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# Al Hilal Bank PJSC

## Pillar 3 Report

31 December 2021

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# 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. 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”.

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

Capital adequacy, liquidity, funding and remuneration related disclosures in Pillar 3 report has been prepared in accordance with Central Bank of UAE Pillar 3 disclosure requirements as stipulated in Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSD/N/2020/4980 dated November 2020) 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.

## 1.3 COVID-19 temporary regulatory measures

The Covid-19 pandemic has caused an unprecedented human health crisis and economic impact. While the initial acute phase of the financial crisis has eased, firms and policy-makers remain concerned about a range of risks that could present a threat to financial stability and, ultimately, the economic recovery.

In response to this crisis, the Central Bank of UAE (CBUAE) has instituted measures in the UAE to support businesses and households. Some of the measures announced by the CBUAE under Targeted Economic Support Scheme (TESS), which would mitigate the impact of Covid-19, are discussed below.

### A. Temporary relief to customers

Under the TESS deferral program, temporary relief from payments of principal and/or interest/profit on outstanding loans was granted to all Covid-19 affected private sector corporates, small and medium enterprises, and individuals domiciled in UAE. To incentivize UAE banks to participate in the TESS deferral programme and to improve their lending capacity, CBUAE has granted AED 50 billion zero cost funding (ZCF) facility (capital buffer) for the entire banking industry till December 31, 2021.

In addition to TESS deferral program, CBUAE also provided TESS recovery program zero cost funding facility until June 30, 2022 for the entire banking industry. Under the TESS recovery program, Banks can offer working capital facilities and/or any other new financing to customers negatively impacted by Covid-19 repercussions.

### B. Liquidity and capital stimulus package

The pandemic had a significant negative impact on the liquidity/funding and capital risks and profile of the banking system. Governments around the world had to intervene to provide various stimulus packages to mitigate the adverse effects of the crisis. CBUAE has also introduced the following stimulus package relating to liquidity and capital requirements, to support the banking industry in the UAE through this disruption, for banks that entirely pass on the TESS related benefits to end customers.

CBUAE has a reduced requirement of maintaining a minimum liquidity coverage ratio (LCR) of 70% (from 100%), minimum net funding ratio (NSFR) of 90% (from 100%), and minimum eligible liquid assets ratio (ELAR) of 7% (from 10%). This liquidity can be used to compensate for the effect of posting collateral required by the TESS programme.
To improve liquidity within UAE banking system, the CBUAE halved the reserve requirement for demand deposit of all banks from 14% to 7%.
To counter volatility in financial markets and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning compared to December 31, 2019, will be partially added back to regulatory capital, while IFRS 9 provisions will be gradually phased-in during a five-year period, ending December 31, 2024.
The CBUAE has allowed banks to tap into capital conservation buffer and domestic systemically important banks (D-SIB) to the extent of 60% and 100%, respectively till December 31, 2021.
Planned implementation of credit value adjustment (CVA) related regulations is postponed till June 30, 2022.

In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements, and as at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

## 2. Overview of Basel III requirements

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

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 or to cover other risks. A bank's own internal models and assessments support this process. The second pillar deals with the regulatory response to the first pillar giving regulators much-improved tools over those available to them under Pillar1. It also provides a framework for dealing with all the other risks a bank may face such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk which the accord combines under the title of residual risk. 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.

This report should be read in conjunction with the risk disclosures in the AHB 2021 Annual Report and the audited consolidated financial statements.

Basel III also provides for different approaches to calculating capital requirements.

Standardised approach — under this approach, the assets (including off-balance-sheet post-CCF) are classified into asset types to enable better risk sensitivity. The risk weights used to assess capital requirements against credit exposures are 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 clients or groups of clients and use supervisory values for LGD (loss given default) and EAD (exposure at default) estimates. Banks can use this approach only subject to approval from their local regulators.

Advanced IRB (AIRB) — under this approach, the banks are allowed to develop their own model to quantify required capital for credit risk. PD, LGD and EAD can be determined using the Bank's internal models. Banks can use this approach only subject to approval from their local regulators.

## 2.1 AHB's approach to Pillar I

**Credit risk**:
Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the Group 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 and 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. Banks will also be subject to a countercyclical buffer that 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 introduced a 3% minimum leverage ratio and two liquidity ratios viz; Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR is 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. For the year 2021, CBUAE has a reduced requirement of maintaining a minimum ELAR of 7% (from 10%) and maximum ASRR of 110% (from 100%) under TESS programme.

As at 31 December 2021, AHB's ELAR was 14.59% which is well above the minimum requirement of 7% under TESS programme, and ASRR was 76.76% which is well below the maximum requirement of 110% under Tess programme.

## 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 2020.

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 laid out the revised disclosure requirements. 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 total capital adequacy ratio (CAR) of 13% and CET 1 ratio of 9.5% (including CCB buffers). For the year 2021, capital adequacy requirements under TESS relief programme are CAR of 10.50% and CET 1 ratio of 7%. At the end of 2021, AHB met the minimum requirements with a CAR of 19.78% and CET1 ratio of 18.68% AHB has not utilized any capital buffer relief under TESS. Additionally, the composition of the Bank's capital is of high-quality equity base with lesser reliance on Tier 2 capital supply.

## 2.7 Basis of consolidation

These Pillar III disclosures are in line with the consolidated financial statements as at end for the year ended 31 December 2021 comprise the Bank and its subsidiaries set out in (Note 36 of Financial Statement) (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 year ended 31 December 2021 have been appropriately verified internally.

## 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 everyone 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. (refer to FS notes 12, 19, and 30 for further details).

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

The details included in this report on certain aspects of credit, market and operational risk are from a regulatory perspective. The quantitative disclosures will not be directly comparable with the audited consolidated financial statements, as the former are largely based on the Basel III approach rules whereas quantitative risk disclosures in the audited consolidated financial statements are based on International Financial Reporting Standards (IFRS). This is most pronounced for the credit risk disclosures, where credit exposure is defined as the maximum exposure at default the Bank has estimated under specified Basel II rules. This differs from similar information in the audited consolidated financial statements such as the off-balance-sheet exposures which are disclosed pre–credit conversion factors (CCFs).

| 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.<br>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 and issued in November 2020. |
| **Basis of preparation** | The quantitative credit risk disclosures in the credit risk management section are set out based on IFRS.<br>Receivable and Ijara are analysed net of impairment, profit in suspense and off-balance-sheet exposures are considered at maximum exposure levels.<br>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.<br>Market risk and operational risk disclosures are based on the capital require. |

# 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, liquidity and market risk management and measurement along with the quantitative disclosures are set out in Notes 5.3, 5.4 & 5.7 to the audited financial statements respectively.<br>Maximum exposure to credit risk and credit risk concentration are provided in Notes 5.3 to the audited consolidated financial statements.<br>Internal credit risk grading analysis provided by business for loans neither past due nor impaired and available-for-sale investments is provided in Note 5.3 to the audited consolidated financial statements.<br>Note 9 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.<br>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.<br>Minimum regulatory capital requirements for credit, market and operational risk are set out in sections 6,11 and 14 of this report.<br>Minimum regulatory capital requirements for credit, market and operational risk are set out in sections 6,11 and 14 of this report.<br>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 5 to the audited consolidated financial statements.<br>Disclosures on concentration of credit risk by geography, economic and industry sector are provided in Note 12, 13 &14 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.<br>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 12, 13 &14 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 5.3 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 5 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 5.4 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 5.6 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 5.7 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 37 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 36 of audited annual financial statements. | List of subsidiaries included in regulatory consolidation are listed in note number 36 of audited annual financial statements |

## 5. Comparison of accounting balance sheet and exposure at default

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. Further, acceptances included in other assets are treated as off-balance sheet exposure for regulatory purpose and have been excluded. 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.

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

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| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the securitisation framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| **Assets** | | | | | | | |
| Cash and balances at central bank | 1,365,370 | 1,365,370 | 1,365,370 | - | - | - | - |
| Deposits & balances due from banks | 404,230 | 404,230 | 404,230 | - | - | - | - |
| Receivable from Financing activities & Ijara | 7,653,896 | 7,881,379 | 7,881,379 | - | - | - | - |
| Investment Properties | 56,875 | 56,875 | 56,875 | - | - | - | - |
| Investment Securities | 3,367,270 | 3,367,270 | 3,367,270 | - | - | - | - |
| Investments in Subsidiaries | - | - | | - | - | - | - |
| Property And Equipment, Net | 545,889 | 545,889 | 522,957 | - | - | - | 22,932 |
| Investment in Associate | 56,656 | 56,656 | 56,656 | - | - | - | - |
| Other Assets | 174,960 | 174,796 | 174,796 | - | - | - | - |
| **Total Assets** | **13,625,146** | **13,852,465** | **13,829,533** | **-** | **-** | **-** | **22,932** |
| **Liabilities** | | | | | | | |
| Customer accounts | 8,236,050 | 8,236,050 | 8,236,050 | - | - | - | - |
| Deposits from banks | 1,274,163 | 1,274,163 | 1,274,163 | - | - | - | - |
| Sukuk Liability | 1,918,045 | 1,918,045 | 1,918,045 | - | - | - | - |
| Derivative Financial Instruments Liabilities | 81,889 | 81,889 | 46 | 81,843 | - | - | - |
| Other Liabilities | 402,954 | 630,273 | 630,273 | - | - | - | - |
| **Total Liabilities** | **11,913,101** | **12,140,420** | **12,058,576** | **81,843** | **-** | **-** | **-** |
| **Equity** | **1,712,045** | **1,712,045** | **1,770,957** | **(81,843)** | **-** | **-** | **22,932** |

## 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 5.1 are mainly provisions, collateral, off-balance sheet exposures and as detailed below:

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| | | | | | 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)** | 13,829,533 | 13,829,533 | - | - | - |
| Off-balance sheet amounts exposure | 571,135 | 571,135 | - | - | - |
| *Derivatives post CCF* | 6,694 | | - | 6,694 | - |
| *Differences due to consideration of specific provision and PIS* | (82,023) | (82,023) | - | - | - |
| *Differences due to deduction from capital* | 22,932 | 22,932 | - | - | - |
| **Exposure After CRM And Before CCF** | 14,348,271 | 14,341,577 | - | 6,694 | - |
| *CRM excluding Guarantee* | (9,837) | (9,837) | | | |
| *Off-balance sheet amounts exposure CCF 0%* | (555,092) | (555,092) | | | |
| **Exposure amounts considered for regulatory purposes Post CCF** | 13,783,342 | 13,776,648 | - | 6,694 | - |

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

### 6.1 Key metrics for the Group (KM1)

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| | 31-Dec-21 | 30-Sep-21 |
|---|---|---|
| **Available capital (amounts)** | | |
| Common Equity Tier 1 (CET1) | 1,689,113 | 1,710,587 |
| Fully loaded ECL accounting model | | |
| Tier 1 | 1,689,113 | 1,710,587 |
| Fully loaded accounting model Tier 1 | 1,689,113 | 1,710,587 |
| Total capital | 1,788,807 | 1,814,486 |
| Fully loaded ECL accounting model total capital | | |
| **Risk-weighted assets (amounts)** | | |
| Total risk-weighted assets (RWA) | 9,041,638 | 9,380,669 |
| **Risk-based capital ratios as a percentage of RWA** | | |
| Common Equity Tier 1 ratio (%) | 18.68% | 18.24% |
| Tier 1 ratio (%) | 18.68% | 18.24% |
| Total capital ratio (%) | 19.78% | 19.34% |
| **Additional CET1 buffer requirements as a percentage of RWA** | | |
| Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% |
| Countercyclical bugger requirement (%) | 0% | 0% |
| Bank D-SIB additional requirements (%) | 0% | 0% |
| Total of bank CET1 specific buffer requirements (%) | 2.50% | 2.50% |
| CET1 available after meeting the bank's minimum capital requirements (%) | 9.28% | 8.84% |
| **Basel III Leverage Ratio** | | |
| Total Basel III leverage ratio measure | 13,697,554 | 14,243,795 |
| Basel III leverage ratio (%) | 12.33% | 12.01% |
| **ELAR** | | |
| Total HQLA | 1,647,361 | 1,718,261 |
| Total liabilities | 11,292,932 | 11,826,765 |
| Eligible Liquid Assets Ratio (ELAR) (%) | 14.59% | 14.53% |
| **ASRR** | | |
| Total available stable funding | 10,251,317 | 9,859,415 |
| Total Advances | 7,868,923 | 7,434,051 |
| Advances to Stable Resources Ratio (%) | 76.76% | 75.40% |

## 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 18.68% which is 918 bps above the regulatory minimum and CAR was 19.78% which is 678 bps above the regulatory minimum. The leverage ratio stood at 12.33% 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.

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| **Common Equity Tier 1 capital: instruments and reserves** | **31-Dec-21** |
|---|---|
| Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus | 4,750,000 |
| Retained earnings | (3,064,661) |
| Accumulated other comprehensive income (and other reserves) | 26,706 |
| **Common Equity Tier 1 capital before regulatory deductions** | **1,712,046** |
| **Common Equity Tier 1 capital regulatory adjustments** | |
| Goodwill/ (net of related tax liability) | |
| Other intangibles other than mortgage servicing rights (net of related tax liability) | (22,932 |
| Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability) | - |
| Cash flow hedge reserve | - |
| Defined benefit pension fund net assets | - |
| National specific regulatory adjustments | - |
| **Total regulatory adjustments to Common Equity Tier 1** | (22,932) |
| **Common Equity Tier 1 capital (CET1)** | 1,689,113 |
| **Additional Tier 1 capital: instruments (AT1)** | |
| Eligible Additional Tier I capital | - |
| **Tier 1 capital** | **1,689,113** |
| **Tier 2 capital: instruments and provisions** | |
| Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan (After grandfathering and/or amortisation) | - |
| Instruments which are eligible for inclusion of Tier 2 (Before grandfathering and/or amortisation) | - |
| Eligible general provision (max 1.25% of CRWA under standardised approach) | 99,694 |
| **Tier 2 capital (T2)** | 99,694 |
| **Total regulatory capital** | 1,788,807 |
| **Total risk-weighted assets** | 9,041,638 |
| **Capital ratios and buffers** | |
| **Common Equity Tier 1 (as a percentage of risk-weighted assets)** | 18.68% |
| **Tier 1 (as a percentage of risk-weighted assets)** | 18.68% |
| **Total capital (as a percentage of risk-weighted assets)** | 19.78% |

| | |
|---|---|
| **Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)** | - |
| **Of which: capital conservation buffer requirement** | 2.50% |
| **Of which: bank-specific countercyclical buffer requirement** | 2.50% |
| **Of which: D-SIB** | - |
| **Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.** | 9.28% |
| **National minima (if different from Basel III)** | |
| National Common Equity Tier 1 minimum ratio (if different from Basel III minimum) | 7% |
| National Tier 1 minimum ratio (if different from Basel III minimum) | 8.50% |
| National total capital minimum (if different from Basel III minimum) | 10.50% |
| **Amounts below the thresholds for deduction (before risk weighting)** | |
| Non-significant investments in the capital and other TLAC liabilities of other financial entities | - |
| Significant investments in common stock of financial entities | - |
| Mortgage servicing rights (net of related tax liability) | - |
| 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) | 146,478 |
| Cap on inclusion of provisions in Tier 2 under standardised approach | 99,694 |
| Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | - |
| Cap for inclusion of provisions in Tier 2 under internal ratings-based approach | - |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)** | |
| *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 12/31/2021 | Under regulatory scope of consolidation 12/31/2021 |
|---|---|---|
| **Assets** | | |
| Cash and balances at central bank | 1,365,370 | 1,365,370 |
| Deposits & balances due from banks | 404,230 | 404,230 |
| Financing & Other Receivables | 7,653,896 | 7,881,379 |
| Investment Properties | 56,875 | 56,875 |
| Investment Securities | 3,367,270 | 3,367,270 |
| Investments in Subsidiaries | | - |
| Property And Equipment, Net | 545,889 | 545,889 |
| Derivative Financial Instruments Asset | - | - |
| Investment in Associate | 56,656 | 56,656 |
| Other Assets | 174,960 | 174,796 |
| Asset held for sale due to discontinued operations | - | |
| **Total assets** | **13,625,146** | **13,852,465** |
| **Liabilities** | | |
| Customer accounts | 8,236,050 | 8,236,050 |
| Deposits from banks | 1,274,163 | 1,274,163 |
| Items in the course of collection due to other banks | - | - |
| Sukuk Liability | 1,918,045 | 1,918,045 |
| Derivative financial instruments | 81,889 | 81,889 |
| Other Liabilities | 402,954 | 630,273 |
| Liabilities held for sale due to discontinued operations | - | - |
| **Total liabilities** | **11,913,101** | **12,140,420** |
| **Shareholders' equity** | | |
| Paid-in share capital | 4,750,000 | 4,750,000 |
| Tier 1 Sukuk | - | - |
| Reserves | 175,115 | 175,115 |
| Retained Earnings | (3,108,405) | (3,108,405) |
| Net Profit for the Year | 43,744 | 43,744 |
| Cumulative Change in Fair Values | (148,409) | (148,409) |
| Minority Interest | - | |
| **Total shareholders' equity** | **1,712,045** | **1,712,045** |

## 6.5 Main features of regulatory capital instruments (CCA)

AED"000"

| | Share capital and share premium |
|---|---|
| Issuer | AL Hilal Bank PJSC |
| Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | NA |
| Governing law(s) of the instrument | |
| Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | 4,750 |
| Par value of instrument | 1 |
| Accounting classification | Paid up capital |
| Original date of issuance | NA |
| Perpetual or dated | NA |
| Original maturity date | 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. The Group's current CCyB requirement is 0 bps:

AED"000"

| Geographical breakdown | Countercyclical capital buffer rate | Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer | | Bank-specific countercyclical capital buffer rate | Countercyclical buffer amount |
|---|---|---|---|---|---|
| | | Exposure values | Risk-weighted assets | | |
| China (Hong Kong) | | 21 | 0 | | |
| **Total** | | 21 | 0 | | |

# 7. Risk Weighted Assets

## 7.1 Our approach to measuring risk exposure and risk-weighted assets

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 RWA development in Q4-2021

The OV1 table on the next page provides an overview of our RWA and the related minimum capital requirements by risk type. During the Q4 2021, RWA decreased by AED 0.34 bn to AED 9.04 bn. Insignificant decline in MRWA due to change in regulations on foreign exchange exposure to GCC pegged currencies.

## 7.3 Overview of risk weighted assets (OV1)

AED"000"

| | RWA | | Minimum capital requirements |
|---|---|---|---|
| | 12/31/2021 | 09/31/2021 | |
| Credit risk (excluding counterparty credit risk) | 7,973,986 | 8,310,647 | 1,036,618 |
| Of which: standardised approach (SA) | 7,973,986 | 8,310,647 | 1,036,618 |
| 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) | 1,523 | 1,302 | 160 |
| Of which: standardised approach for counterparty credit risk | 1,523 | 1,302 | 160 |
| Of which: Internal Model Method (IMM) | - | - | - |
| Of which: other CCR | - | - | - |
| Credit valuation adjustment (CVA) | - | - | - |
| Equity positions under the simple risk weight approach | - | - | - |
| Equity investments in funds - look-through approach | - | - | - |
| 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 internal ratings-based approach (SEC-IRBA) | - | - | - |
| Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach | - | - | - |
| Of which: securitisation standardised approach (SEC-SA) | - | - | - |
| Market risk | 101,602 | 104,193 | 10,668 |
| Of which: standardised approach (SA) | - | - | - |
| Of which: internal model approaches (IMA) | - | - | - |
| Capital charge for switch between trading book and banking book | - | - | - |
| Operational risk | 964,527 | 964,527 | - |
| Amounts below thresholds for deduction (subject to 250% risk weight) | - | - | - |
| Floor adjustment | - | - | - |
| **Total** | **9,041,638** | **9,380,669** | **1,047,446** |

## 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)

| December 2021 | AED"000" |
|---|---|
| Total consolidated assets as per published financial statements | 13,625,146 |
| 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 fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | - |
| Adjustments for derivative financial instruments | 32,999 |
| Adjustment for securities financing transactions (i.e. repos and similar secured lending) | - |
| Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 62,342 |
| Other adjustments | (22,932) |
| **Leverage ratio exposure measure** | 13,697,555 |

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)

AED"000"

| | | 31/12/2021 | 30/06/2021 |
|---|---|---|---|
| **On-balance sheet exposures** | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 13,625,146 | 14,263,270 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (22,932) | (31,057) |
| 3 | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | 13,602,214 | 14,232,213 |
| **Derivative exposures** | | | |
| 4 | Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | - | - |
| 5 | Add-on amounts for PFE associated with *all* derivatives transactions | 32,999 | 36,734 |
| 6 | Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework | - | - |
| 7 | (Deductions of receivable assets for cash variation margin provided in derivatives transactions) | - | - |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | - | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - | - |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - | - |
| 11 | **Total derivative exposures** | 32,999 | 36,734 |
| **Securities financing transactions** | | | |
| 12 | Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions | - | - |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - |
| 14 | CCR exposure for SFT assets | - | - |
| 15 | Agent transaction exposures | - | - |
| 16 | **Total securities financing transaction exposures** | - | - |
| **Other off-balance sheet exposures** | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 571,135 | 473,541 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (508,794) | (397,518) |
| 19 | **Off-balance sheet items** | 62,341 | 76,023 |
| **Capital and total exposures** | | | |
| 20 | **Tier 1 capital** | 1,689,113 | 1,709,936 |
| 21 | **Total exposures** | 13,697,555 | 14,344,970 |
| **Leverage ratio** | | | |
| 22 | **Basel III leverage ratio** | 12.33% | 11.92% |

## 9. Funding and liquidity risk

The key measures used by the Group for managing liquidity risk are regulatory driven ratios such as Advance to stable ratio ("ASRR"), Liquid Assets Ratio and eligible liquid asset ratio. ASRR takes into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2021, the Bank's ASRR was 76.76%.
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 at 31 December 2021, this ratio stood at 14.59%.

### 9.1 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.

### 9.2 Eligible Liquid Assets Ratio (ELAR)

AED"000"

| **High Quality Liquid Assets** | **Nominal amount** | **Eligible Liquid** |
|---|---|---|
| Physical cash in hand at the bank | 249,586 | |
| Statutory reserves with Central Bank | 710,156 | |
| Free and other account balances at the Central Bank (excluding statutory reserves) | - | |
| Central Bank CDs (unencumbered) | 300,005 | |
| UAE Federal Government Bonds and Sukuks | - | |
| Sub Total | 1,259,747 | 1,259,747 |
| UAE local governments publicly traded debt securities (0% Risk Weighted under BII | - | |
| UAE local governments publicly traded debt securities (0% Risk Weighted under BII | 814,069 | |
| UAE Public sector publicly traded debt securities (non-commercial, 0% Risk Weighted | - | |
| UAE Public sector publicly traded debt securities (non-commercial, 0% Risk Weighted | - | |
| Sub total | 814,069 | 387,614 |
| Foreign Sovereign debt instruments or instruments issued by their respective central | - | - |
| Total | 2,073,816 | 1,647,361 |
| **Total liabilities** | | 11,292,932 |
| **Eligible Liquid Assets Ratio (ELAR)** | | **14.59%** |

## 9.3 Advances To Stable Resources Ratio (ASRR)

AED"000"

| | |
|---|---|
| **Computation of Advances** | |
| Net Lending | 7,802,815 |
| Lending to NBFI | - |
| Financial guarantees and stand-by LCs Issued | 25,705 |
| Financial guarantees and stand-by LCs received | - |
| Interbank placements with a remaining life of more than 3 months | 40,403 |
| **Total Advances** | **7,868,923** |
| **Calculation of Net Stable Resources** | |
| Total own funds | 1,876,485 |
| **Deduct:** | |
| Goodwill and other intangible assets | 22,932 |
| Fixed assets | 522,958 |
| Treasury shares held | - |
| Total unquoted investments | 1,996 |
| Total Investment in unconsolidated subsidiaries, associates and affiliates | 84,473 |
| **Total deduction** | **632,359** |
| **Net free capital funds** | **1,244,126** |
| **Other stable resources:** | |
| Total Interbank deposits with remaining life of more than 6 months | - |
| Refinancing of Housing Loans | - |
| Deposits from non-banking financial institutions remaining life of more than 6 months | - |
| 85% of the rest of NBFI Deposits | - |
| Total customer deposits with remaining life of more than 6 months | 1,152,846 |
| 85% of the rest of customer deposits | 6,022,729 |
| Capital market funding/ term borrowings maturing after 6 months from reporting date | 1,831,616 |
| **Total other stable resources** | 9,007,191 |
| **Total Stable Resources** | **10,251,317** |
| **Advances To Stable Resources Ratio (ASRR)** | **76.76%** |

# 10. Credit Risk Management

## 10.1 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 | 159,277 | 5,314,929 | 219,163 | 74,524 | 144,639 | 5,255,044 |
| Debt securities | - | 3,390,947 | 1,714 | | 1,714 | 3,389,233 |
| Off-balance sheet exposures | - | 9,790 | - | | | 9,790 |
| **Total** | **159,277** | **8,715,666** | 220,876 | **74,524** | **146,353** | 8,654,067 |

## 10.2 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** | 244,649 |
| Loans and debt securities that have defaulted since the last reporting period | - |
| Returned to non-default status | |
| Amounts written off | (83,017) |
| Other changes | (2,354) |
| **Defaulted loans and debt securities at the end of the reporting period** | 159,278 |

## 10.3 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 | 5,474,206 | 2,412,211 | 9,837 | | - | - | - |
| Debt securities | 3,390,947 | | | 262,538 | 262,538 | - | - |
| **Total** | 8,865,153 | 2,412,211 | 9,837 | 262,538 | 262,538 | - | - |
| Of which defaulted | 159,277 | - | - | - | - | - | - |

## 10.4 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 | 2,774,785 | - | 2,774,785 | - | 203,459 | 3% |
| Non-central government public sector entities | 535,861 | - | 535,861 | - | 222,617 | 3% |
| Banks | 866,754 | 6,694 | 866,754 | 6,694 | 313,155 | 4% |
| Corporates | 1,381,990 | 571,135 | 1,372,154 | 6,207 | 1,228,679 | 15% |
| Regulatory retail portfolios | 5,410,120 | - | 5,410,120 | - | 4,422,581 | 55% |
| Secured by residential property | 1,614,362 | - | 1,614,362 | - | 604,315 | 8% |
| Secured by commercial real estate | 49,944 | - | 49,944 | - | 49,944 | 1% |
| Past-due loans | 159,277 | - | 77,255 | - | 88,730 | 1% |
| Other assets | 1,059,372 | - | 1,059,372 | - | 842,030 | 11% |
| **Total** | **13,852,465** | **577,829** | **13,760,606** | **12,901** | **7,975,510** | **100%** |

## 10.5 Standardised approach - exposures by asset classes and risk weights (CR5)

AED"000"

| Asset classes / Risk weight* | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|---|---|---|
| Sovereigns and their central banks | 2,184,341 | - | 427,576 | - | 89,848 | - | 73,020 | - | - | 2,774,785 |
| Non-central government public sector entities | 262,538 | - | - | - | 101,413 | - | 171,910 | - | - | 535,861 |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - |
| Banks | - | - | 413,108 | - | 459,612 | - | 727 | - | - | 873,447 |
| Corporates | 9,837 | - | - | - | 299,363 | - | 1,078,998 | - | - | 1,388,197 |
| Regulatory retail portfolios | - | - | - | - | - | 3,950,156 | 1,459,964 | - | - | 5,410,120 |
| Secured by residential property | - | - | - | 1,547,337 | - | 17,113 | 49,912 | - | - | 1,614,362 |
| Secured by commercial real estate | - | - | - | - | - | - | 49,944 | - | - | 49,944 |
| Past-due loans | - | - | - | - | - | - | 54,304 | 22,951 | - | 77,255 |
| Other assets | 302,400 | - | - | - | - | - | 700,168 | 147 | 56,656 | 1,059,372 |
| **Total** | **2,759,116** | **-** | **840,684** | **1,547,337** | **950,236** | **3,967,269** | **3,638,947** | **23,098** | **56,656** | **13,783,343** |

## 10.6 Gross and net credit risk exposure by asset class — Standardised Approach

**As on December 31, 2021** AED"000"

| Asset Classes | On & Off Balance Sheet | Credit Risk Mitigation (CRM) | | On & Off Balance Sheet | Risk Weighted Assets |
|---|---|---|---|---|---|
| | Gross Outstanding | Exposure Before CRM | CRM | Net Exposure After Credit Conversion Factors (CCF) | |
| Claims on Sovereigns | 2,774,785 | 2,774,785 | - | 2,774,785 | 203,459 |
| Claims on Non- Commercial Public Sector Enterprises (PSEs) | 535,861 | 535,861 | 262,538 | 535,861 | 222,617 |
| Claims on Banks | 873,447 | 873,447 | - | 873,447 | 313,155 |
| Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates | 1,953,126 | 1,953,126 | 9,837 | 1,388,197 | 1,228,679 |
| Claims Included in the Regulatory Retail Portfolio | 5,410,120 | 5,410,120 | - | 5,410,120 | 4,422,581 |
| Claims Secured By Residential Property | 1,614,362 | 1,614,362 | - | 1,614,362 | 604,315 |
| Claims Secured by Commercial Real Estate | 49,944 | 49,944 | - | 49,944 | 49,944 |
| Past Due Financing | 159,277 | 77,255 | - | 77,255 | 88,730 |
| Other Assets | 1,059,372 | 1,059,372 | - | 1,059,372 | 842,030 |
| **TOTAL CLAIMS** | **14,430,294** | **14,348,272** | **272,375** | **13,783,343** | **7,975,510** |

**As on December 31, 2020** AED"000"

| Asset Classes | On & Off Balance Sheet | Credit Risk Mitigation (CRM) | | On & Off Balance Sheet | Risk Weighted Assets |
|---|---|---|---|---|---|
| | Gross Outstanding | Exposure Before CRM | CRM | Net Exposure After Credit Conversion Factors (CCF) | |
| Claims on Sovereigns | 2,739,804 | 2,739,804 | - | 2,739,804 | 62,903 |
| Claims on Non- Commercial Public Sector Enterprises (PSEs) | 245,160 | 245,160 | - | 245,160 | - |
| Claims on Banks | 925,215 | 925,215 | - | 925,215 | 367,659 |
| Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates | 1,732,841 | 1,732,841 | 115,687 | 1,276,734 | 1,083,621 |
| Claims Included in the Regulatory Retail Portfolio | 6,051,216 | 6,051,216 | - | 6,051,216 | 4,967,188 |
| Claims Secured By Residential Property | 1,924,239 | 1,924,239 | - | 1,922,957 | 730,903 |
| Claims Secured by Commercial Real Estate | 77,677 | 77,677 | - | 77,677 | 77,677 |
| Past Due Financing | 278,197 | 181,300 | - | 181,300 | 254,536 |
| Other Assets | 881,426 | 881,426 | - | 881,426 | 737,748 |
| **Total** | **14,855,775** | **14,758,878** | **115,687** | **14,301,489** | **8,282,235** |

## 10.7 Gross and net credit risk exposure by externally rated/unrated — Standardised Approach

**As on December 31, 2021** **AED"000"**

| Asset Class | Gross Credit Exposures | | | | |
|---|---|---|---|---|---|
| | Rated | Unrated | Total | Post CRM | RWA Post CRM |
| Claims on Sovereigns | 1,187,781 | 1,587,004 | 2,774,785 | 2,774,785 | 203,459 |
| Claims on Non- Commercial Public Sector Enterprises (PSEs) | 509,829 | 26,032 | 535,861 | 535,861 | 222,617 |
| Claims on Banks | - | - | - | - | - |
| Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates | 855,720 | 17,727 | 873,447 | 873,447 | 313,155 |
| Claims Included in the Regulatory Retail Portfolio | 740,246 | 1,212,880 | 1,953,126 | 1,388,197 | 1,228,679 |
| Claims Secured By Residential Property | - | 5,410,120 | 5,410,120 | 5,410,120 | 4,422,581 |
| Claims Secured by Commercial Real Estate | - | 1,614,362 | 1,614,362 | 1,614,362 | 604,315 |
| Past Due Financing | - | 49,944 | 49,944 | 49,944 | 49,944 |
| Other Assets | - | 159,277 | 159,277 | 77,255 | 88,730 |
| Claims on Sovereigns | - | 1,059,372 | 1,059,372 | 1,059,372 | 842,030 |
| **Total** | **3,293,575** | **11,136,719** | **14,430,294** | **13,783,343** | **7,975,510** |

**As on December 31, 2020** **AED"000"**

| Asset Classes | Gross Credit Exposures | | | Net Credit Exposures | |
|---|---|---|---|---|---|
| | Rated | Unrated | Total | Post CRM | RWA |
| Claims on Sovereigns | 1,302,713 | 1,437,091 | 2,739,804 | 2,739,804 | 62,903 |
| Claims on Non- Commercial Public Sector Enterprises (PSEs) | 245,160 | - | 245,160 | 245,160 | - |
| Claims on Banks | 925,215 | - | 925,215 | 925,215 | 367,659 |
| Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates | 554,771 | 1,178,070 | 1,732,841 | 1,276,734 | 1,083,621 |
| Claims Included in the Regulatory Retail Portfolio | - | 6,051,216 | 6,051,216 | 6,051,216 | 4,967,188 |
| Claims Secured By Residential Property | - | 1,924,239 | 1,924,239 | 1,922,957 | 730,903 |
| Claims Secured by Commercial Real Estate | - | 77,677 | 77,677 | 77,677 | 77,677 |
| Past Due Financing | - | 278,197 | 278,197 | 181,300 | 254,536 |
| Other Assets | - | 881,426 | 881,426 | 881,426 | 737,748 |
| **Total** | **3,027,859** | **11,827,916** | **14,855,776** | **14,301,489** | **8,282,235** |

**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 November 2020).

## 10.8 Gross credit risk by currency

**As on December 31, 2021** **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 | 693,091 | 3,365,274 | 4,058,365 | 441,329 | 1,411,751 | 6,853 | 1,859,933 | 5,918,298 |
| AED | 7,180,022 | 1,996 | 7,182,018 | 120,017 | - | 28,166 | 148,183 | 7,330,201 |
| **Total** | **7,873,113** | **3,367,270** | **11,240,383** | **561,346** | **1,411,751** | **35,019** | **2,008,116** | **13,248,499** |

**As on December 31, 2020** **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 | 747,012 | 3,065,696 | 3,812,708 | 312,133 | 1,428,693 | 11,166 | 1,751,992 | 5,564,700 |
| AED | 8,231,672 | 1,303 | 8,232,975 | 135,516 | - | 48,140 | 183,657 | 8,416,632 |
| **Total** | **8,978,684** | **3,066,999** | **12,045,683** | **447,649** | **1,428,693** | **59,306** | **1,935,649** | **13,981,332** |

## 10.9 Gross credit risk by geography

**As on December 31, 2021** **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 | 7,179,751 | 2,530,080 | 9,709,831 | 120,017 | 1,239,537 | 28,166 | 1,387,720 | 11,097,551 |
| GCC (excluding UAE) | - | 768,882 | 768,882 | - | - | - | - | 768,882 |
| Asia | 693,091 | 68,308 | 761,399 | 441,329 | - | 6,853 | 448,182 | 1,209,580 |
| North America | 271 | - | 271 | - | - | - | - | 271 |
| Europe | - | - | - | - | 172,214 | - | 172,214 | 172,214 |
| **Total** | **7,873,113** | **3,367,270** | **11,240,383** | **561,346** | **1,411,751** | **35,019** | **2,008,116** | **13,248,498** |

**As on December 31, 2020** **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 | 8,231,298 | 2,403,511 | 10,634,809 | 135,516 | 1,251,704 | 50,946 | 1,438,166 | 12,072,975 |
| GCC (excluding UAE) | - | 655,958 | 655,958 | - | - | - | - | 655,958 |
| Asia | 747,012 | 7,530 | 754,542 | 312,134 | - | 8,360 | 320,494 | 1,075,036 |
| Africa | - | - | - | - | - | - | - | - |
| North America | 374 | - | 374 | - | - | - | - | 374 |
| Europe | - | - | - | - | 176,989 | - | 176,989 | 176,989 |
| **Total** | **8,978,684** | **3,066,999** | **12,045,683** | **447,650** | **1,428,693** | **59,306** | **1,935,649** | **13,981,332** |

## 10.10 Gross credit risk by residual maturity

**As on December 31, 2021** **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 | 137,908 | 8,843 | 146,751 | 120,639 | 54,861 | 4,107 | 179,607 | 326,358 |
| 3 months to one year | 357,659 | 114,084 | 471,743 | 3,915 | - | 2,185 | 6,100 | 477,843 |
| One to five years | 1,276,702 | 1,998,006 | 3,274,708 | 425,666 | 696,852 | 960 | 1,123,479 | 4,398,187 |
| Over five years | 6,100,844 | 1,246,337 | 7,347,181 | 11,126 | 660,038 | 27,766 | 698,930 | 8,046,111 |
| **Total** | **7,873,113** | **3,367,270** | **11,240,383** | **561,346** | **1,411,751** | **35,018** | **2,008,115** | **13,248,499** |

**As on December 31, 2020** **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 | 201,040 | 1,303 | 202,343 | 37,298 | - | 1,370 | 38,668 | 241,011 |
| 3 months to one year | 551,375 | 95,817 | 647,192 | 104,534 | - | 5,565 | 110,099 | 757,291 |
| One to five years | 1,319,494 | 2,024,263 | 3,343,757 | 296,940 | 842,114 | 1,488 | 1,140,543 | 4,484,300 |
| Over five years | 6,906,775 | 945,616 | 7,852,391 | 8,878 | 586,579 | 50,883 | 646,340 | 8,498,731 |
| **Total** | **8,978,684** | **3,066,999** | **12,045,683** | **447,650** | **1,428,693** | **59,306** | **1,935,649** | **13,981,333** |

## 10.11 Gross credit risk by economic sector

**As on December 31, 2021** **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 | 27,407 | - | 27,407 | 74,101 | - | - | 74,101 | 101,508 |
| Energy | 79,275 | 354,278 | 433,553 | - | - | - | - | 433,553 |
| Trading | 151,553 | 72,454 | 224,007 | 25,760 | - | 2,757 | 28,517 | 252,524 |
| Real estate investment & hospitality | - | 282,679 | 282,679 | 102,950 | - | 4,095 | 107,045 | 389,724 |
| Transport & communication | 49,534 | 129,584 | 179,118 | 2,921 | - | - | 2,921 | 182,039 |
| Personal | 7,227,477 | - | 7,227,477 | 120,017 | - | - | 120,017 | 7,347,494 |
| Financial institutions | - | 447,559 | 447,559 | 6,924 | 1,411,751 | 25,219 | 1,443,894 | 1,891,453 |
| Manufacturing | 33,421 | - | 33,421 | - | - | - | - | 33,421 |
| Services | - | - | - | 298 | - | - | 298 | 298 |
| Government | - | 1,655,064 | 1,655,064 | - | - | - | - | 1,655,064 |
| Others | 304,446 | 425,652 | 730,098 | 228,375 | - | 2,947 | 231,322 | 961,420 |
| **Total** | **7,873,113** | **3,367,270** | **11,240,383** | **561,346** | **1,411,751** | **35,018** | **2,008,115** | **13,248,498** |

**As on December 31, 2020** **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 | 30,064 | - | 30,064 | 74,460 | - | - | 74,460 | 104,524 |
| Energy | 185,376 | 68,018 | 253,394 | - | - | - | - | 253,394 |
| Trading | 157,484 | 28,342 | 185,826 | 23,239 | - | 1,721 | 24,960 | 210,786 |
| Real estate investment & hospitality | 2 | 265,647 | 265,649 | 95,180 | - | 6,538 | 101,718 | 367,367 |
| Transport & communication | 87,257 | 126,955 | 214,212 | 6,320 | - | 370 | 6,690 | 220,902 |
| Personal | 8,259,785 | - | 8,259,785 | 135,517 | - | - | 135,517 | 8,395,302 |
| Financial institutions | - | 457,150 | 457,150 | - | 1,428,693 | 25,155 | 1,453,848 | 1,910,998 |
| Manufacturing | 27 | - | 27 | - | - | - | - | 27 |
| Services | - | - | - | - | - | - | - | - |
| Government | - | 1,783,360 | 1,783,360 | - | - | - | - | 1,783,360 |
| Others | 258,689 | 337,527 | 596,216 | 112,934 | - | 25,522 | 138,456 | 734,672 |
| **Total** | **8,978,684** | **3,066,999** | **12,045,683** | **447,650** | **1,428,693** | **59,306** | **1,935,649** | **13,981,332** |

## 10.12 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.

## 10.13 Impairment analysis

The Banks' Risk function monitors the portfolio through system- generated MIS and periodic reviews giving due consideration to industry and general economic trends, market feedback and media reports. Movement of the individual and collective impairment allowance on credit risk exposure were as follows:

(a) Impaired loans by geography

**As on December 31, 2021** 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 | 146,478 | 83,017 | 8,259 | 6,979,501 |
| GCC (excluding UAE) | - | - | - | | - | - | - | - | - | - |
| Asia | 666,278 | - | - | 26,813 | 693,091 | 20,758 | - | - | - | 672,333 |
| North America | 271 | - | - | - | 271 | - | - | - | - | 271 |
| **Grand Total** | **7,478,157** | **244,189** | **-** | **150,767** | **7,873,113** | **74,530** | **146,478** | **83,017** | **8,259** | **7,652,105** |

**As on December 31, 2020** 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 | | | | | | | |
| United Arab Emirates | 7,714,178 | 297,041 | - | 220,079 | 8,231,298 | 69,775 | 146,218 | 104,723 | 9,698 | 8,015,306 |
| GCC (excluding UAE) | - | - | - | - | - | - | - | - | - | 1 |
| Asia | 687,722 | 22,671 | - | 36,619 | 747,012 | 2,110 | 3,500 | - | - | 741,402 |
| North America | 374 | - | - | - | 374 | - | 1 | - | - | 373 |
| **Grand Total** | **8,402,274** | **319,712** | **-** | **256,698** | **8,978,684** | **71,885** | **149,719** | **104,723** | **9,698** | **8,757,082** |

(b) Impaired loans by economic sector

**As on December 31, 2021** 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 | 27,407 | - | - | - | 27,407 | - | - | - | - | 27,407 |
| Energy | 79,275 | - | - | - | 79,275 | - | - | - | - | 79,275 |
| Trading | 151,553 | - | - | - | 151,553 | - | - | - | - | 151,553 |
| Transport & communication | 49,534 | - | - | - | 49,534 | - | - | - | - | 49,534 |
| Personal | 6,832,521 | 244,189 | - | 150,767 | 7,227,477 | 74,524 | 146,478 | 83,017 | 8,259 | 7,006,475 |
| Manufacturing | 33,421 | - | - | - | 33,421 | - | - | - | - | 33,421 |
| Others | 304,446 | - | - | - | 304,446 | 6 | - | - | - | 304,440 |
| **Grand Total** | **7,478,157** | **244,189** | **-** | **150,767** | **7,873,113** | **74,530** | **146,478** | **83,017** | **8,259** | **7,652,105** |

**As on December 31, 2020** 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 | 30,064 | - | - | - | 30,064 | - | 171 | - | - | 29,893 |
| Energy | 162,705 | 22,671 | - | - | 185,376 | - | 2,447 | - | - | 182,929 |
| Trading | 120,684 | 178 | - | 36,622 | 157,484 | 2,110 | 2,272 | - | - | 153,102 |
| Real estate | 2 | - | - | - | 2 | - | - | - | - | 2 |
| Transport & communication | 87,257 | - | - | - | 87,257 | - | 80 | - | - | 87,177 |
| Personal | 7,742,889 | 296,822 | - | 220,074 | 8,259,785 | 69,775 | 144,568 | 104,723 | 9,698 | 8,045,442 |
| Manufacturing | 26 | - | - | 1 | 27 | - | - | - | - | 27 |
| Others | 258,647 | 41 | - | 1 | 258,689 | - | 181 | - | - | 258,508 |
| **Grand Total** | **8,402,274** | **319,712** | **-** | **256,698** | **8,978,684** | **71,885** | **149,719** | **104,723** | **9,698** | **8,757,080** |

## 11 Market Risk

### 11.4 Market risk capital requirement

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 November 2020. These 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.

The market risks subject to a capital charge are as follows:

profit rate risk;

foreign exchange risk;

equity exposure risk;

commodity risk;

Capital requirement for market risk under standardised approach

AED "000"

| Market Risk | Amount 31-Dec-21 | Amount 31-Dec-20 |
|---|---|---|
| Profit Rate Risk | - | - |
| Equity Position Risk | - | - |
| Foreign Exchange Risk | 13,208 | 13,534 |
| Option Risk | | |
| Commodity Risk | - | - |
| **Total Capital Requirement** | **13,208** | **13,534** |

# 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.

## 12.1 Composition of collateral for CCR exposure (CCR 5)

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

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.

## 12.2 Analysis of CCR exposure by approach (CCR1)

AED '000s

| | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
|---|---|---|---|---|---|---|
| SA-CCR (for derivatives) | - | 4,781 | - | 1 | 6,694 | 1,523 |
| 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** | | | | | | **1,523** |

## 12.3 Exposures to central counterparties (CCR8)

AHB does not have any exposure to central counterparties.

## 12.4 Credit derivatives exposures (CCR6)

AHB does not have any credit derivative exposures.

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

AED '000s

| Risk weight<br>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 | - | - | 6,079 | 615 | - | - | - | - | 6,694 |
| Securities firms | - | - | - | - | - | - | - | - | - |
| Corporates | - | - | - | - | - | - | - | - | - |
| Regulatory retail portfolios | - | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **6,079** | **615** | **-** | **-** | **-** | **-** | **6,694** |

## 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:** the overall responsibility for establishing, maintaining and overseeing a robust PRRBB risk governance framework lies with the Board. The Board may delegate monitoring and management of PRRBB to senior management committees or an asset and liability management committee (ALCO). Specifically, the Board'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 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 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 approved limits and
Report PRRBB exposures both internally to the Board/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'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. Commercial margins are not included in the cash flows and discounting curves.
c) 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.

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

## 13.1 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBBA1)

| December 31, 2021 | Years |
|---|---|
| **Wtd Avg Maturity (Years)** | **3.58** |
| **Longest Maturity (Years)** | **4.5** |

## 13.2 Repricing maturity assigned to non-maturity deposits (NMDs) (IRRBBA1)

AED “000”

| December 31, 2021 | ΔEVE | ΔNII |
|---|---|---|
| Parallel up | 157,224 | 15,545 |
| Parallel down | (283,683) | (35,026) |
| Steepener | 222,625 | |
| Flattener | (214,053) | |
| Short rate up | (94,178) | |
| Short rate down | 98,907 | |
| **Maximum** | 222,625 | |
| **Tier 1 capital** | 1,689,113 | |

## 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 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 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) **First Line of Defense**
- CEO
- Business Department Heads
- Business Operational Risk Managers (BORMs)

b) **Second Line of Defense**
- Independent risk & control functions, such as Operational Risk, Compliance, Fraud Risk Management, Sharia, Legal, Information Security, etc.

c) **Third Line of Defense**
- 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.

**Risk identification, monitoring and reporting**

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:

a. 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
b. Mitigate the risk (i.e. by designing and operating controls that provide sufficient mitigation assurance against the underlying risks), or
c. Transfer the risk (e.g. through insurance), or
d. 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. The projects are at various levels of maturity.

**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 ISO22301:2012 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.
The Bank executed its pandemic response plan from January 2020 in response to the coronavirus outbreak. The bank adopted an abundance of caution approach ensuring the safety of its staff and customers. The Bank enabled a distributed work approach and maintained a resilient service throughout. Bank is now complying to the "Return to Normalcy" procedures instructed by the UAE Government and retains the ability to revert to a distributed work approach in case of resurgence.

**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 2021 was AED 101,275 thousand.

# 15 Remuneration

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

AED "000"

| Remuneration Amount | | Senior Management |
|---|---|---|
| Fixed Remuneration | Number of employees | 18 |
| | Total fixed remuneration | 18,306 |
| | Of which: cash-based | 18,306 |
| | 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 | 15 |
| | Total fixed remuneration | 3,755 |
| | Of which: cash-based | 3,067 |
| | Of which: deferred | 470 |
| | Of which: shares or other share-linked instruments | - |
| | Of which: deferred | 218 |
| | Of which: other forms | - |
| | Of which: deferred | - |

## 15.2 Special payments (REM2)

AED "000"

| Special Payments | Guaranteed Bonuses | | Sign on Awards | | Severance Payments | |
|---|---|---|---|---|---|---|
| | Number of employees | Total amount | Number of employees | Total amount | Number of employees | Total amount |
| Senior Management | - | - | - | - | **2** | **562** |

## 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 | - | - | - | - | - |
| Cash | 336 | 336 | - | - | 470 |
| Shares | 215 | 215 | - | - | 218 |
| Cash-linked instruments | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total** | **551** | **551** | **-** | **-** | **688** |