Al Hilal Bank PJSC

Pillar 3 Report

31 December 2023

Table of Contents

1. Introduction and basis of preparation

1.1. Scope of Basel III Pillar 3 disclosures

The Basel Committee on Banking Supervision (BCBS) Basel III capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and/or to cover other risks, like liquidity, concentration, reputational, etc. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

This report provides Pillar 3 disclosures for Al Hilal Bank PJSC and its subsidiaries (together referred to as “AHB” or the “Bank”) for the period ended 31 December 2023.

1.2. Significant capital adequacy, liquidity and funding related disclosure requirements

Capital adequacy, liquidity, funding and remuneration related disclosures in the Pillar 3 report have been prepared in accordance with Central Bank of UAE Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSD/N/2020/4980 dated November 2020 updated via Notice CBUAE/BSD/2022/5280 dated December 2022) and Explanatory Notes on Pillar 3 Disclosure requirements, the underlying BCBS guidance “Revised Pillar 3 disclosure requirements” issued in January 2015, the “Frequently asked questions on the revised Pillar 3 disclosure requirements” issued in August 2016, the “Pillar 3 disclosure requirements – consolidated and enhanced framework” issued in March 2017 and the subsequent “Technical Amendment – Pillar 3 disclosure requirements – regulatory treatment of accounting provisions” issued in August 2018, BCBS “Pillar 3 disclosure requirements - updated framework” – Dec 2018, and CBUAE Explanatory notes updated dated 9th May 2022.

2. Overview of Basel III requirements:

The Bank complies with the latest Basel III standards and guidance notes which have been implemented in the UAE through notice reference, Notice CBUAE/BSD/N/2020/4980 dated November 2020 updated via Notice CBUAE/BSD/2022/5280 dated December 2022.

Basel requirements are structured around three ‘pillars’ which are outlined below:

Pillar I - deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, market risk and operational risk. Other risks are not considered fully quantifiable at this stage.

Pillar II - allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and/or to cover other risks like liquidity, concentration, reputational, etc. A bank’s own internal models and assessments support this process. It also provides a framework for dealing with all the other risks a bank may encounter such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk, legal risk, etc. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (ICAAP).

Pillar III - covers external communication of risk and capital information by banks as specified in the Basel rules. The aim of Pillar III is to provide a consistent and comprehensive disclosure framework by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes, capital adequacy, liquidity and funding position and leverage of the institution. It must be consistent with how the senior management including the board assess and manage the risks of the institution.

Basel III also provides for different approaches to calculate credit risk capital requirements:

Standardised approach — under this approach, the assets (including off-balance-sheet post-CCF) are classified into asset types defined by Basel guidelines to enable better risk sensitivity. The risk weights used to assess capital requirements against credit exposures are provided by the regulator(s) and is consistent across the industry.

Internal-ratings-based approach (IRB) — under this approach, the risk weights are derived from the Bank's internal models. The IRB approach is further sub-divided into two alternative applications- Foundation and Advanced:

Foundation IRB (FIRB) — Under this approach, the banks are allowed to develop their own models to estimate the PD (probability of default) for individual borrowers or groups of borrowers and use supervisory values for LGD (loss given default) and EAD (exposure at default) estimates. Banks can use this approach subject to approval from their local regulators.

Advanced IRB (AIRB) — under this approach, the banks are allowed to develop their own models to quantify PD, LGD and EAD required to estimate capital for credit risk. Banks can use this approach subject to approval from their local regulators.

2.1. AHB's approach to Pillar I

Credit risk: Standardised approach is used by the Bank in calculating its capital requirements for credit risk. This approach allows the Bank to determine the risk weight by the asset class and the criteria applicable to the counterparty as per the regulatory guidance. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: The Bank uses the standardised approach for calculating regulatory market risk capital requirements.

Operational risk: The Bank uses the standardised approach for computing capital requirements for operational risk.

2.2. Minimum capital requirement

To achieve broader macro –prudential goal of protecting the banking sector from the periods of excess aggregate credit growth in addition to the capital conservation buffer (CCB) requirement, banks are required to maintain the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCB requirement is set to 2.5% of risk weighted assets. The countercyclical buffer varies between zero and 2.5% of total risk weighted assets. The buffer that will apply to each bank will reflect the geographic composition of its portfolio of credit exposures.

Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer. AHB is non-D-SIB and is not required to maintain a D-SIB buffer of 0.5%.

2.3. Leverage and liquidity ratios

In addition, Basel III prescribes a 3% minimum leverage ratio and two liquidity ratios viz; Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR are not mandatory for AHB. AHB complies with Central Bank of the UAE's Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR) regulatory framework.

In May 2015, the Central Bank of the UAE published "Regulations relating to Liquidity at Banks" circular number 33/2015 which is in effect till date. The regulations require banks to maintain ELAR of 10% at minimum and ASRR of 100% at maximum.

As at 31 December 2023, AHB's ELAR was 17.33% (calculated on 90 days' average basis) which is well above the minimum requirement of 10%, ASRR was 81.32% which is well below the maximum requirement of 100%, and Leverage ratio was 10.43% which is again well above the minimum requirement of 3%.

2.4. Standards for Standalone Capital Adequacy Ratio

In November 2019, the Central Bank of UAE had issued consultative draft standards on standalone capital adequacy ratio. Currently in the UAE banks are required to meet prudential capital requirements on a consolidated basis. In December 2020, following industry consultation Central Bank of UAE issued a draft version of standalone capital adequacy framework for UAE banks. Prior to its implementation, the Central Bank requires all local banks to file standalone capital return on a bi-annual basis, commencing from December 2023.

A preliminary assessment of standalone capital adequacy has been conducted and the Bank meets the minimum capital requirements.

2.5. Revised Standards for Pillar – III disclosures

Basel III standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSD/N/2020/4980 dated 12 November 2020 updated via Notice CBUAE/BSD/2022/5280 dated 30 December 2022. These standards and guidance notes supersede the existing Pillar 3 disclosure requirements issued in 2009. These revised requirements are an integral part of the Basel framework, and they complement other disclosure requirements issued separately by Central Bank. Pillar 3 Disclosure requirements apply to all banks in the UAE at consolidated level for local banks and all branches of foreign banks.

2.6. Impact on AHB

The UAE Central Bank has set a minimum capital adequacy ratio (CAR) of 13% and CET 1 ratio of 9.5% (including CCB buffers). As of 31st December 2023, AHB met the minimum requirements with a CAR of 16.56% and CET1 ratio of 15.45%.

2.7. Basis of consolidation

These Pillar III disclosures are in line with the consolidated financial statements as of 31 December 2023 which comprises of the Bank and its subsidiaries as set out in (Note 32 of the Annual Financial Statements) (together referred to as the “Group”). The Group is primarily involved in Islamic retail and treasury related activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiary located in Kazakhstan.

In accordance with paragraph 825 of International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee, general disclosures of credit risk provided in this report have a wide range of information about overall credit exposure and may not be necessarily based on information prepared for regulatory purposes.

2.8. Verification

The Pillar III disclosures for the period ended 31 December 2023 have been appropriately verified internally by Finance, Risk, Group Internal Audit and External Auditors.

2.9. Ownership

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.

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 own 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 retained 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 was 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 1 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.

3. Summary of differences between Pillar III disclosures and risk review in the audited consolidated financial statements

Topic	Risk review in the audited annual consolidated financial statements	Pillar III disclosures
Basis of requirements	The Bank's annual report is prepared in accordance with the requirements of IFRS and applicable requirements of the laws.	The Bank's Pillar III disclosures provide detail on risk from a regulatory perspective as required by the Basel III standardised approach requirements, which have been implemented in the UAE through the Central Bank of the UAE standards/guidelines issued in November 2020 and updated in December 2022. The capital supply is determined based on Basel III requirements, which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017, issued in November 2020 and updated in December 2022.
Basis of preparation	The quantitative credit risk disclosures in the credit risk management section are set out based on IFRS. Receivable and Ijara are analysed net of impairment, profit in suspense and off-balance-sheet exposures are considered at maximum exposure levels. Market risk disclosures are presented using currency risk and profit rate risk sensitivity analysis.	Provides details from a regulatory perspective on credit, market and operational risk. The capital calculation and the disclosures are based on the standardised approach as recommended by the Central Bank of UAE. Loans and advances are analysed at gross levels and off-balance- sheet exposures are disclosed at post-CCF levels. Market risk and operational risk disclosures are based on the capital required.

4. Summary of cross-references between Pillar III disclosures and risk review in the audited consolidated financial statements

Topic	Risk review in the audited annual consolidated financial statements	Pillar III disclosures
Credit risk management and measurement and risk-grading	An overview of credit, market and liquidity risk management and measurement along with the quantitative disclosures are set out in Notes 38.3, 38.4 & 38.5 to the audited financial statements respectively. Maximum exposure to credit risk and credit risk concentration are provided in Notes 38.3 to the audited consolidated financial statements. Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments is provided in Note 38.3 to the audited consolidated financial statements. Note 40 to the audited consolidated financial statements provides the overall capital adequacy of the Bank split into Tier 1 and Tier 2 ratios.	A detailed analysis of credit risk exposure and risk-weighted assets (RWAs) calculated according to the standardised approach is set out in sections 7 and 10 of this report. Liquidity ratios and market risk capital requirements are disclosed in section 9 and 11 of this report. A more detailed analysis of credit risk exposure pre- and post-credit risk mitigants (CRMs) and after applying credit conversion factors (CCFs) to the off-balance-sheet exposure is disclosed in sections 10.6 of this report. Minimum regulatory capital requirements for credit, market and operational risk are set out in sections 6,11 and 14 of this report. Section 10.7 of this report provides an indicative mapping of the Bank's rated and unrated exposure.
Credit risk mitigation	An overview of CRM is provided in Note 38 to the audited consolidated financial statements. Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 38 to the audited consolidated financial statements.	Sections 10.3, 10.4 and 10.12 provide the impact and description of total CRM held by the Bank. This report also provides total exposure post and pre-CRM adjustment in section 10.6 of this report. Disclosures on concentration of credit risk by currency, geography, residual maturity and economic sector calculated based on the Basel rules are provided in section 10 of this report.
Concentration of credit risk	Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 38.3 to the audited consolidated financial statements.	Disclosures on concentration of credit risk by currency, geography, residual maturity and economic sector calculated based on the Basel rules are provided in section 10 of this report.

Topic	Risk review in the audited annual consolidated financial statements	Pillar III disclosures
Credit risk management and impairment allowance	Provisioning approach and financial assets by stages with expected credit loss are set out in Note 38.3 to the audited consolidated financial statements.	Disclosures of impaired loans, impairment balance and interest in suspense by geography and economic sector are set out in section 10.13 of this report. Qualitative and quantitative disclosures are disclosed in Note 4 to the audited consolidated financial statements which are in line with Pillar 3 quantitative guidelines
Market risk	A description of market risk management and measurement, along with currency risk sensitivity and profit rate risk sensitivity analysis, is set out in Note 38.4 to the audited consolidated financial statements.	Section 11 of this report provide quantitative disclosures of capital requirements for market risk.
Liquidity risk	A description on liquidity risk framework, measurement and monitoring is set out in Note 38.5 to the audited consolidated financial statements.	Quantitative disclosure in the format required by Pillar 3 guidelines is set out in section 9 of this report.
Operational risk	Description of operational risk management is set out in Note 38.6 to the audited consolidated financial statements.	A description of operational risk faced by the Bank is set out in section 14 of this report.
Key management compensation	Disclosures on remuneration to senior management/material risk takers are set out in our annual report- corporate governance section and Note 33 to the audited consolidated financial statements. Information is provided on the key components of our remuneration approach and how we develop our approach.	Quantitative disclosure in the format required by Pillar 3 guidelines is set out in section 15 of this report.
List of subsidiaries	List of subsidiaries included in accounting consolidation is listed in note number 32 of audited annual financial statements.	List of subsidiaries included in regulatory consolidation are listed in note number 32 of audited annual financial statements

5. Comparison of accounting balance sheet and exposure at default

LIA: The differences between the financial and regulatory consolidated balance sheets arise primarily from differences in the basis of consolidation and the requirement to not consolidate for regulatory purposes commercial entities which are subject to full consolidation for financial purposes. The regulatory risk category drives the approach applied in the calculation of regulatory exposures and RWA. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories is disclosed in the following page. The differences between accounting and regulatory consolidated balance sheets amounting to AED 184Mn pertains to Provisions and Profit in Suspense.

5.1. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (LI1):

AED'000

	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 banks	2,018,449	2,018,449	2,018,449	-	-	-	-
Deposits & balances due from banks, net	87,068	87,068	87,068	-	-	-	-
Receivable from Islamic financing, activities	6,575,065	6,730,340	6,730,340	-	-	-	-
Ijara	1,435,318	1,471,437	1,471,437				
Investment Properties	70,530	70,530	70,530	-	-	-	-
Investment Securities	2,584,600	2,584,600	2,584,600	-	-	-	-
Intangible Assets	162,947	162,947	-	-	-	-	162,947
Property And Equipment, Net	390,442	390,442	377,148	-	-	-	13,294
Islamic Derivative Financial Instruments Asset	23,114	23,114	-	23,114	-	23,114	-
Investment in Associate	52,540	52,540	52,540	-	-	-	-
Other Assets	193,783	186,827	186,827	-	-	-	-
Total Assets	**13,593,857**	**13,778,295**	**13,578,939**	**23,114**	**-**	**23,114**	**176,241**
Liabilities							
Deposits from Customers	8,102,244	8,102,244	-	-	-	-	-
Wakala Deposits from banks	3,344,942	3,344,942	-	-	-	-	-
Medium Term Financing	82,265	82,265	-	-	-	-	-
Islamic Derivative Financial Instruments Liabilities	25	25	-	25	-	-	-
Other Liabilities	476,267	660,705	-	-	-	-	-
Total Liabilities	**12,005,743**	**12,190,181**	-	**25**	**-**	**-**	**-**
Equity	**1,588,114**	**1,588,114**		**23,089**	**-**	**23,114**	**176,241**

5.2. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

The below table shows the effect of regulatory adjustments required to derive the Bank's exposure at default (EAD) for the purposes of calculating its capital requirements. The differences between the carrying values under regulatory scope of consolidation and amounts considered for regulatory purposes shown in section 5.2 are mainly provisions, collateral, off-balance sheet exposures and as detailed below:

AED'000

		Items subject to:			
	Total	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	13,625,168	13,578,939		23,114	23,114
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	25	-	-	25	-
Total net amount under regulatory scope of consolidation	**13,625,143**	**13,578,939**	**-**	**23,089**	**23,114**
Off-balance sheet amounts	544,122	544,122	-		-
Differences in valuations	-	-	-	-	-
Differences due to different netting rules	-	-	-	-	-
Differences due to consideration of Provisions	176,266	176,266	-	-	-
Differences due to prudential filters	-	-	-	-	-
Exposure amounts considered for regulatory purposes	14,345,531	14,299,327	-	23,089	23,114

6. Key Prudential Regulatory Metrics (at consolidated group level)

6.1. Key Metrics for the Group (KM1)

There has been a decrease of AED 70Mn in total risk weighted assets (RWA) over the last quarter mainly due to decrease in other assets portfolio.

In AED'000	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,410,714	1,354,482	1,437,447	1,453,601	1,441,043
Tier 1	1,410,714	1,354,482	1,437,447	1,453,601	1,441,043
Total capital	1,512,467	1,457,182	1,536,745	1,552,175	1,542,336
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	9,132,546	9,203,172	8,932,018	8,863,222	9,104,225
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	15.45%	14.72%	16.09%	16.40%	15.83%
Tier 1 ratio (%)	15.45%	14.72%	16.09%	16.40%	15.83%
Total capital ratio (%)	16.56%	15.83%	17.20%	17.51%	16.94%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
Bank D-SIB additional requirements (%)	0%	0%	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2.50%	2.50%	2.50%	2.50%	2.50%
CET1 available after meeting the bank's min capital requirements (%)	6.06%	5.33%	6.70%	7.01%	6.44%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	13,519,812	13,373,595	12,915,944	12,709,092	13,268,735
Basel III leverage ratio (%)	10.43%	10.13%	11.13%	11.44%	10.86%
ELAR					
Total HQLA	1,876,954	1,966,072	1,595,121	1,467,096	1,521,856
Total liabilities	10,828,152	10,830,526	10,454,788	10,476,018	10,905,721
Eligible Liquid Assets Ratio (ELAR) (%)	17.33%	18.15%	15.26%	14.00%	13.95%
ASRR					
Total available stable funding	10,302,110	10,283,864	8,447,708	8,502,526	9,514,192
Total Advances	8,378,142	8,095,612	7,992,624	7,714,800	7,798,762
Advances to Stable Resources Ratio (%)	81.32%	78.72%	94.61%	90.74%	81.97%

6.2. Capital Management

The Bank's capital management aims to guarantee solvency and maximise profitability, while complying with regulatory requirements and internal objectives. It is a key strategic tool for decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes. Our active capital management applies strategies on efficient capital allocation to business lines. Our capital allocation model aims to ensure our capital allocation is right for the risks inherent in our operations and risk appetite to optimise value creation for our group and business units.

The ratios of this report are calculated by applying the Central Bank of UAE capital standards and guidelines as mentioned in section 2 of this report.

At year-end, the CET1 ratio was 15.45% which is 606 bps available for the CET1 buffer requirement and CAR was 16.56% which is 356 bps above the regulatory minimum. The leverage ratio stood at 10.43% against a regulatory minimum of 3%.

6.3. Capital Resources (CC1)

All capital instruments included in the capital base meet the requirements set out in the Central Bank of UAE capital standards and guidelines.

	AED'000
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,850,000
Retained earnings	(3,154,167)
Accumulated other comprehensive income (and other reserves)	(108,877)
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
Common share capital issued by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory deductions	**1,586,955**
Common Equity Tier 1 capital regulatory adjustments	
Prudent valuation adjustments	-
Goodwill (net of related tax liability)	-
Other intangibles including mortgage servicing rights (net of related tax liability)	(176,241)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
Cash flow hedge reserve	-
Securitisation gain on sale	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined benefit pension fund net assets	-
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
Amount exceeding 15% threshold	-
Of which: significant investments in the common stock of financials	-
Of which: deferred tax assets arising from temporary differences	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Common Equity Tier 1	(176,241)
Common Equity Tier 1 capital (CET1)	1,410,714

Additional Tier 1 capital: regulatory adjustments	
Investments in own additional Tier 1 instruments	-
Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
consolidation	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1= CET1 + AT1)	1,410,714
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase-out from Tier 2	-
Tier 2 instruments issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Provisions	101,753
Tier 2 capital before regulatory adjustments	101,753
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	-
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)	-
Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	101,753
Total regulatory capital (TC = T1 + T2)	1,512,467
Total risk-weighted assets	9,132,546
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.45%
Tier 1 (as a percentage of risk-weighted assets)	15.45%
Total capital (as a percentage of risk-weighted assets)	16.56%
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%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	-
Of which: higher loss absorbency requirement (e.g. DSIB)	-
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	6.06%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.0%
Tier 1 minimum ratio	8.5%
Total capital minimum ratio	10.5%
Amounts below the thresholds for deduction (before risk weighting)	
Significant investments in common stock of financial entities	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	135,947
Cap on inclusion of provisions in Tier 2 under standardised approach	101,753
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
Current cap on CET1 instruments subject to phase-out arrangements	-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on AT1 instruments subject to phase-out arrangements	-
Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
Current cap on T2 instruments subject to phase-out arrangements	-
Amount excluded from T2 due to cap (excess after redemptions and maturities)	-

6.4. Reconciliation of regulatory capital to balance sheet (CC2)

The following table shows the reconciliation between balance sheet prepared for published financial statements with that prepared for regulatory reporting. The amount shown under the regulatory scope of consolidation is not a RWA measure; it is based on an accounting measure and cannot be directly reconciled to other disclosures in this report which are prepared applying Basel III rules.

AED'000

	Balance sheet as in published financial statements 31-Dec-23	Under regulatory scope of consolidation 31-Dec-23
Assets		
Cash and balances at central bank	2,018,449	2,018,449
Deposits & balances due from banks	87,068	87,068
Receivable from Islamic financing, activities	6,575,065	6,730,340
Ijara	1,435,318	1,471,437
Investment Properties	70,530	70,530
Investment Securities	2,584,600	2,584,600
Intangible Assets	162,947	162,947
Property And Equipment, Net	390,442	390,442
Islamic Derivative Financial Instruments Asset	23,114	23,114
Investment in Associate	52,540	52,540
Other Assets	193,783	186,827
Total assets	**13,593,857**	**13,778,295**
Liabilities		
Deposits from Customers	8,102,244	8,102,244
Wakala Deposits from banks	3,344,942	3,344,942
Items in the course of collection due to other banks	-	-
Sukuk Liability	82,265	82,265
Islamic Derivative Financial Instruments Liabilities	25	25
Other Liabilities	476,267	661,864
Total liabilities	**12,005,743**	**12,191,341**
Shareholders' equity		
Paid-in share capital	4,850,000	4,850,000
Tier 1 Sukuk	-	-
Reserves	178,896	178,896
Retained Earnings	(3,030,354)	(3,030,354)
Net Profit for the Year	(123,814)	(123,814)
Cumulative Change in Fair Values	(286,615)	(287,775)
Minority Interest	-	-
Total shareholders' equity	**1,588,114**	**1,586,954**

6.5. Main features of regulatory capital instruments (CCA)

AED'000

	Quantitative / qualitative information
Issuer	Al Hilal Bank PJSC
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
Governing law(s) of the instrument	NA
Amount recognised in regulatory capital (In millions, as of most recent reporting date)	4850
Nominal amount of instrument	1
Issue price	1
Redemption price	NA
Accounting classification	CET1
Original date of issuance	NA
Perpetual or dated	NA
Coupons / dividends	NA
If yes, specify non-compliant features	NA

6.6. Countercyclical capital buffer (CCyB)

The Bank's countercyclical capital buffer (CCyB) requirement is determined by applying various country specific CCyB rates to the Bank's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis. Since Nostro and Interbank exposure excluded for Countercyclical capital buffer computations, this does not applicable to the Bank.

7. Risk Management and Risk Weighted Assets

7.1. Our approach to measuring Risk Exposure and Risk-Weighted Asset

Depending on the intended purpose, the reporting of risk exposure may differ under International Financial Reporting Standards (IFRS) when compared to reporting for regulatory capital purposes. Our Pillar 3 disclosures are generally based on risk exposure used to derive the regulatory capital required under Pillar 1. Our risk-weighted assets (RWA) are calculated according to the BCBS Basel III framework, as implemented by the Central Bank of UAE.

7.2. OVA: Bank Risk Management Approach

Risk management is integral to the operations and risk culture of the Group. The Board of Directors ("The Board") places significant importance on strong risk governance when shaping the Group's strategy and managing risks effectively. Risks are proactively managed within the Group with a clear framework of risk ownership by respective stakeholders. The Bank's Risk Governance framework is part of overall approach to corporate governance. The Risk Governance Framework provides guidance on the ongoing development, enhancement and implementation of the Bank's Risk Management infrastructure which covers methodologies, structures, policies, procedures, limits, monitoring, managing mechanism and systems. Risk Governance Framework is established given the consideration of risk profile, nature, size and complexity of the Bank's business and structure. The Bank's risk governance structure ensures oversight of, and accountability for, the effective management of risk at the Group.

The Group's business strategy is to achieve the objective of being a strong financial player and at the same time managing risks associated with this objective effectively. The risk management supports this objective and promotes the transparency within the Group. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

The Board has the ultimate responsibility for setting out the risk appetite and effective management of risk for the Group. The Board's risk strategy is reflected in its Risk Appetite Statement (RAS). These describe the amount of each risk type that the Bank is willing to take in pursuit of its strategic objectives.

Risk measurement is attained through the Banks Risk Appetite Statement. 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
- Conduct and Shariah Risk
- Credit Risk
- Market & Liquidity Risk
- Operational Risk
- Compliance & Regulatory Risk
- Information Security & Technology Risk

The RAS is shared with Management on monthly basis and presented in the Risk Management Committee, with any breaches to the RAS reported to the Board/Board Committees with a suitable remediation plan and timeline for regularizing the breach.

The Management Executive Committee has the primary responsibility for implementing, overseeing and taking ownership for the enforcement of strategy and internal control directives laid down by the Board. The Management level committees also actively manage risk through the Asset and Liabilities Committee ("ALCO") and the Risk Management Committee.

The ALCO is responsible structuring and monitoring the balance sheet from a risk-return perspective including the strategic management of profit rate, foreign exchange and liquidity risks. The Risk Management Committee supports the Board Risk Committee ("BRC") to fulfil its responsibilities in relation to the oversight of the development and implementation of risk management strategies and limits, the alignment of the Bank's strategic objectives with its risk profile, the risks in the Bank's asset portfolios, the compliance with regulatory requirements relating to risk management.

The Risk Management function headed by the Chief Risk Officer reports to the Board Risk Committee. The risk function is independent of the origination function to ensure the balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, liquidity, operational, fraud, data governance and information security risk and business continuity risk.

The Internal Audit and the Compliance function aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. The Internal audit alongside the Compliance function, also ensure that policies and procedures undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures.

In managing Credit, Market or Liquidity Risk, the Bank performs a systematic review of possible sources of Credit or Market Risk factors that will impact the portfolio with an assessment of the potential magnitude of these events. Stress testing provides a futuristic insight into the impact of such events and accordingly will help the Bank better plan its capital sources and uses.

Stress tests are performed for different risk types including Credit Risk, Market Risk, Liquidity Risk. The Management or Board/Board Committees might mandate stress test for other risks at any point in time.

The Bank conducts both a basic level of testing wherein the scenarios / shocks are chosen based on a past or potential underlying events or real-world crisis, as well as enterprise-level stress testing where macroeconomic factors are tested and their impact on the Bank is quantified.

Determining the stress / sensitivity test scenarios is the main building block of any assessment.
The Bank conducts stress tests for possible risk events that can cause, directly or indirectly, an economic loss to the Bank.

The Stress events can be based on historical and/or hypothetical scenarios. Historical scenarios would be based on observed events from the past that are relevant to the Bank. Hypothetical scenarios are mainly determined by plausible relevant events that can occur. These events are caused by macroeconomic factors, specific events related to the economy as a whole or specific to a certain portfolio, or catastrophe scenarios capturing extreme market events which have not previously occurred.
The stress scenario can either be macroeconomic due to some adverse economic conditions or idiosyncratic impacting some specific groups, or a combination of both.

Stress tests are conducted at varying frequencies considering business requirements and relevance. Detailed stress tests are conducted at least annually and the assumptions underlying the stress tests are reviewed periodically.
The enterprise–wide stress testing is a stress testing exercise where the Bank assess the impact of stress event on all types of risk. In ICAAP, both credit, market and liquidity risks are considered for stress test. In this stress test the purpose is to assess the impact of simultaneous movements in a number of risk drivers, which may arise due to macroeconomic variables. These stress scenarios reflect the forward-looking views of macro-

economic environment that are calibrated against the adverse movements in the risk drivers. Risk drivers are selected based on product, business and bank level views of each scenario and are granular appropriate to the scenarios.

The strategies and processes to manage, hedge, and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigates. The bank manages profit rate risk in the banking book by entering profit rate swaps (for instance profit rate risk on Sukuk investment portfolio is hedged using profit rate swaps).

7.3. RWA development in Q4-2023

The OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type. Over the quarter, total CRWA decreased by AED 0.07Bn to AED 8.13Bn.

Counterparty Credit Risk Capital & CVA: In Q4 2023, the capital requirement has decreased slightly compared to Q3 23 due to the decrease in Mark to Market (MTM) of the Profit Rate Swaps (PRS) from AED 38.33Mn in Q3 2023 to AED 23.11Mn in Q4 2023.

Equity Investment in Funds (EIF): RWA has been calculated using the Look through Approach (LTA) for Equity Investment in Funds (EIF) for the two funds - Global Sukuk Fund (GSF) and GCC Equity Fund. RWA has marginally increased from AED 45.03Mn in Q3’23 to AED 47.15Mn in Q4’23. The increase is due to increase in market value of the funds and increase in risk weight of funds.

Market Risk Capital: The Market risk capital in AHB comprises of only Foreign Exchange Risk. There has been an increase in RWA from 126.05Mn AED in Q3’23 to 142.03Mn AED in Q4’23. The change is due to increase in net FX open position.

7.4. Overview of risk weighted assets (OV1)

AED'000

	RWA		Minimum capital requirements
	31-Dec-23	30-Sep-23	31-Dec-23
Credit risk (excluding counterparty credit risk)	8,130,628	8,201,336	1,056,982
Of which: standardised approach (SA)	8,130,628	8,201,336	1,056,982
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
Of which: supervisory slotting approach	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
Counterparty credit risk (CCR)	9,604	14,647	1,008
Of which: standardised approach for counterparty credit risk	9,604	14,647	1,008
Credit valuation adjustment (CVA)	19,545	32,520	2,052
Equity investments in funds - look-through approach	47,153	45,036	4,951
Equity investments in funds - mandate-based approach	-	-	-
Equity investments in funds - fall-back approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in the banking book	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA), Including internal assessment approach	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-
Market risk	142,034	126,050	14,914
Of which: standardised approach (SA)	142,034	126,050	14,914
Operational risk	783,581	783,581	82,276
Total	**9,132,546**	**9,203,172**	**1,162,183**

8. Leverage Ratio

The Basel III leverage ratio is calculated by dividing the period-end tier 1 capital by the period-end leverage ratio denominator (LRD), as summarized in the table below.

8.1. Summary comparison of accounting assets versus leverage ratio exposure measure (LR1)

AED'000

Summary comparison of accounting assets vs leverage ratio exposure	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22
Total consolidated assets as per published financial statements	13,570,744	13,394,082	12,931,307	12,726,941	13,273,411
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-	-	-
Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-	-	-	-
Adjustments for temporary exemption of central bank reserves (if applicable)	-	-	-	-	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-	-	-
Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-	-	-	-	-
Adjustments for eligible cash pooling transactions	-	-	-	-	-
Adjustments for derivative financial instruments	43,048	65,572	62,721	56,966	67,124
Adjustment for securities financing transactions (ie repos and similar secured lending)	-	-	-	-	-
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	82,262	88,525	78,581	72,796	66,758
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-	-
Other adjustments	(176,241)	(174,584)	(156,666)	(147,611)	(138,558)
Leverage ratio exposure measure	**13,519,812**	**13,373,595**	**12,915,944**	**12,709,092**	**13,268,735**

The LRD consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are adjusted for a number of items, including replacement value and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on- balance sheet exposures. Those exposures are the starting point for calculating the BCBS LRD, as shown in the LR2 table in this section. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

8.2. Leverage ratio common disclosure (LR2)

The total derivatives exposure in the leverage ratio has slightly decreased due to decrease in replacement cost of Profit Rate Swaps (from AED 38.33Mn in Q3’23 to AED 23.11Mn in Q4’23). Total derivative exposure is 1.4 times of the total replacement cost and add-on amount for PFE (Potential future exposure). Add-on amount is calculated based on SA-CCR methodology which is adopted from Q2 2022. Notional of the derivative exposure has remained same between Q3’23 and Q4’23.

AED'000

	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23
On-balance sheet exposures				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,570,744	13,394,082	12,931,307	12,726,941
Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-	-	-
(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-	-	-
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-	-	-
(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-	-	-
(Asset amounts deducted in determining Tier 1 capital)	(176,241)	(174,584)	(156,666)	(147,611)
Total on-balance sheet exposures (excluding derivatives and SFTs)	13,394,503	13,219,498	12,774,641	12,579,330
Derivative exposures				
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	32,360	53,662	49,505	41,492
Add-on amounts for PFE associated with *all* derivatives transactions*	10,687	11,909	13,217	15,473
(Exempted CCP leg of client-cleared trade exposures)	-	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
Total derivative exposures	43,048	65,572	62,721	56,966

Securities financing transactions				
Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
CCR exposure for SFT assets	-	-	-	-
Agent transaction exposures	-	-	-	-
Total securities financing transaction exposures	-	-	-	-
Other off-balance sheet exposures				
Off-balance sheet exposure at gross notional amount	501,075	567,919	480,669	476,853
(Adjustments for conversion to credit equivalent amounts)	(418,812)	(479,394)	(402,088)	(404,057)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				
Off-balance sheet items	82,262	88,525	78,581	72,796
Capital and total exposures				
Tier 1 capital	1,410,714	1,354,482	1,437,447	1,453,601
Total exposures	13,519,812	13,373,595	12,915,944	12,709,092
Leverage ratio				
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)				
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.43%	10.13%	11.13%	11.44%
CBUAE minimum leverage ratio requirement	3%	3%	3%	3%
Applicable leverage buffers	7.43%	7.13%	8.13%	8.44%

** With 1.4 multiplier*

9. Funding and liquidity risk

Funding and 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.

9.1. Liquidity Risk Management (LIQA)

The Bank's Liquidity Risk is monitored at a centralized level through an ALM Policy which includes Liquidity Risk Management and Contingency Funding policy having the following key highlights:

Liquidity Risk Management Strategy: The Board/ Board Committee approves the strategy for managing liquidity risk and delegates the responsibility to management for ongoing implementation and monitoring. The Bank envisages monitoring and managing liquidity conditions under two conditions, viz. Normal, Stressed. Besides, the Bank also proposes to ensure proper mix of assets and liabilities, with a due emphasis on diversification aspect to manage liquidity in a cost-effective manner. The policy will be reviewed every year or more frequently during the year as demanded by the market condition.

Roles and Responsibilities: Although the overall responsibility of liquidity management lies with the Board/ Board Committee, it approves the liquidity management policy and delegate the implementation and compliance to the management. Besides, the Bank has also specified the definite roles to be played by treasury department, and finance department, and Treasury, Market, & Liquidity Risk function in the overall process of liquidity risk management. An independent Treasury, Market, & Liquidity Risk function measures Liquidity Risk on a monthly basis for the Bank.

Liquidity Measures and Limits: An independent Treasury, Market, & Liquidity Risk function measures Liquidity Risk via various metrics and limits which have been approved by the Board/ Board Committee. These include Liquidity Ratios - ELAR, ASRR, LCR, NSFR (LCR and NSFR is not a Regulatory mandate for AHB), and Liquidity Stress Tests.

Funding Guidelines: The acceptable funding sources as described by the Bank are global capital markets, interbank markets and domestic deposits. In addition, the Bank highlights to generate additional liquidity under stressed condition by selling liquid assets. The Bank, following Board/ Board Committee's approval, maintains a liquidity portfolio with a limit of circa AED 5Bn, which comprises high quality unencumbered securities purely earmarked for meeting liquidity requirements.

Contingency Funding Plan: There is a contingency funding plan in place that addresses the concern such as borrowing capacity under stressed conditions, early warning indications on monthly basis, responsibilities and authority to meet liquidity crisis, estimation of probability, severity and duration of liquidity crisis.

Reporting: TMLR prepares and disseminates the liquidity risk measures on monthly basis to the management.

The key measures used by the Group for managing liquidity risk are regulatory driven ratios which are Advance to stable ratio ("ASRR"), and Eligible Liquid Asset Ratio (ELAR). ASRR takes into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. As of 31 December 2023, the Bank's ASRR was 81.32%.

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As of 31 December 2023, this ratio stood at 17.33%.

9.2. High-quality liquid assets

HQLA must be easily and immediately convertible into cash at little or no loss of value, especially during a period of stress. HQLA are assets that are of low risk and are unencumbered. Other characteristics of HQLA are ease and certainty of valuation, low correlation with risky assets, listing of the assets on a developed and recognized exchange, existence of an active and sizeable market for the assets and low volatility. Our HQLA predominantly consist of assets that qualify as Level 1 in the Eligible Liquid Assets Ratio (ELAR) framework, including cash, central bank reserves and government bonds.

9.3. Eligible Liquid Assets Ratio (ELAR)

AED'000

High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	1,407,230	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	1,407,230	1,407,230
UAE local governments publicly traded debt securities	735,425	
UAE Public sector publicly traded debt securities	-	
Sub Total	735,425	432,994
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,730	36,730.00
Total	**2,179,386**	**1,876,954**
Total liabilities		10,828,152
Eligible Liquid Assets Ratio (ELAR)		**17.33%**

9.4. Advances to Stable Resources Ratio (ASRR)

AED'000

Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	8,151,366
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	24,761
Interbank Placements	202,015
Total Advances	**8,378,142**
Calculation of Net Stable Resources	
Total capital + general provisions	1,711,848
Deduct:	
Goodwill and other intangible assets	176,241
Fixed Assets	377,147
Funds allocated to branches abroad	-
Unquoted Investments	603
Investment in subsidiaries, associates and affiliates	52,540
Total deduction	**606,531**
Net Free Capital Funds	**1,105,317**
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	2,092,660
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	783
Customer Deposits	7,103,350
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
Total other Stable Resources	**9,196,793**
Total Stable Resources	**10,302,110**
Advances To Stable Resources Ratio (ASRR)	**81.32**

10. Credit Risk Management

10.1. Template CRA: General qualitative information about credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from Islamic financing activities, Ijara, and Investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as counterparty default risk and geographical risk for risk management purposes.

The objective of credit risk management is to undertake an independent review and objective assessment of risk for all credit facilities as well as to both partner and challenge the businesses in defining, implementing, and continually re-evaluating the risk appetite in line with the Group's policies, procedures and change in market conditions and regulations.

Credit applications for Personal banking customers are reviewed and approved by the Credit underwriting team in line with the approved policies and delegated approval authorities. Credit policies for the Personal Banking Group asset products are reviewed by the Retail Risk Policies & Portfolio Management team to ensure that the associated risks against financing are minimized. The Risk management department ensures that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances for facilities in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance. Risk Management is also responsible for establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools, and data to assess credit risk and to account for ECL. It is also responsible for providing advice, guidance, and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Approved policies govern all delegated financing authorities and include policies, strategies and procedures specific to the Group's business and are decided based on macro-economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for the Group. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

ECL measurement: Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by utilizing the key input of probability of default (PD), loss given default (LGD) and the exposure at default EAD). These inputs are generally derived from statistical models and other historical data and they are adjusted to reflect probability weighted forward looking information.

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions. In addition, the estimation of ECL takes into account the time value of money.

As per IFRS 9 requirements, the Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility.

12 Month or Lifetime ECL for each facility is being determined depending on the stage of the facility, as explained below:

- Stage1: where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- Stage2: where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- Stage3: where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

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

The Bank focuses on Retail market segments with specially tailored Shariah compliant products and develop efficient processes to deliver these products. The Bank's credit risk profile consists mainly of retail portfolio.

The credit approval process contains underwriting risk which is managed 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 calibrates the scoring methodology that provides more objective and granular view of customer's risk profile; strengthens its credit underwriting process by setting up a unified approach to credit analysis across the organization; and updates the policy basis on the evolving market regulation and condition.

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

Strategic objectives set by the Board are the foundation for setting the credit risk management policy for the Bank.
The key components of the Bank's credit risk management 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.

The applicable regulatory requirements form the basis of setting credit risk limits in addition to the strategic objectives set by the Board.

c. Structure and organisation of the credit risk management and control function

The Board of Directors and Senior Management are involved in the establishment of the risk infrastructure. Risk Management Division ("RMD") is integral to the operations and enhancing the risk culture of the Bank. The RMD structure (which includes credit risk management) ensures identification, measurement, monitoring and controlling risk in accordance with the regulatory guidelines issued by the CBUAE.

The Bank's RMD structure is aligned with ADCB to achieve efficiency in risk practices. This enables the oversight of risk activities by ADCB, which makes the risk processes more prudent and reliable. 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.

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

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

e. Scope on credit risk exposure/function reporting to the executive management / the board of directors

The Bank's management monitors the performance of the Bank on an ongoing basis and advises the Board. The monitoring of the performance is carried out through a regular assessment of performance trends against prior periods and Board approved Risk Appetite limits through Management committees. Any breach in these limits is escalated to the Board with a suitable remediation plan and timeline for regularizing the breach.

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

Any account that are greater than or equal to 1 days past due is considered as “Past Due” and greater than or equal to 90 days past due is considered as “Impaired”.

Renegotiated financing facilities: Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer’s financial position and where the Group has made concessions that it would not otherwise consider. Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the finance customer, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the exiting asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset.

The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset. The difference between the revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is originated credit impaired.

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

a. Core features of policies and processes for use of on- and off-balance sheet netting

In financial reporting, financing and advances are analysed net of impairment, profit in suspense, and off-balance-sheet exposures are considered at maximum exposure levels. For Pillar III reporting financing and advances are analysed at gross levels and off-balance- sheet exposures are disclosed at post-CCF levels.

b. Core features of policies and processes for collateral evaluation and management.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate is valued based on various data.

The Group holds collateral against various credit risk exposures in the form of mortgage over property, fixed deposits and guarantees. Collateral and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collateral include cash/ fixed deposits, guarantees, immovable properties, vehicles.

Collateral is revalued regularly as per the Bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered.

c. Information about market or credit risk concentrations under the credit risk mitigation instruments

Credit risk mitigation techniques overview is covered earlier. Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects are covered earlier.

10.4. Credit quality of assets (CR1)

AED'000

	Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values
	Defaulted exposures	Non-defaulted exposures		*Allocated in regulatory category of Specific*	Allocated in regulatory category of General	
Loans	134,637	8,067,139	183,826	49,038	134,788	8,017,951
Debt securities	-	2,489,461	1,158		1,158	2,488,303
Off-balance sheet exposures**	-	544,122	-			544,122
Total	**134,637**	**11,100,723**	**184,984**	**49,038**	**135,947**	**11,050,376**

**Including PIS*

***Including AHB issued AED 25Mn Financial guarantee on its own behalf*

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

	AED'000
Defaulted loans and debt securities at the end of the previous reporting period	105,103
Loans and debt securities deafulted from last reporting period	46,706
Returned to non-default status	(7,170)
Amounts written off	(58,342)
Other changes	48,340
Defaulted loans and debt securities at the end of the reporting period	**134,637**

10.6. Credit risk mitigation techniques – overview (CR3)

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
Loans	8,150,470	51,307	26,794	-	-	-	-
Debt securities	2,489,461	-	-	-	-		
Total	**10,639,931**	**51,307**	**26,794**	-	-	-	-
Of which defaulted	38,207	96,430	-	-	-	-	-

10.7. Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

AED'000

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	3,018,928	-	3,018,928	-	328,181	4%
Public Sector Entities	343,491	-	343,491	-	190,270	2%
Multilateral development banks	37,040	-	37,040	-	-	0%
Banks	342,742	43,048	342,742	43,048	130,317	2%
Securities firms	-	-	-	-	-	0%
Corporates	1,733,602	354,518	1,733,602	39,916	1,627,483	20%
Regulatory retail portfolios	5,625,815	146,557	5,625,815	-	4,496,649	55%
Secured by residential property	1,339,719	-	1,339,719	-	517,260	6%
Secured by commercial real estate	59,837	-	59,837	-	59,837	1%
Equity Investment in Funds (EIF)		-	-	-	-	0%
Past-due loans	134,637	-	85,600	-	87,546	1%
Higher-risk categories	-	-	-	-	-	0%
Other assets	1,142,482	-	1,142,482	-	702,691	9%
Total	**13,778,294**	**544,122**	**13,729,257**	**82,963**	**8,140,232**	**100%**

10.8. Standardised approach - exposures by asset classes and risk weights (CR5)

AED'000

Risk weight* / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	2,373,550	-	-	-	634,394	-	10,984	-	-	3,018,928
Public Sector Entities	-	-	-	-	306,442	-	37,050	-	-	343,491
Multilateral development banks	37,040	-	-	-	-	-	-	-	-	37,040
Banks	-	-	210,923	-	173,469	-	1,398	-	-	385,790
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	26,794	-	-	-	238,480	-	1,508,243	-	-	1,773,517
Regulatory retail portfolios	-	-	-	-	-	4,516,665	1,109,149	-	-	5,625,815
Secured by residential property	-	-	-	1,258,568	-	17,563	63,588	-	-	1,339,719
Secured by commercial real estate	-	-	-	-	-	-	59,837	-	-	59,837
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	81,710	3,890	-	85,600
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	439,792	-	-	-	-	-	702,691	-	-	1,142,482
Total	**2,877,177**	-	**210,923**	**1,258,568**	**1,352,785**	**4,534,229**	**3,574,649**	**3,890**	-	**13,812,220**

10.9. Gross and net credit risk exposure by asset class — Standardised Approach

As on 31 Dec 2023 AED'000

Asset Classes	On & Off Balance Sheet Gross Outstanding	Credit Risk Mitigation (CRM) Exposure Before CRM	CRM	On & Off Balance Sheet Net Exposure After Credit Conversion Factors (CCF)	Risk Weighted Assets
Claims on Sovereigns	3,018,928	3,018,928	-	3,018,928	328,181
Claims on Non- Commercial Public Sector Enterprises (PSEs)	343,491	343,491	-	343,491	190,270
Claims on Multi Lateral Development Banks	37,040	37,040	-	37,040	-
Claims on Banks	385,790	385,790	-	385,790	130,317
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	2,088,120	2,088,120	26,794	1,773,517	1,627,483
Claims Included in the Regulatory Retail Portfolio	5,772,372	5,772,372	-	5,625,815	4,496,649
Claims Secured By Residential Property	1,339,719	1,339,719	-	1,339,719	517,260
Claims Secured by Commercial Real Estate	59,837	59,837	-	59,837	59,837
Past Due Financing	134,637	85,600	-	85,600	87,546
Other Assets	1,142,482	1,142,482	-	1,142,482	702,691
Total Claims	14,322,417	14,273,380	26,794	13,812,220	8,140,232

As on 31 Dec 2022 AED'000

Asset Classes	On & Off Balance Sheet Gross Outstanding	Credit Risk Mitigation (CRM) Exposure Before CRM	CRM	On & Off Balance Sheet Net Exposure After Credit Conversion Factors (CCF)	Risk Weighted Assets
Claims on Sovereigns	2,470,822	2,470,822	-	2,470,822	273,095
Claims on Non- Commercial Public Sector Enterprises (PSEs)	516,336	516,336	268,972	516,336	202,811
Claims on Multi Lateral Development Banks	37,040	37,040	-	37,040	-
Claims on Banks	812,760	812,760	-	812,760	310,811
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	2,025,284	2,025,284	3,739	1,752,083	1,614,637
Claims Included in the Regulatory Retail Portfolio	5,341,953	5,341,953	-	5,231,848	4,238,805
Claims Secured By Residential Property	1,424,663	1,424,663	-	1,424,663	557,254
Claims Secured by Commercial Real Estate	64,551	64,551	-	64,551	64,551
Past Due Financing	92,331	48,419	-	48,419	48,540
Other Assets	1,187,247	1,187,247	-	1,187,247	792,936
Total Claims	13,972,987	13,929,076	272,710	13,545,770	8,103,440

10.10. Gross and net credit risk exposure by externally rated/unrated — Standardised Approach

As on 31 Dec 2023 AED'000

	Gross Credit Exposures				
	Rated	**Unrated**	**Total**	**Post CRM**	**RWA Post CRM**
Claims on Sovereigns	3,018,928	-	3,018,928	3,018,928	328,181
Claims on Non- Commercial Public Sector Enterprises (PSEs)	343,491	-	343,491	343,491	190,270
Claims on Multi Lateral Development Banks	37,040	-	37,040	37,040	-
Claims on Banks	342,742	43,048	385,790	385,790	130,317
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	691,122	1,396,998	2,088,120	1,773,517	1,627,483
Claims Included in the Regulatory Retail Portfolio	-	5,772,372	5,772,372	5,625,815	4,496,649
Claims Secured By Residential Property	-	1,339,719	1,339,719	1,339,719	517,260
Claims Secured by Commercial Real Estate	-	59,837	59,837	59,837	59,837
Past Due Financing	-	134,637	134,637	85,600	87,546
Other Assets	116,472	1,026,010	1,142,482	1,142,482	702,691
Total	4,549,795	9,772,621	14,322,417	13,812,220	8,140,232

As on 31 Dec 2022 AED'000

	Gross Credit Exposures				
	Rated	**Unrated**	**Total**	**Post CRM**	**RWA Post CRM**
Claims on Sovereigns	1,235,189	1,235,634	2,470,822	2,470,822	273,095
Claims on Non- Commercial Public Sector Enterprises (PSEs)	507,776	8,560	516,336	516,336	202,811
Claims on Multi Lateral Development Banks	37,040	-	37,040	37,040	-
Claims on Banks	726,302	86,458	812,760	812,760	310,811
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	776,829	1,248,455	2,025,284	1,752,083	1,614,637
Claims Included in the Regulatory Retail Portfolio	-	5,341,953	5,341,953	5,231,848	4,238,805
Claims Secured By Residential Property	-	1,424,663	1,424,663	1,424,663	557,254
Claims Secured by Commercial Real Estate	-	64,551	64,551	64,551	64,551
Past Due Financing	-	92,331	92,331	48,419	48,540
Other Assets	-	1,187,247	1,187,247	1,187,247	792,936
Total	3,283,134	10,689,853	13,972,987	13,545,770	8,103,440

CRD: Use of external ratings

The Bank uses the standardised approach for calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit-rating agencies wherever available in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty.

AHB uses three CBUAE-recognised ECAI for this purpose: Moody's Investors Service, Standard & Poor's and Fitch Ratings. The mapping of external ratings to the standardised approach risk weights is determined by CBUAE (published in Standards and Guidance for Capital Adequacy of Banks in the UAE dated December 2022).

10.11. Gross credit risk by currency

As on 31 Dec 2023 AED'000

	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	1,058,871	2,583,997	3,642,868	276,911	751,862	75,068	1,103,841	4,746,709
AED	7,136,524	603	7,137,126	146,557	-	27,846	174,403	7,311,529
Total	8,195,395	2,584,600	10,779,994	423,468	751,862	102,914	1,278,244	12,058,238

As on 31 Dec 2022 AED'000

	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	1,008,839	3,414,424	4,423,263	254,540	1,064,474	37,005	1,356,019	5,779,282
AED	6,799,736	2,320	6,802,056	110,105	-	37,178	147,283	6,949,339
Total	7,808,575	3,416,744	11,225,319	364,645	1,064,474	74,183	1,503,302	12,728,621

10.12. Gross credit risk by geography

As on 31 Dec 2023 AED'000

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	7,136,524	1,784,868	8,921,392	146,557	641,672	27,846	816,075	9,737,466
GCC (excluding UAE)	-	349,580	349,580	-	-	-	-	349,580
Asia	1,058,871	450,152	1,509,023	276,911	-	75,068	351,979	1,861,003
North America								
Europe	-	-	-	-	110,190	-	110,190	110,190
Total	**8,195,395**	**2,584,600**	**10,779,994**	**423,468**	**751,862**	**102,914**	**1,278,244**	**12,058,238**

As on 31 Dec 2022 AED'000

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	6,799,736	2,545,659	9,345,395	110,105	951,896	37,178	1,099,179	10,444,574
GCC (excluding UAE)	-	377,654	377,654	-	-	-	-	377,654
Asia	1,008,839	493,431	1,502,270	254,540	-	37,005	291,546	1,793,815
North America	-	-	-	-	-	-	-	-
Europe	-	-	-	-	112,578	-	112,578	112,578
Total	**7,808,575**	**3,416,744**	**11,225,319**	**364,645**	**1,064,474**	**74,183**	**1,503,302**	**12,728,621**

10.13. Gross credit risk by residual maturity

As on 31 Dec 2023 AED'000

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	195,540	36,503	232,043	21,299	-	75,068	96,367	328,410
3 months to one year	712,659	530,828	1,243,487	22,229	257,110	-	279,339	1,522,826
One to five years	2,320,638	1,872,253	4,192,891	257,507	494,752	-	752,260	4,945,151
Over five years	4,966,558	145,016	5,111,573	122,433		27,846	150,278	5,261,851
Total	**8,195,395**	**2,584,600**	**10,779,994**	**423,468**	**751,862**	**102,914**	**1,278,244**	**12,058,238**

As on 31 Dec 2022 AED'000

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	337,320	425,945	763,265	107,451	228,123	19,312	354,886	1,118,151
3 months to one year	609,718	280,744	890,462	19,195	29393	27,060	75,648	966,110
One to five years	1,549,009	1,877,681	3,426,690	237,867	495,855	162	733,884	4,160,574
Over five years	5,312,528	832,374	6,144,902	132	311,103	27,649	338,884	6,483,786
Total	**7,808,575**	**3,416,744**	**11,225,319**	**364,645**	**1,064,474**	**74,183**	**1,503,302**	**12,728,621**

10.14. Gross credit risk by economic sector

As on 31 Dec 2023 — AED'000

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	100,967	-	100,967	9,536	-	-	9,536	110,503
Energy	50,990	389,879	440,869	-	-	-	-	440,869
Trading	152,570	-	152,570	227,667	-	24,442	252,109	404,679
Real estate investment & hospitality	-	373,699	373,699	24,324	-	46,754	71,078	444,777
Transport & communication	107,515	53,954	161,469	402	-	-	402	161,871
Personal	7,170,596	-	7,170,596	146,557	-	2,538	149,094	7,319,690
Financial institutions	-	623,156	623,156	6,834	751,862	25,308	784,004	1,407,160
Manufacturing	40,752	-	40,752	-	-	-	-	40,752
Services	-	-	-	12	-	-	12	12
Government	-	1,143,912	1,143,912	-	-	-	-	1,143,912
Others	572,005	-	572,005	8,136	-	3,872	12,008	584,013
Total	**8,195,395**	**2,584,600**	**10,779,995**	**423,468**	**751,862**	**102,914**	**1,278,244**	**12,058,239**

As on 31 Dec 2022 — AED'000

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	100,371	-	100,371	2,328	-	-	2,328	102,699
Energy	64,089	418,661	482,750	-	-	-	-	482,750
Trading	115,640	-	115,640	95,987	-	10,224	106,211	221,851
Real estate investment & hospitality	-	374,571	374,571	121,428	-	26,524	147,952	522,523
Transport & communication	79,292	174,252	253,544	24,061	-	258	24,319	277,863
Personal	6,847,916	-	6,847,916	110,105	-	11,967	122,072	6,969,988
Financial institutions	-	746,465	746,465	7,040	1,064,474	25,211	1,096,725	1,843,190
Manufacturing	39,591	-	39,591	-	-	-	-	39,591
Services	-	-	-	941	-	-	941	941
Government	-	1,702,795	1,702,795	-	-	-	-	1,702,795
Others	561,676	-	561,676	2,755	-	-	2,755	564,431
Total	**7,808,575**	**3,416,744**	**11,225,319**	**364,645**	**1,064,474**	**74,183**	**1,503,302**	**12,728,621**

10.15. Credit risk measurement and mitigation policies

Strategic objectives set by the Board are the foundation for setting the credit risk management for the Bank.

The key components of the Bank's credit risk management 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.

The applicable regulatory requirements form the basis of setting credit risk limits in addition to the strategic objectives set by the Board.

Receivables and Ijaras to customers, investment in Sukuks and derivatives are the main sources of credit risk for the Bank. The Bank's risk management policies and processes are designed to identify, analyse and measure risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data review.

Receivable and Ijara

10.12.1. Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to back income-producing real estate as the repayment source for the facility. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved valuers and mortgage registration with the appropriate regulatory authorities. In financing new facilities, the Bank has a policy to obtain valuations from an independent valuator ensure conservatism in determining finance to Value (FTV) ratio.

10.12.2. Guarantees from highly rated banks and government entities — In addition to collaterals, the Bank regularly accepts guarantees from banks and government entities and transfers the risk of the exposure to the better- rated entities. Most of our guarantees are executed using the Bank's standard legal documentation to ensure they are unconditional guarantees to qualify as credit risk mitigants.

Eligible collaterals

As per the standardised approach the following CRMs are considered eligible for capital calculation purposes:

Netting — applicable only with legally enforceable netting agreements in place. However, to use this mitigant, the ability to systematically calculate net exposure must be demonstrated.

Collateral — either the simple or comprehensive approaches may be applied. AHB uses the comprehensive approach. For AHB, collateral primarily includes share and cash collaterals.

10.16. Impairment analysis

The Banks' Risk function monitors the portfolio through system- generated MIS and periodic reviews. Movement of the individual and collective impairment allowance on credit risk exposure were as follows:

a) Impaired loans by geography

As on 31 Dec 2023 AED"000"

Geographic Region	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	6,777,265	224,621	-	134,637	7,136,524	42,766	133,779	58,396	8,155	6,959,979
GCC (excluding UAE)	-	-	-		-	-	-	-	-	-
Asia	1,058,871	-	-	-	1,058,871	-	2,188	-	-	1,056,683
North America	-	-	-	-	-	-	-	-	-	-
Grand Total	**7,836,136**	**224,621**	**0**	**134,637**	**8,195,395**	**42,766**	**135,967**	**58,396**	**8,155**	**8,016,662**

As on 31 Dec 2022 AED"000"

Geographic Region	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	6,811,608	244,189	-	123,954	7,179,751	53,772	144,217	83,017	8,259	6,979,501
GCC (excluding UAE)	-	-	-		-	-	-	-	-	-
Asia	666,278	-	-	26,813	693,091	20,758	2355	-	-	672,333
North America	271	-	-	-	271	-	-	-	-	271
Grand Total	**7,478,157**	**244,189**	**-**	**150,767**	**7,873,113**	**74,530**	**146,572**	**83,017**	**8,259**	**7,652,105**

b) Impaired loans by economic sector

As on 31 Dec 2023 AED'000

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	100,967	-	-	-	100,967	-	403		-	100,564
Energy	50,990	-	-	-	50,990	-	247		-	50,743
Trading	152,570	-	-	-	152,570	-	381		-	152,189
Transport & communication	107,515	-	-	-	107,515	-	25	-	-	107,490
Personal	6,811,338	224,621	-	134,637	7,170,596	42,766	132,333	58,396	8,155	6,995,497
Manufacturing	40,752	-	-	-	40,752	-	273	-	-	40,479
Others	572,005	-	-	-	572,005	-	2,304	-	-	569,701
Grand Total	**7,836,137**	**224,621**	**-**	**134,637**	**8,195,395**	**42,766**	**135,967**	**58,396**	**8,155**	**8,016,662**

As on 31 Dec 2022 AED'000

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	100,371	-	-	-	100,371	-	403	-	-	99,968
Energy	64,089	-	-	-	64,089	-	247	-	-	63,842
Trading	115,640	-	-	-	115,640	-	381	22,308	-	115,259
Transport & communication	79,292	-	-	-	79,292	-	25	-	-	79,267
Personal	6,568,015	191,636	-	88,265	6,847,916	39,448	136,713	63,266	6,926	6,671,756
Manufacturing	39,591	-	-	-	39,591	-	273	-	-	39,318
Others	561,676	-	-	-	561,676	-	2,304	-	-	559,372
Grand Total	**7,528,674**	**191,636**	**-**	**88,265**	**7,808,575**	**39,448**	**140,347**	**85,574**	**6,926**	**7,628,781**

11. Market Risk

11.1 Market Risk Weighted Assets

Capital is allocated in respect of market risk under the frameworks set out in the Standards and Guidance issued by the Central Bank of UAE in December 2022. This standards/guidance articulate specific requirements for the calculation of the market risk capital requirement for banks in the UAE. It is based closely on requirements of the framework for capital adequacy developed by the Basel Committee on Banking Supervision (BCBS), specifically as articulated in Basel II: International Convergence of Capital Measurement and Capital Standards, June 2006, and subsequent revisions and clarifications thereto.

Market Risk Weighted Assets under standardised approach:

Market Risk comprises of only Foreign Exchange risk. There is no capital requirement for derivatives as there is no trading position. There has been an increase in RWA from 126.05Mn AED in Q3'23 to 142.03Mn AED in Q4'23. The change is due to increase in net FX open position.

	AED'000
Market Risk Weighted Assets	**31-Dec-23**
General Interest rate risk (General and Specific)	-
Equity risk (General and Specific)	-
Foreign exchange risk	142,034
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	-
Securitisation	-
Total	**142,034**

12. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the Group's exposure in a foreign exchange, profit rate, commodity, equity or credit derivative defaults prior to the maturity date of the contract and that the Group at the time has a claim on the counterparty. AHB has very limited exposure to derivative instruments. The derivative instruments are limited to Profit Rate Swaps which are used for hedging purposes, there is no derivative exposure in the trading book. Further, there is no derivatives exposure to CCPs.

The following table specifies the methods used by the Bank to calculate counterparty credit risk regulatory requirements, followed by table which demonstrates the risk-weighted exposure amounts to central counterparties by derivative types.

12.1 Analysis of CCR exposure by approach (CCR1)

Counterparty credit risk RWA has decreased from AED 14.27Mn in Q2'23 to AED 9.60Mn in Q4'23 due to decrease in MTM of PRS. There is also a small decrease in add-on due to decrease in duration of the Profit Rate Swaps (PRS).

AED'000

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	23,114	7,634	-	1.4	43,048	9,604
Internal Model Method (for derivatives and SFTs)						-
Simple Approach for credit risk mitigation (for SFTs)						-
Comprehensive Approach for credit risk mitigation (for SFTs)						-
VaR for SFTs						-
Total						**9,604**

12.2 Analysis of Credit valuation adjustment (CVA) capital charge (CCR2)

CVA Capital charge was implemented from Q2 2022 onwards. This has been calculated as per CBUAE standardised approach for Credit Valuation Adjustment (CVA) Capital. CVA risk weighted assets has decreased from AED 33.29Mn in Q2'23 to AED 19.54Mn in Q4'23 due to decrease in replacement cost of Profit Rate Swaps (PRS) from AED 35.36Mn to AED 23.11Mn.

		AED'000
	EAD post-CRM	**RWA**
All portfolios subject to the Standardised CVA capital charge	43,048	19,545
All portfolios subject to the Simple alternative CVA capital charge	-	-
Total subject to the CVA capital charge	**43,048**	**19,545**

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

Counterparty Credit Risk exposures by regulatory portfolio and risk weights has been provided in this template. There are only banks as counterparty and their risk weights are determined based on the ratings. There has been decrease in EAD (exposure at default) over last six months mainly due to decrease in MTM of the Profit Rate Swaps (PRS).

AED'000

Risk Weight **Regulatory portfolio**	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	-	-	39,731	3,316	-	-	-	-	43,048
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**39,731**	**3,316**	**-**	**-**	**-**	**-**	**43,048**

12.4 Composition of collateral for CCR exposure (CCR5)

AHB have not posted or received any collateral for CCR exposure.

12.5 Credit derivatives exposures (CCR6)

AHB does not have any credit derivative exposures.

12.6 Exposures to central counterparties (CCR8)

AHB does not have any exposure to central counterparties.

12.7 Prudent Valuation Adjustment (PVA)

The provisions on prudential valuation require banks to quantify several valuation uncertainties pertaining to the mark-to-market or mark-to-model valuation of derivative assets and liabilities recorded at fair value for accounting purposes. Valuation provisions results from market prices, model risk and unearned credit spreads amongst other factors. The PVA reported in this report pertains to PRS (profit rate swaps).

AED'000s

	Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
Closeout uncertainty, of which:	-	-	-	-	-	-	-	-
Mid-market value	-	-	-	-	-	-	-	-
Closeout cost	-	-	-	-	-	-	-	-
Concentration	-	-	-	-	-	-	-	-
Early termination	-	-	-	-	-	-	-	-
Model risk	-	-	-	-	-	-	-	-
Operational risk	-	-	-	-	-	-	-	-
Investing and funding costs	-	-	-	-	-	-	-	-
Unearned credit spreads	-	-	-	-	-	-	-	-
Future administrative costs	-	-	-	-	-	-	-	-
Other	-	25	-	-	-	25	-	25
Total adjustment	-	25	-	-	-	25	-	25

13. Profit rate risk in the banking book (PRRBB)

Profit Rate Risk in the Banking Book (PRRBB) refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in profit rates that affect the Bank's banking book positions. Excessive PRRBB can pose significant threat to a Bank's capital base and/or earnings if not managed prudently. Changes in profit rates affect the underlying economic value of the Bank's banking book assets, liabilities and off balance sheet instruments by changing the present value of future cash flows. Changes in profit rates also affect Bank's earnings by increasing or decreasing its EaR (Earnings at Risk) / NPI (Net Profit Income). The Bank manages PRRBB through both economic value and earnings based measures. The main sub-types of PRRBB are as follows:

Gap Risk: arises from the term structure of banking book instruments and describes the risk arising from the timing of instruments' rate changes.

Basis Risk: arises from financial instruments having similar tenors but are priced using different interest rate indices.

The Bank's PRRBB policy sets guidelines and framework to identify, measure, evaluate, monitor, report and control or mitigate material sources of PRRBB on a timely basis. PRRBB policy aims to define the risk governance framework and PRRBB risk tolerance limits.

PRRBB measures Economic Value of Equity (EVE) and Earnings at Risk (EaR) are calculated, reported and monitored on a monthly basis against prescribed limits.

Roles and Responsibilities

Board/ Board Committee: the overall responsibility for establishing, maintaining and overseeing a robust PRRBB risk governance framework lies with the Board/ Board Committee. It may delegate monitoring and management of PRRBB to senior management committees or an asset and liability management committee (ALCO). Specifically, the Board/ Board Committee's roles and responsibilities include:

Understanding the nature and level of Bank's PRRBB exposure; Defining risk tolerance limits;

Approve and Review Bank's PRRBB strategy, policy and process; Establishing adequate systems and standards for measuring PRRBB; Monitoring compliance with all internal policies and procedures and

Delegating monitoring and management of PRRBB to competent senior management committees or ALCO.

ALCO: senior executives of the Bank constitute the Assets & Liability Committee. ALCO operates as the functional unit for monitoring and managing Bank's PRRBB exposure within the risk tolerance limits established by the Board/ Board Committee and delegated management by the Management Executive Committee (MEC)

Market Risk: risk management function includes policies, procedures and systems for monitoring and reporting to ensure that PRRBB exposures are aligned with the Board/ Board Committee approved risk tolerance limits. Specifically, Market Risk team's roles and responsibilities include:

Determination of appropriate stress scenarios;

Develop methodologies, models for measurement of PRRBB; Recommend appropriate risk limits for PRRBB;

Independently calculate PRRBB exposures and monitor against Board/ Board Committee approved limits and

Report PRRBB exposures both internally to the Board/ Board Committee/ ALCO and externally to the CBUAE in the prescribed format and frequency.

Internal Audit: Internal Audit function independently reviews controls and processes around PRRBB.

Treasury: the primary responsibility of Treasury function is to undertake risk mitigation actions on Board/ Board Committee's/ALCO's directive in case the Bank has excessive PRRBB exposure against prescribed risk tolerance limits.

Economic Value of Equity (EVE)

Measurement of Bank's PRRBB through economic value measures involves below steps:

a) Profit rate sensitive banking book positions are allocated to one of the three categories i.e. amenable to standardization, less amenable to standardization and not amenable to standardization.

b) Determination of slotting of notional re-pricing cash flows based on the above categorization of banking book positions.

c) Commercial margins are not included in the cash flows and discounting curves.

d) Determination of delta EVE for below six Basel prescribed profit rate shock scenarios for each currency. Currencies where exposure is less than 5% of total banking book assets or liabilities need not have a separate delta EVE computation.

    i. Parallel shock up;
    ii. Parallel shock down;
    iii. Steepener shock (short rates down and long rates up);
    iv. Flattener shock (short rates up and long rates down);
    v. Short rates shock up and
    vi. Short rates shock down.

e) Add-ons for changes in the value of options are added to the delta EVE computed above.

f) PRRBB EVE risk measure is computed as the maximum of worst delta EVE across all the six Basel prescribed stress scenarios.

Earnings at Risk (EaR)

Measurement of Bank's PRRBB through earnings based measures is similar to economic value measures except that earnings based measures are limited up-to a shorter time horizon. Following steps are involved in measurement of earnings based PRRBB:

a) Profit rate sensitive banking book positions are allocated to one of the three categories i.e. amenable to standardisation, less amenable to standardization and not amenable to standardisation;

b) Determination of slotting of notional re-pricing cash flows based on the above categorization of banking book positions;

c) All notional re-pricing cash flows are slotted into respective time buckets. Within a given time bucket, all notional re-pricing cash flows are netted to form a single long or short position. The process is followed for all time buckets;

d) Delta NII for each stress scenario and currency is computed as product of long or short position (as calculated in step c) by the assumed change in profit rate.

Following points are factored in PRRBB measurements:

a) Banking book positions without a fixed maturity are replicated with different maturity profiles. The re-fixing of profit rate is performed according to the respective maturity profile

b) Early withdrawal risk on Term Deposits and Prepayment Risk on Fixed Rate Financing the banking book are not material and

c) Profit rate swaps are used to manage the profit rate risk in the banking book.

Of the 6 scenarios which are used to measure EVE, maximum loss is observed in the Steepener scenario. EVE in this scenario has dropped YoY. Primary reason for reduction of EVE YoY is due to reduction in duration of financing portfolio driven by the prepayment on the long dated retail financing book.

∆NII for 200 bps parallel up and down has remained consistent YoY.

13.1 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBBA)

	31-Dec-23	31-Dec-22
IRRBBA	**Year**	**Year**
Wtd Avg Maturity (Years)	3.56	3.56
Longest Maturity (Years)	4.5	4.5

13.2 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBB1)

AED'000

IRRBB1	**ΔEVE**		**ΔNII**	
Period	31-Dec-23	31-Dec-22	31-Dec-23	31-Dec-22
Parallel up	84,688	123,960	268	892
Parallel down	(165,044)	(219,057)	(19,042)	(20,077)
Steepener	122,229	150,190		
Flattener	(122,053)	(143,005)		
Short rate up	(52,956)	(52,396)		
Short rate down	55,542	54,988		
Maximum	122,229	150,190		
Period	**31-Dec-23**		**31-Dec-22**	
Tier 1 capital	1,410,714		1,441,043	

14. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. While including legal, but excluding strategic and reputational risk, damage to the Bank's reputation, legal or regulatory implications, financial losses and other factors are being considered when assessing impact of operational risk events.

Operational risk is inherent in all dimensions of the Bank, including all banking products, activities, processes and systems, therefore the effective management of operational risk is a fundamental element of the Bank's risk management program.

The Board/ Board Committee assumes an overall responsibility for operational risk management. This includes defining risk appetite for operational risk, 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.

The objective of the Group is to manage and control operational risk in a proactive and cost-effective manner within targeted levels of operational risk consistent with a defined risk appetite. AHB primarily aims at early identification and assessment of operational risks allowing timely mitigation, as well as meaningful management reporting and continuous improvement of the control environment.

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 Sharia compliant manner, through the effective management of risks relating to the failure of internal processes, people, and systems, or from external events.

The following principles have been adopted to guide decision making throughout the Bank. These principles are aligned to the Basel Committee on Banking Supervision (BCBS) document (Principles for the Sound Management of Operational Risk, 2011), and reflect the standards and ideals designed to shape the Bank's operational risk management behaviour with the alignment with ADCB Group Operational Risk Management Policy, whilst adhering to the rules and principles of Islamic Shariah as interpreted by the Bank Sound Management of Operational Risk, 2011).

In line with the principles set by the Basel Committee, Central Bank of the UAE and the Board/ Board Committee approved engagement model, the implementation of an integrated Operational Risk Management Framework shall be coordinated by a dedicated and independent team - Operational Risk Management (ORM) to achieve operational excellence and to ensure alignment of the Bank's approaches to operational risk with leading international practices.

- ORM is part of the independent Risk Management Function reporting to the Chief Risk Officer.
- ORM must remain independent of the First Line of Defence (business) to prevent any conflicts of interest or undue influence over its decisions and actions.
- ORM shall have unrestricted access to any document or information deemed useful for the identification and assessment of operational risk at AHB.

The Operational Risk Management Policy outcome is achieved through an Operational Risk Management Framework, the key objectives of which are to:

✓ Ensure consistent approach to managing operational risk at AHB

- ✓ Support AHB's Bank's strategy and business objectives
- ✓ Reinforce a proactive risk management culture
- ✓ Continuously improve AHB control environment
- ✓ Ensure alignment with ADCB Group Operational Risk Management as applicable.

Three lines of defence

To create a robust control environment to manage risks, the Bank uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Bank's approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

a) <u>First Line of Defence</u>

- CEO
- Business Department Heads
- Business Operational Risk Managers (BORMs)

b) **<u>Second Line of Defence</u>**

- Independent risk & control functions, such as Operational Risk, Compliance, Fraud Risk Management, Sharia, Legal, Information Security, etc.

c) Third Line of Defence

- Assurance by Internal Audit which provides assurance to senior management of the quality and effectiveness of the firm's governance, risk management, internal controls, systems, and processes.
- Internal Audit's approach to providing independent review, challenge and assurance is detailed in the Internal Audit Charter.

<u>Risk identification, monitoring and reporting</u>

AHB follows the operational risk management lifecycle below to continuously improve its control environment and operational loss experience:

1. Risk Identification and Assessment
2. Control and Mitigation
3. Monitoring and Measurement
4. Reporting
5. Training and Awareness

Operational Risk Treatment

Residual risks shall be periodically monitored to ensure they remain within the Bank's risk appetite. For material residual risks (higher than or equal to Moderate), an appropriate decision shall be taken in line with the approved Bank's risk appetite, to either:

d) Avoid the risk (e.g. by taking a decision not to go ahead with a product or service or proposition and so avoid exposing the institution to the underlying risks), or

e) Mitigate the risk (i.e. by designing and operating controls that provide sufficient mitigation assurance against the underlying risks), or

f) Transfer the risk (e.g. through insurance), or

g) Accept the risk

A formal Operational Risk Acceptance Request (ORAR) is required when residual risk rating is greater or equal to Moderate and either no risk mitigating action plan(s) are possible or would take longer than 6 months to complete. The level of approvals required is commensurate with the level of residual risk involved.

Fraud risk

Proactive fraud-risk management is a key success factor in combating the increasing number of frauds perpetrated against financial institutions around the globe. AHB continued to strengthen its anti-fraud activities by increasing fraud awareness among employees and customers as well as initiating various projects to drive fraud prevention through use of technology and systems.

Business continuity management

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to AHB. AHB recognizes the importance business continuity plays in business and, of its obligations to customers and stakeholders.

AHB Business Continuity Framework and programme for the UAE is aligned to ISO22301:2019 and has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event.

The Business continuity framework aligns to the 3 lines of defence model and requires that the business continuity plan can only be set post business impact analysis which are formally reviewed by the Business Continuity Management Department for quality and business continuity framework compliance. The business impact analysis and business continuity plan are formally 'signed-off' by the business head; the content is owned and maintained locally. Staff awareness is maintained by the Group at a centralised level. Local awareness is maintained by business continuity champions in the business unit.

AHB undertakes a rolling annual exercise programme ensuring the validity of its business continuity strategies. Issues arising from these exercises are reported to management and support continuous improvement of business continuity programme.

Risk Measurement

For operational risk measurement and determination of the amount that the Bank needs to hold to absorb potential operational losses, AHB follows the standardised approach under Basel II. The capital charge including buffer requirements for the year ended 31 December 2023 was AED 82,276 thousand.

15. Remuneration

Al Hilal Bank believes in, and is committed to, good corporate governance, to provide a basis for its future development and corporate performance. This mindset extends to all matters relating to remuneration and reward.

Remuneration governance is in place to support trust in all reward related activities and includes the ongoing commitment at Board level through the Nomination, Compensation, HR & Governance Committee (NCHRG Committee) and the requirement for regular independent reviews of AHB's reward structure and the investment in specialist technical reward professional embedded in Human Resources.

The Role of the Nomination, Compensation and Human Resources (NCHRG) Committee:

AHB's Board of Directors, operating through its NCHRG Committee, have full authority to review and approve reward policies and all aspects of compensation / remuneration. Specifically, the NCHRG Committee is responsible for the remuneration policies for senior management and the Board, and the Bank's remuneration and incentive plans.

The NCHRG Committee monitors the developments in corporate governance (including compensation / remuneration) regulations, practices and procedures to ensure that the Bank's corporate governance framework remains up to date and adequate for the purposes it serves.

In a continuously changing and challenging business environment, it is critical for the success of an organisation to ensure its reward structure is aligned to the relevant market, regulations and strategic direction and objectives of the Bank.

A robust and effective reward structure that can influence and enhance the ability of Al Hilal Bank to attract, motivate, reward, and retain employees with the skills, knowledge, experience, and drive that are critical and contribute most to desired results and achievement of strategic business goals.

Our remuneration structure is conservative, and we have practices and policies that promote effective risk management. To that end, AHB structures remuneration packages so that they reflect roles, responsibilities and accountabilities and are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards are based only on the results of a rigorous performance management system with a robust management decision-making, review, and approvals process.

As far as possible, bearing in mind market trends and constraints, our remuneration program incorporates both short- and long-term variable pay that align the interests of AHB's employees with the interests of shareholders and other stakeholders.

Performance related reward elements are designed to minimize employee turnover and to inspire employees to perform at the highest levels, consistent with effective risk management.

Job and Grading Framework:

Each job is documented in a Job Description (JD), which clearly states the job purpose, key relationships, key accountabilities, financials managed and required experience, qualifications, and competences. This document enables each job to be evaluated and sized and placed at the appropriate level in AHB's grading structure. The world recognized and well-established Hay job evaluation methodology is used to underpin AHB's job evaluation and sizing process.

Variable Pay:

Employees may receive Variable Pay (VP) based on their performance over the year and, since it is performance based, VP is not guaranteed, may not be awarded, and the amount received, if any, may change each year.

VP at Al Hilal Bank has been designed to align employees' interests with the long-term interests of the Bank's shareholders and to incentivize higher performance, while avoiding excessive risk-taking. It also distinguishes amongst different functions of the Bank, to ensure alignment to the relevant market (e.g. revenue generating

functions, risk and control functions, middle office functions and back-office functions).
Compliance with all the UAE Central Bank's regulations and standards, regarding Variable pay/compensation, will be ensured.

Individual variables pay / bonus for the Senior Management and Material Risk Takers shall attract appropriate approvals as mandated by applicable regulations (and their amendments from time to time).

Malus circumstances shall include any circumstance which the NCHRG Committee consider (in its opinion, acting reasonably) to constitute, 'malus': 100% claw-back for a period of 12 months from the date of payment for all Cash Variable Pay already paid. In cases of fraud, bad faith and such other cases as the NCHRG Committee (acting reasonably) consider appropriate, claw-back can be extended to a longer period at the discretion of the Bank.

Subject to the Bank's discretion, any cash VP already paid will be subject to a 50% claw-back for a period of 12 months pro-rated from the date of payment in the event if an employee resigns from the service of the Bank.

There is no Claw-Back on resignation for employees receiving VP award less than AED 200,000/- per annum.

Material Risk Takers:

MRTs are identified based on their responsibilities, and the potential impact of their activities on the Bank's risk profile (operational, reputational, or other risks). As per the CBUAE Corporate Governance Regulations & Standards, Banks must identify its employees who has the potential to take or commit the Bank to significant risk. Al Hilal Bank has adopted an approach to identify MRTs with provision for annual review process to ensure MRTs list remains up to date and reflects changes in the organisation. The annual process is initiated by HR.

Deferred Compensation Plan (DCP):

The DCP is part of the overall VP framework and its purpose is to encourage employees to maintain a strong focus on the medium to long term performance of the Bank's businesses, to reinforce cross-business co-operation and a partnership mentality, to align the interests of employees with the shareholders of the Bank and to assist in the retention of employees who are capable of having a significant impact on the performance of the Bank.

The plan is an annual "carve out" plan where a portion of annual VP for the immediately preceding year is converted into Deferred Compensation, the delivery of which is subject to certain conditions and a holding period which shall be spread for 3 or more years.

External Independent Review of Reward at AHB:

AHB engages with an international consultancy firm, who are global experts in reward and remuneration, to conduct an Independent Review and Benchmarking of AHB's Compensation and Reward Structure at least once in every 5-year period. The deliverables of the project are:

I. A review, against agreed criteria, and benchmarking exercise of the in-scope areas of the current compensation and reward approach, frameworks, structure, policies, and practices.

II. Recommendations for improvement and a detailed implementable roadmap to provide enhancements to the current structure, with short-, medium- and long-term deliverables.

III. An end state roadmap to comply with local and, where relevant, international regulations.

IV. Costs, benefits, required resources and practical implications of recommendations.

V. A high-level summary and presentation for the Board NCHRG Committee.

15.1. Remuneration awarded during the financial year (REM 1)

AED'000

Remuneration Amount		Senior Management	Other Material Risk-
Fixed Remuneration	Number of employees	17	-
	Total fixed remuneration	16,461	-
	Of which: cash-based	16,461	-
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Variable Remuneration	Number of employees	12	-
	Total Variable remuneration	4,931	-
	Of which: cash-based	4,465	-
	Of which: deferred	381	-
	Of which: shares or other share-linked instruments	466	-
	Of which: deferred	342	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Total Remuneration		21,392	-

15.2. Special payments (REM2)

AED'000

Special Payments	Guaranteed Bonuses		Sign on Awards		Severence Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	-	-	1	100	2	1,470

15.3. Deferred remuneration (REM 3)

AED'000

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	7	-	-	-	8
Cash	564	-	-	-	381
Shares	524	-	-	-	466
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	1088	-	-	-	847