and control reports that are circulated to all stakeholders to advise of current outstanding exposures versus prescribed limits and any breach is immediately advised for rectification.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition is aligned to the Basel definition, including legal and regulatory risk but excluding strategic and reputation risk.

The objective of operational risk management is to find out the extent of the financial institution's operational risk exposure; to understand what drives it, to allocate capital against it and identify trends internally and externally that would help predicting it.

Operational Risk Management

The Group identifies and assesses the operational risk inherent in all material products, activities, processes and systems and its vulnerability to these risks and also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures.

The day-to-day management of operational risk is executed through a strong "second line of defense" within business lines and control functions. Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRIs) and Incident Management (IM) form the core of the operational risk framework.

Regular monitoring activities offer the advantage of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk. Prompt detection and addressing these deficiencies substantially reduce the potential frequency and/or severity of a loss.

The Group has policies, processes and procedures that assist in the establishment of effective controls to mitigate material operational risks.

Information Security Risk

Information Security risk is defined as the possibility of materialization of and harm to the Group's process(es) or the related information resulting from some purposeful or accidental event/incident that may negatively impact the overall Group.

Information Security Risk Management

Information Security risk team has the primary responsibility of ensuring the safety of the Bank's proprietary information as well ensuring that the organization is equipped with the latest tools/ software/ systems to combat any external / internal threats that pose serious risk to its safety and security.

The Group is commitment to ensure that its customer's data is protected whereby potential security breaches are reduced. This is demonstrated by being PCI-DSS certified. Achieving PCI-DSS has helped the bank improve its overall security standards to a global accepted practice. As the standard matures every year, the Group ensured that its systems and process adherence to the new additional requirements posed by the standard. The Group is also compliant to SWIFT Customer Security Program and ISO 27001 requirements.

Regulatory Compliance & Financial Crime Risk

The risk of loss as a result of failure to comply with applicable laws, regulation, code of ethics and includes regulatory sanctions, financial or reputational loss arising from failure to abide by the compliance obligations of the Group.

Financial Crime Risk is the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption.

Regulatory Compliance & Financial Crime Risk Management

The Compliance function within the Bank forms as a standalone department and it is independent from the business. Forming part of the second line of defense, the team assist the business units in managing its Regulatory Compliance and Financial Crime Risks.

The Chief Compliance Officer reports to the CEO directly. The function has direct access to the Board, Executive Management, personal and information on an on- going basis. Regular updates are provided to the Board, who oversee compliance with legal and regulatory requirements. Compliance department ensures alignment with ADCB Group Compliance policies and procedures.

Compliance function is made up of following sub units:

- Anti-Money Laundering
- Client Acceptance Advisory: Responsible for implementing KYC risk assessment of new products and

services; Administers the Banks KYC program including training and awareness

- Anti-Money Laundering and Investigations: Reviews and assesses transaction monitoring alerts, raises suspicious transaction reports to the CBUAE and conducts thematic reviews on existing portfolio
- Sanctions Advisory: Implements and administers the Sanctions Program and provides sanctions advisory on clients and transactions
- Regulatory Advisory & Assurance: Provides advice on regulatory matters and performs annual compliance risk assessment. Acts as primary channel of communication with regulators and manages non-financial periodic and Ad-hoc reporting to CBUAE.

Sharia Risk

Sharia Risk is the risk that the Group or some of its operations/activities/procedures are found not to be in line with Sharia principles as interpreted by the Group's Fatwa and Sharia Supervisory Board (FSSB). The result could be an adverse financial impact due to a transaction or operation being deemed as non-Sharia complaint or through adverse reputational impact.

Sharia Risk Management

At the Group, the FSSB has been mandated to provide independent assurance on Group activities. This is being achieved by making sure through management that any new transaction or agreement is reviewed by Sharia before it is executed. The Sharia Department, which directly reports to the FSSB, is responsible to review all such documents/agreements or activities before execution. The Sharia Audit team periodically reviews all Group activities post execution including comments over the control environment in place and reports them to FSSB for final opinion (if needed) before sharing the same to the auditor with perceived Sharia compliance ratings.

9. Pillar III Overview

This report is prepared in accordance with Basel Accord and the Central Bank of UAE regulations issued on 17 January 2018 through Notice no 28/2018. It presents information on the Group's capital adequacy and Risk Weighted Asset (RWA) calculations for credit risk, market risk, profit rate risk and operational risk.

This section should be read in conjunction with the AHB 2019 audited consolidated financial statements.

The Group regularly benchmarks and aligns its policy framework against existing regulatory standards. Potential developments in UAE, GCC and international standards, and global best practice are also considered.

The Group continues to monitor and take actions to enhance its strong risk culture. This includes a risk appetite framework and the risk accountability model. The risk appetite framework creates clear obligations and transparency over risk management and strategy decisions; and the "Three Lines of Defense" model requires business management to operate responsibly by taking well understood and managed risks.

10. Disclosure on Subsidiaries & Significant Investments

AED 000s

As on December 31, 2019

	Country of Incorporation	% Ownership	Description	Accounting Treatment	Surplus Capital	Capital Deficiency	Total Profit/ Loss
SUBSIDIARIES:							
Al Hilal Takaful PSC*	UAE	100%	Equity Investment in Insurance	Fully Consolidated	N/A	N/A	(16,413)
Al Hilal Auto LLC**	UAE	100%	Commercial Subsidiaries	Fully Consolidated	Nil	Nil	2
Al Hilal Islamic Bank PJSC	Kazakhstan	100%	Financial Subsidiaries	Fully Consolidated	63,301	Nil	12,858
Al Hilal Leasing LLP	Kazakhstan	100%	Financial Subsidiaries	Fully Consolidated	Nil	(2,572)	(93)
Al Hilal Al Mariah Development LLC	UAE	100%	Commercial Subsidiaries	Fully Consolidated	Nil	Nil	Nil
AHB Sukuk Company Limited***	Cayman	-	Financial & Commercial entities	neither consolidated nor deducted	Nil	Nil	Nil
AHB Tier 1 Sukuk Limited***	Cayman	-	Financial & Commercial entities	neither consolidated nor deducted	Nil	Nil	Nil
AHB Derivatives Limited	Cayman	-	Financial & Commercial entities	neither consolidated nor deducted	Nil	Nil	Nil
SIGNIFICANT INVESTMENTS /ASSOCIATES: ****							
Al Hilal Global Sukuk Fund	UAE	32%	Mutual Fund	neither consolidated nor deducted	N/A	N/A	Nil
Al Hilal GCC Equity Fund	UAE	29%	Mutual Fund	neither consolidated nor deducted	N/A	N/A	Nil
Al Hilal Global Balanced Fund	UAE	76%	Mutual Fund	neither consolidated nor deducted	N/A	N/A	Nil

* Al Hilal Takaful PSC was classified as held for sale during 2017. Please refer to Note 36 of 2019 financial statement for further details.

** Al Hilal Auto LLC was discontinued during the year 2016. Please refer to Note 36 of 2019 financial statement for further details.

***The Group does not have direct holding in AHB Sukuk Company Limited, AHB Tier 1 Sukuk Limited and AHB derivatives Limited, which are considered to be a subsidiary by virtue of control

**** Refer to Note 39 of 2019 financial statement for more details of Associates.

11. Capital Overview

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision (BCBS) published a discussion paper on banking reforms ("Basel III") to address issues which led to the Global Financial Crisis and to position banks for future crises. The objectives of the capital reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk.

In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE. Enhanced regulatory capital rules issued in February 2017 are supported by accompanying standards, which were published by the Central Bank on 17 January 2018 in its Circular No. 28/2018 titled "Standard re Capital Supply" and are effective from 31 December 2017.

Consolidated Capital Structure under Basel III

As on December 31, 2019 **AED 000s**

Details	Summary Note and References	Amount
Common Equity Tier 1 (CET1) Capital		
Share Capital	▪ The authorized share capital of the Bank comprise of 5,250,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital at 31 December 2019 comprise of 4,750,000 thousand ordinary shares of AED 1 each. ▪ The paid up capital is not available for distribution & the Bank's shares are not listed on a recognized stock exchange.	4,750,000
Share premium account		-
Eligible Reserves	▪ The UAE Federal Law No.2 of 2015 and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution.	42,950
Retained Earnings / (-) Loss	▪ Includes Retained Earnings	-3,119,317
Eligible amount of minority interest	▪ Non-controlling interest are measured at their proportionate share of the acquirees identifiable net assets at the acquisition date. ▪ Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.	-
Capital shortfall (if any)	▪ The capital invested in a majority-owned or controlled insurance entity may exceed the amount of regulatory capital required for such an entity (surplus capital).	-
CET1 capital before the regulatory adjustments and threshold deduction		1,673,633
Less: Regulatory deductions	▪ 'Capitalized software costs that is not "integral to hardware" is to be treated as an intangible asset and software that is "integral to hardware" is to be treated as property, plant and equipment (i.e. as a fixed asset).	-36,795
Less: Threshold deductions		-35,978
Total CET1 capital after the regulatory adjustments and threshold deduction		1,600,860
Total CET1 capital after transitional arrangement for deductions (CET1)		1,600,860
Additional Tier 1 (AT1) Capital		-
Eligible AT1 capital (After grandfathering)	▪ Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba agreement. It is callable by the Bank on 30 June 2019On 30 June 2019 ▪ On 30 June 2019, Tier 1 Sukuk has been fully called up and repaid in its entirety.	-
Other AT1 Capital e.g. (Share premium, minority interest)		-
Total AT1 capital		-
Total AT1 capital after transitional arrangements (AT1)		-
Tier 2 (T2) Capital		127,956
Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)		-
Other Tier 2 capital (including General Provisions, etc.)	▪ Collective allowance (General Provision), which is kept for unseen future circumstances and Exchange differences on translation of foreign operations (translation reserves)	127,956
Total T2 Capital		127,956
Total T2 capital after transitional arrangements (T2)		127,956

12. Pillar I – Capital Adequacy Position under Basel III

Pillar I - deals with the computation of the Regulatory Capital ratio. It involves criteria- based assessment of risk for various asset classes and calculation of Risk Weighted Assets (RWAs) for credit, market and operational risk, to derive the required regulatory capital. The Group management aims to ensure the efficient use of capital to meet its overall capital targets.

The Group's risk profile considers both capital targets as well as the sufficiency of capital to cover both current and future growth requirements of the Group. The Board of Directors define risk and capital targets, whilst management is responsible for ensuring that these targets are met.

Capital Adequacy Position under Basel III

As on December 31, 2019			**AED 000s**
	RWA	**Capital Charge**	**Capital Ratio (%)**
Capital Requirements			
1. Credit Risk - Standardized Approach	10,236,445	1,074,827	
2. Market Risk - Standardized Approach	109,783	11,527	
3. Operational Risk	2,377,206	249,607	
a. Basic Indicator Approach			
b. Standardized Approach/ASA	2,377,206	249,607	
c. Advanced Measurement Approach			
Total Capital requirements	12,723,434	1,335,961	
Capital Ratio			13.59%
a. Total for Top consolidated Group			12.58%
b. Tier 1 ratio only for top consolidated Group			

13. Credit Risk

Credit risk constitutes the largest part of the Group's risk exposures. The Bank envisages maintaining a credit risk profile, which is line with its risk strategy and long term strategic growth and vision. The Bank has allocated credit risk capital on the basis of standardized approach for year 2019.

For each separate risk, mainly Credit, Market, Operational risk, banks are required to describe their risk management objectives and policies, which primarily include strategies, processes, reporting and measurement systems. These disclosures are discussed and are set out in the Note 5 of the audited consolidated financial statements. Note 3 and 5 of financial statement also covers the definition of impairment, past due, expected credit loss and specific provision.

14. Gross Credit Exposures by Currency Type

As on December 31, 2019 **AED 000s**

	Gross Financing	Investment Securities	Total Funded	Total Commitments to extend Credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet exposures*	Total Non-Funded**	Total
Foreign Currency	622,712	3,344,113	3,966,825	207,967	1,506,238	7,758	1,721,963	5,688,788
UAE AED	9,703,558	1,461	9,705,019	172,647	-	73,920	246,567	9,951,586
Total	**10,326,270**	**3,345,573**	**13,671,843**	**380,614**	**1,506,238**	**81,678**	**1,968,530**	**15,640,373**

*Letter of Credit & Letter of Guarantee

**Non funded exposure includes Contingent Liability, Commitments and Derivatives and these are prior to CCF.

15. Gross Credit Exposures by Geography

As on December 31, 2019 **AED 000s**

Geographic Distribution	Gross Financing	Investment Securities	Total Funded	Total Commitments to Extend credit	Islamic Derivative Financial Instruments	Other Off- Balance Sheet Exposures*	Total Non-Funded**	Total
United Arab Emirates	9,703,558	2,422,401	12,125,959	172,647	1,324,473	77,938	1,575,058	13,701,017
GCC excluding UAE	-	917,425	917,425	-	-	-	-	917,425
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	622,712	5,747	628,459	207,967	-	3,740	211,707	840,166
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	181,765	-	181,765	181,765
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	**10,326,270**	**3,345,573**	**13,671,843**	**380,614**	**1,506,238**	**81,678**	**1,968,530**	**15,640,373**

*Letter of Credit & Letter of Guarantee

**Non funded exposure includes Contingent Liability, Commitments and Derivatives and these are prior to CCF.

16. Gross Credit Exposures by Industry Segment

As on December 31, 2019 **AED 000s**

Industry Segment	Gross Financing	Investment Securities	Total Funded	Total Commitments to Extend credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet Exposures*	Total Non-Funded**	Total
Agriculture	-	-	-	361	-	9	370	370
Energy	135,281	30,325	165,606	-	-	-	-	165,606
Trading	145,946	-	145,946	17,886	-	4,898	22,784	168,730
Real estate investment & hospitality	29,927	38,980	68,907	90,496	-	5,745	96,241	165,148
Transport & communication	110,313	142,695	253,008	12,563	-	640	13,203	266,211
Personal	9,673,875	-	9,673,875	156,147	-	11,400	167,547	9,841,422
Financial institutions	98	539,997	540,095	-	1,506,238	32,890	1,539,128	2,079,223
Manufacturing	221	-	221	-	-	1,307	1,307	1,528
Services	40,882	151,520	192,402	323	-	8,686	9,009	201,411
Government	-	2,293,056	2,293,056	-	-	-	-	2,293,056
Others	189,727	149,000	338,727	102,838	-	16,103	118,941	457,668
Total	**10,326,270**	**3,345,573**	**13,671,843**	**380,614**	**1,506,238**	**81,678**	**1,968,530**	**15,640,373**

*Letter of Credit & Letter of Guarantee

**Non funded exposure includes Contingent Liability, Commitments and Derivatives and these are prior to CCF.

17. Gross Credit Exposures by Contractual Residual Maturity

As on December 31, 2019 **AED 000s**

Contractual Residual Maturity	Gross Financing	Investment Securities	Total Funded	Total Commitments to Extend credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet Exposures*	Total Non-Funded	Total
Less than 3 months	271,839	31,550	303,389	46,949	60,604	3,730	111,283	414,672
3 months to one year	557,674	60,489	618,163	35,940	-	1,329	37,269	655,432
One to five years	1,564,053	2,038,198	3,602,251	297,725	859,056	28	1,156,810	4,759,061
Over five years	7,932,704	1,215,336	9,148,040	-	586,578	76,591	663,169	9,811,209
Total	**10,326,270**	**3,345,573**	**13,671,843**	**380,614**	**1,506,238**	**81,678**	**1,968,530**	**15,640,374**

*Letter of Credit & Letter of Guarantee

Non funded exposure includes Contingent Liability, Commitments and Derivatives and these are prior to CCF.

18. Impaired Financing by Industry Segment

As on December 31, 2019 **AED 000s**

Industry Segment	Regular	Past due but not impaired		Impaired and non-performing	Gross Financing	Specific Allowance	Collective Allowance	Write-offs, recoveries and other*	Unwinding's on renegotiated	Total Carrying Amount
		Less Than 90 days	90 days & above							
Agriculture	-	-	-	-	-	-	-	7	-	-
Energy	135,282	-	-	-	135,281	-	-	-	-	135,281
Trading	132,617	288	-	13,041	145,946	13,027	73	-	546	132,846
Real estate investment & hospitality	2,527	1	-	27,399	29,927	27,340	112	-	-	2,475
Transport & communication	110,310	-	-	3	110,313	1	1	-	-	110,311
Personal	9,014,300	434,153	-	225,422	9,673,875	107,257	174,581	277,075	2,046	9,392,037
Financial institutions	-	-	-	98	98	-	645	-	-	- 547
Manufacturing	182	-	-	39	221	26	7	67,409	75	188
Services	40,733	-	-	149	40,882	87	730	-	86	40,065
Government	-	-	-	-	-	-	-	-	-	-
Others	189,038	564	-	124	189,727	-	1,798	-	89	187,929
Total	**9,624,990**	**435,006**	**-**	**266,275**	**10,326,270**	**147,738**	**177,947**	**344,491**	**2,842**	**10,000,585**

*Excluding investments, other assets and migration deals

19. Impaired Financing by Geographic Distribution

As on December 31, 2019 **AED 000s**

Industry Segment	Regular	Past due but not impaired		Impaired and non-performing	Gross Financing	Specific Allowance	Collective Allowance	Write-offs, recoveries and other*	Unwinding's on renegotiated	Total Carrying Amount
		Less Than 90 days	90 days & above							
United Arab Emirates	9,002,277	435,006	-	266,275	9,703,558	147,738	176,160	324,487	2,842	9,379,660
GCC (excluding UAE)	-	-	-	-	-	-	-	20,004	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-	-
Asia	622,712	-	-	-	622,712	-	1,787	-	-	620,925
Africa	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-	-	-
Others	-	-	-		-	-	-	-	-	-
Total	**9,624,989**	**435,006**	**-**	**266,275**	**10,326,270**	**147,738**	**177,947**	**344,491**	**2,842**	**10,000,585**

*Excluding investments, other assets and migration deals

20. Reconciliation of Changes in Impaired Charges

As on December 31, 2019

Description	AED 000s
Opening Balance of Provisions for Impaired Financing	2,118,897
Add: Charge for the year	3,361,689
Add: Other Provision	-
Add: Other impairment on Assets	-
Add: Translation reserves	304
Less: Write-off, Recoveries and Others	(4,978,803)
Less: Unwinding on Renegotiated Financing	(2,842)
Closing Balance of Provisions for Impaired financing	**499,245**

21. Portfolio as per Standardized Approach Asset Class

As on December 31, 2019

AED 000s

Asset Classes	On & Off Balance Sheet	Credit Risk Mitigation (CRM)		On & Off Balance Sheet	Risk Weighted Assets
	Gross Outstanding	Exposure Before CRM	CRM	Net Exposure After Credit Conversion Factors (CCF)	
Claims on Sovereigns	3,393,698	3,393,698	-	3,393,698	35,343
Claims on Non- Commercial Public Sector Enterprises (PSEs)	233,670	233,670	-	233,670	-
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	3,108,555	3,108,555	-	3,106,899	850,518
Claims on Securities Firms	-	-	-	-	-
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	1,548,081	1,548,081	26,526	1,156,953	1,111,943
Claims Included in the Regulatory Retail Portfolio	6,961,430	6,961,430	-	6,961,430	5,712,539
Claims Secured By Residential Property	2,389,974	2,389,974	-	2,388,691	1,211,262
Claims Secured by Commercial Real Estate	113,057	113,057	-	113,057	113,057
Past Due Financing	288,160	115,234	125	115,209	155,394
Higher-Risk Categories	-	-	-	-	-
Other Assets	1,005,939	1,005,939	-	1,005,939	1,046,389
Securitization Exposures	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-
Total	**19,042,564**	**18,869,638**	**26,651**	**18,475,545**	**10,236,445**

22. Rated & Unrated Portfolio as Per Standardized Approach Asset Class

As on December 31, 2019 **AED 000s**

Asset Classes	On & Off Balance Sheet Gross Credit Exposures			On & Off Balance Sheet Net Credit Exposures	
	Rated	Unrated	Total	Post CRM	RWA
Claims on Sovereigns	1,657,545	1,736,153	3,393,698	3,393,698	35,343
Claims on Non- Commercial Public Sector Enterprises (PSEs)	233,670	-	233,670	233,670	-
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	3,074,207	34,348	3,108,555	3,106,899	850,518
Claims on Securities Firms	-	-	-	-	-
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	544,064	1,004,017	1,548,081	1,156,953	1,111,943
Claims Included in the Regulatory Retail Portfolio	-	6,961,430	6,961,430	6,961,430	5,712,539
Claims Secured By Residential Property	-	2,389,974	2,389,974	2,388,691	1,211,262
Claims Secured by Commercial Real Estate	-	113,057	113,057	113,057	113,057
Past Due Financing	-	288,160	288,160	115,209	155,394
Higher-Risk Categories	-	-	-	-	-
Other Assets	-	1,005,939	1,005,939	1,005,939	1,046,389
Securitization Exposures	-	-	-	-	-
Credit Derivatives (Banks Selling protection)		-	-	-	-
Total	**5,509,486**	**13,533,078**	**19,042,564**	**18,475,545**	**10,236,445**

23. Credit Risk Mitigation: Disclosure for Standardized Approach

As on December 31, 2019 **AED 000s**

Quantitative Disclosures	Exposures	Risk Weighted Assets
Gross Exposure prior to Credit Risk Mitigation	19,042,564	10,261,409
Less: Exposure covered by on-balance sheet Netting Agreements	-	-
Less: Exposures covered by Eligible Financial Collateral		
Less: Exposures covered by Guarantees – Substitution of Risk weights	3,375	1,687
Less: Exposures covered by Credit Derivatives – Substitution of Risk weights	-	-
Less: Exposures covered by Collateral Comprehensive Approach	35,753	23,277
Net Exposures after Credit Risk Mitigation		**10,236,445**

24. Market Risk

Market risk is defined as exposure to adverse changes in the market value of portfolios and positions in financial instruments caused by changes in market factors such as currency rates, equity prices or profit rates. Financial Statement briefly define the approach considered by the Bank for managing market risk in the Bank, which may be referred in Note 5.4 Market Risk.

- **Foreign Exchange Exposures**

This arises as a result of volatility in foreign exchange exposure. While the Bank does not currently trade in foreign currencies for its own profit, it does have exposure to losses from open exposure to currencies it maintains to enable customer transactions. Capital allocation for market risk under Pillar 1 is on the basis of standardized approach.

- **Equity Exposures**

It may arise as a result of price volatility in various asset classes held by the Bank. This includes equities, mutual funds, and other tradable assets. As at 31st December 2019, there is zero exposure under this category therefore the allocated charge is zero for Equity position risk.

- **Profit Rate Risk Exposures**

The Profit Rate Risk exposure consists of exposure to profit rate movement due to mismatches in time periods its assets and liabilities. This risk is measured and monitored through limits and impact on earnings. There is no Sukuk under trading book therefore as at 31st December 2019, there is zero profit rate risk charge for trading book.

Capital Requirement for Market Risk under Standardized Approach

As on December 31, 2019	**AED 000s**
Market Risk	**Amount**
Profit Rate Risk	-
Equity Position Risk	-
Foreign Exchange Risk	11,527
Commodity Risk	-
Total Capital Requirement	**11,527**

Quantitative Details of Equity Position

As on December 31, 2019				**AED 000s**
Type	**Current Year**		**Previous Year**	
	Publicly Traded	**Privately Held**	**Publicly Traded**	**Privately Held**
Equities Securities and Sukuk Fund	-	-	243,525	-
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	-	-	**243,525**	-

Realized, Unrealized & Latent Revaluation Gains (losses) during the year for Equity Position

As on December 31, 2019	**AED 000s**
Gains (Losses)	**Amount**
Realized gains (losses) from sales and liquidations	-
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	-
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	-
Total	**-**

Capital Requirements by Equity

As on December 31, 2019	AED 000s
Grouping	**Amount**
Financial Assets at amortized Cost	-
Fair Value Through Other Comprehensive Income	-
Fair Value Through Profit & Loss	-
Total Capital Requirement	-

Profit Rate Risk in Banking Book (PRBB)

As on December 31, 2019		AED 000s
Shift in Yield Curves	**Net Profit Income**	**Regulatory Capital***
+200 basis point	4,176	(193,781)
-200 basis point	(23,121)	342,811

* including behavioral repayment assumptions

25. Operational Risk

Operational risk can arise by a wide range of different external events ranging from power failures to floods or earthquakes to terrorist attacks etc. Similarly, operational risk can arise due to internal events such as the potential for failures or inadequacies in any of the firm's processes and systems (e.g. its IT, risk management or human resources management processes and systems), or those of its outsourced service providers, or still those emanating out of treatment of, and performance by, employees.

The Bank's operational risk management strategy is driven by the Bank's vision and aligned to the Bank's strategic approach. It supports the Bank's overall intent of contributing to the UAE's national growth and prosperity, in a Shariah compliant manner, through the effective management of risks relating to the failure of internal processes, people, and systems, or from external events.

The Bank has adopted "Sound Practices for the Management and Supervision of Operational Risk" and relevant Basel guidelines to further strengthen its existing Operational Risk Management processes and complies with CBUAE guidelines relating to operational risk management.

The Bank has a commitment to meeting high ethical and Operational Risk Management standards in the way it conducts its business. The Bank has undertaken a number of initiatives to mitigate operational risk to the extent possible. These include implementation of operational risk management framework, Business Continuity Management and training and awareness programs to name a few. An internal audit framework is also in place to monitor adherence to laid-down policies and processes.

The Bank uses the standardized approach for calculating operational risk capital. A detailed mapping of the Bank business activities and the related gross income to the regulatory business line framework was carried out to achieve this. The pillar I operational risk capital charge for 2019 under Basel is AED 249MM.

26. Liquidity Risk

Liquidity risk involves the inability of the Bank to fund increase in assets, manage unplanned changes in funding sources and to meet obligations when required. Liquidity risk primarily arises due to the maturity mismatch associated with assets and liabilities of the Bank. The cost of such liquidity risk would be in terms of either raising fresh liabilities at higher cost or liquidating its assets at a higher discount rate. The raising of funds at a short notice in the inter-bank market depends upon the creditability of the Bank and at the same time, the ease at which treasury assets can be liquidated in the market is a function of quality of those assets. Securitization and financing sales are not usually resorted for raising short-term liquidity but can be used as a strategy to manage liquidity in the medium to long term horizon.

The Bank monitors LCR (Liquidity Coverage ratio) and NSFR (Net Stable Funding Ratio) in addition to CBUAE regulatory liquidity ratios ELAR & ASRR on monthly basis as part of risk appetite. The analysis of liquidity requires not only to measure the liquidity position of the Bank but also to examine how funding sources are likely to evolve under various scenarios. In this context, the most traditional way to measure the extent of funding liquidity on an ongoing basis is the 'Gap Analysis' based on the residual maturities of assets and liabilities and subsequently analyzing the extent of negative gap across different maturity buckets.

At present, the Bank manages the liquidity on the following lines:

- Preparation and analysis of maturity gap reports as per Bank defined time buckets.
- The overall liquidity monitoring is by an independent Market Risk Management function measures Liquidity Risk via three metrics and limits which have been approved by the Board. They are LCR, NSFR, and monthly Liquidity Stress Tests and associated MAT. The monthly stress tests assume hypothetical market conditions based on assumed behavior and severity of the assets and liabilities.

Section 5.6 of financial statement briefly covers the management of liquidity risk.