Al Hilal Bank PJSC

Pillar 3 Report

31 December 2022

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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, like liquidity, concentration, reputational, etc. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

This report provides Pillar 3 disclosures for Al Hilal Bank PJSC and its subsidiaries (together referred to as "AHB" or the "Bank") for the period ended 31 December 2022.

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

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

2. Overview of Basel III requirements:

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

Basel requirements are structured around three 'pillars' which are outlined below:

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

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

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

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

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

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

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

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

2.1. AHB's approach to Pillar I

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

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

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

2.2. Minimum capital requirement

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

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

2.3. Leverage and liquidity ratios

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

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

As at 31 December 2022, AHB's ELAR was 13.95% (calculated on 90 days' average basis) which is well above the minimum requirement of 10%, ASRR was 81.97% which is well below the maximum requirement of 100%, and Leverage ratio was 10.86% which is again well above the minimum requirement of 3%.

2.4. Standards for Standalone Capital Adequacy Ratio

In November 2019, the Central Bank of UAE had issued consultative draft standards on standalone capital adequacy ratio. Currently in the UAE banks are required to meet prudential capital requirements on a consolidated basis. In December 2020, following industry consultation Central Bank of UAE issued a draft version of standalone capital adequacy framework for UAE banks. Prior to its implementation, the Central Bank requires all local banks to file standalone capital return on a bi-annual basis, commencing from December 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 updated via Notice CBUAE/BSD/2022/5280 dated 30 December 2022. These standards and guidance notes supersede the existing Pillar 3 disclosure requirements issued in 2009. These revised requirements are an integral part of the Basel framework, and they complement other disclosure requirements issued separately by Central Bank. Pillar 3 Disclosure requirements apply to all banks in the UAE at consolidated level for local banks and all branches of foreign banks.

2.6. Impact on AHB

The UAE Central Bank has set a minimum capital adequacy ratio (CAR) of 13% and CET 1 ratio of 9.5% (including CCB buffers). As at 31st December 2022, AHB met the minimum requirements with a CAR of 16.94% and CET1 ratio of 15.83%.

2.7. Basis of consolidation

These Pillar III disclosures are in line with the consolidated financial statements as of 31 December 2022 which comprises of the Bank and its subsidiaries as set out in (Note 36 of the Annual Financial Statements) (together referred to as the “Group”). The Group is primarily involved in Islamic retail and treasury related activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiary located in Kazakhstan.

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

2.8. Verification

The Pillar III disclosures for the period ended 31 December 2022 have been appropriately verified internally by Finance, Risk and Group Internal Audit.

2.9. Ownership

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

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

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

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

The effective date of above merger and acquisition was 1 May 2019.

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

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

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

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

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

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

5. Comparison of accounting balance sheet and exposure at default

The differences between the financial and regulatory consolidated balance sheets arise primarily from differences in the basis of consolidation and the requirement to not consolidate for regulatory purposes commercial entities which are subject to full consolidation for financial purposes. The regulatory risk category drives the approach applied in the calculation of regulatory exposures and RWA. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories is disclosed in the following page. The differences between accounting and regulatory consolidated balance sheets amounting to AED 182Mn pertains to Provisions and Profit in Suspense.

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

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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 banks	1,168,564	1,168,564	1,168,564	-	-	-	-
Deposits & balances due from banks, net	199,271	199,271	199,271	-	-	-	-
Receivable from Islamic financing, activities	6,137,034	6,275,487	6,275,487	-	-	-	-
Ijara	1,487,285	1,530,977	1,530,977				
Investment Properties	64,894	64,894	64,894	-	-	-	-
Investment Securities	3,416,744	3,416,744	3,416,744	-	-	-	-
Intangible Assets	127,960	127,960	-	-	-	-	127,960
Property And Equipment, Net	421,812	421,812	411,214	-	-	-	10,598
Islamic Derivative Financial Instruments Asset	36,786	36,786	-	36,786	-	36,786	-
Investment in Associate	50,462	50,462	50,462	-	-	-	-
Other Assets	199,384	199,384	199,384	-	-	-	-
Total Assets	**13,310,197**	**13,492,341**	**13,316,998**	**36,786**	-	**36,786**	**138,558**
Liabilities							
Deposits from Customers	7,522,391	7,522,391	-	-	-	-	-
Wakala Deposits from banks	1,889,619	1,889,619	-	-	-	-	-
Medium Term Financing	1,915,697	1,915,697	-	-	-	-	-
Islamic Derivative Financial Instruments Liabilities	46	46	-	46	-	-	-
Other Liabilities	381,474	563,618	-	-	-	-	-
Total Liabilities	**11,709,227**	**11,891,372**	-	**46**	-	-	-
Equity	**1,600,970**	**1,600,970**		**36,740**	-	**36,786**	**138,558**

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

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

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	Total	Items subject to:			
		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)	13,390,569	13,316,998		36,786	36,786
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	46	-	-	46	-
Total net amount under regulatory scope of consolidation	**13,390,523**	**13,316,998**	-	**36,740**	**36,786**
Off-balance sheet amounts	480,723	480,723	-		-
Differences in valuations	-	-	-	-	-
Differences due to different netting rules	-	-	-	-	-
Differences due to consideration of Provisions and PIS	182,145	182,145	-	-	-
Differences due to prudential filters	-	-	-	-	-
Exposure amounts considered for regulatory purposes	14,053,391	13,979,865	-	36,740	36,786

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

6.1. Key Metrics for the Group (KM1)

There has been an increase of AED 81Mn in total risk weighted assets (RWA) over the last quarter mainly due to increase in Sukuk portfolio.

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	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,441,043	1,539,511	1,576,867	1,621,395	1,689,113
Tier 1	1,441,043	1,539,511	1,576,867	1,621,395	1,689,113
Total capital	1,542,336	1,639,686	1,678,792	1,721,392	1,788,807
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	9,104,225	9,022,753	9,097,344	8,909,426	9,041,638
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	15.83%	17.06%	17.33%	18.20%	18.68%
Tier 1 ratio (%)	15.83%	17.06%	17.33%	18.20%	18.68%
Total capital ratio (%)	16.94%	18.17%	18.45%	19.32%	19.78%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
Bank D-SIB additional requirements (%)	0%	0%	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2.50%	2.50%	2.50%	2.50%	2.50%
CET1 available after meeting the bank's minimum capital requirements (%)	6.44%	7.67%	7.95%	8.82%	9.28%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	13,268,735	13,663,772	13,982,557	13,829,619	13,697,554
Basel III leverage ratio (%)	10.86%	11.27%	11.28%	11.72%	12.33%
ELAR					
Total HQLA	1,521,856	1,911,774	2,020,535	1,926,088	1,647,361
Total liabilities	10,905,721	11,412,142	11,576,767	11,474,738	11,292,932
Eligible Liquid Assets Ratio (ELAR) (%)	13.95%	16.75%	17.45%	16.79%	14.59%
ASRR					
Total available stable funding	9,514,192	10,011,864	10,091,579	10,195,460	10,251,317
Total Advances	7,798,762	7,569,286	7,662,412	7,849,179	7,868,923
Advances to Stable Resources Ratio (%)	81.97%	75.60%	75.93%	76.99%	76.76%

6.2. Capital management

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

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

At year-end, the CET1 ratio was 15.83% which is 644 bps available for the CET1 buffer requirement and CAR was 16.94% which is 394 bps above the regulatory minimum. The leverage ratio stood at 10.86% 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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	Amounts
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,750,000
Retained earnings	(3,050,576)
Accumulated other comprehensive income (and other reserves)	(119,823)
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
Common share capital issued by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory deductions	**1,579,601**
Common Equity Tier 1 capital regulatory adjustments	
Prudent valuation adjustments	-
Goodwill (net of related tax liability)	-
Other intangibles including mortgage servicing rights (net of related tax liability)	(138,558)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
Cash flow hedge reserve	-
Securitisation gain on sale	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined benefit pension fund net assets	-
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
Amount exceeding 15% threshold	-
Of which: significant investments in the common stock of financials	-
Of which: deferred tax assets arising from temporary differences	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Common Equity Tier 1	(138,558)
Common Equity Tier 1 capital (CET1)	1,441,043
Additional Tier 1 capital: instruments	
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
Additional Tier 1 capital before regulatory adjustments	-

Additional Tier 1 capital: regulatory adjustments	
Investments in own additional Tier 1 instruments	-
Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1= CET1 + AT1)	1,441,043
Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase-out from Tier 2	-
Tier 2 instruments issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Provisions	101,293
Tier 2 capital before regulatory adjustments	101,293
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	-
Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	101,293
Total regulatory capital (TC = T1 + T2)	1,542,336
Total risk-weighted assets	9,104,225
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.83%
Tier 1 (as a percentage of risk-weighted assets)	15.83%
Total capital (as a percentage of risk-weighted assets)	16.94%
Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss	2.50%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	-
Of which: higher loss absorbency requirement (e.g. DSIB)	-
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirem	6.44%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.0%
Tier 1 minimum ratio	8.5%
Total capital minimum ratio	10.5%
Amounts below the thresholds for deduction (before risk weighting)	
Significant investments in common stock of financial entities	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	140,347
Cap on inclusion of provisions in Tier 2 under standardised approach	101,293
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.

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	Balance sheet as in published financial statements 12/31/2022	Under regulatory scope of consolidation 12/31/2022
Assets		
Cash and balances at central bank	1,168,564	1,168,564
Deposits & balances due from banks	199,271	199,271
Receivable from Islamic financing, activities	6,137,034	6,275,487
Ijara	1,487,285	1,530,977
Investment Properties	64,894	64,894
Investment Securities	3,416,744	3,416,744
Intangible Assets	127,960	127,960
Property And Equipment, Net	421,812	421,812
Islamic Derivative Financial Instruments Asset	36,786	36,786
Investment in Associate	50,462	50,462
Other Assets	199,384	199,384
Total assets	**13,310,197**	**13,492,341**
Liabilities		
Deposits from Customers	7,522,391	7,522,391
Wakala Deposits from banks	1,889,619	1,889,619
Items in the course of collection due to other banks	-	-
Sukuk Liability	1,915,697	1,915,697
Islamic Derivative Financial Instruments Liabilities	46	46
Other Liabilities	381,474	564,766
Total liabilities	**11,709,227**	**11,892,519**
Shareholders' equity		
Paid-in share capital	4,750,000	4,750,000
Tier 1 Sukuk	-	-
Reserves	178,896	178,896
Retained Earnings	(3,064,661)	(3,064,661)
Net Profit for the Year	34,307	34,307
Cumulative Change in Fair Values	(297,573)	(298,720)
Minority Interest	-	-
Total shareholders' equity	**1,600,970**	**1,599,823**

6.5. Main features of regulatory capital instruments (CCA)

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	Quantitative / qualitative information
Issuer	AL Hilal Bank PJSC
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
Governing law(s) of the instrument	NA
Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	4750
Nominal amount of instrument	1
Issue price	1
Redemption price	NA
Accounting classification	CET1
Original date of issuance	NA
Perpetual or dated	NA
Coupons / dividends	NA
If yes, specify non-compliant features	NA

6.6. Countercyclical capital buffer (CCyB)

The Bank's countercyclical capital buffer (CCyB) requirement is determined by applying various country-specific CCyB rates to the Bank's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis. The Group's current CCyB requirement is 0 bps:

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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)	1%	29.0	5.8	0%	0.1
Sweden	1%	90.6	18.1	0%	0.2
United Kingdom	1%	7,382.5	3,393.8	0%	33.9
Total		7,502.1	3,417.7	0%	34.2

7. Risk Management and 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. OVA: Bank Risk Management Approach

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

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

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

Risk measurement is attained through the Banks Risk Appetite Statement. The risk appetite measures have been developed and integrated into the strategic planning process of the Bank. Currently, the Banks risk appetite can be summarized across the following dimensions (but not limited to):

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

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

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

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

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

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

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

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

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

Determining the stress / sensitivity test scenarios is the main building block of any assessment.

The Bank conducts stress tests for possible risk events that can cause, directly or indirectly, an economic loss to the Bank.

The Stress events can be based on historical and/or hypothetical scenarios. Historical scenarios would be based on observed events from the past that are relevant to the Bank. Hypothetical scenarios are mainly determined by plausible relevant events that can occur. These events are caused by macroeconomic factors, specific events related to the economy as a whole or specific to a certain portfolio, or catastrophe scenarios capturing extreme market events which have not previously occurred.

The stress scenario can either be macroeconomic due to some adverse economic conditions or idiosyncratic impacting some specific groups, or a combination of both.

Stress tests are conducted at varying frequencies considering business requirements and relevance. Detailed stress tests are conducted at least annually and the assumptions underlying the stress tests are reviewed periodically.

The enterprise–wide stress testing is a stress testing exercise where the Bank assess the impact of stress event on all types of risk. In ICAAP, both credit, market and liquidity risks are considered for stress test. In this stress test the purpose is to assess the impact of simultaneous movements in a number of risk drivers, which may arise due to macroeconomic variables. These stress scenarios reflect the forward-looking views of macro-economic environment that are calibrated against the adverse movements in the risk drivers. Risk drivers are selected based on product, business and bank level views of each scenario and are granular appropriate to the scenarios.

7.3. RWA development in Q4-2022

The OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type. Over the quarter, total RWA increased by AED 0.08Bn to AED 9.10Bn.

Counterparty Credit Risk Capital & CVA: In Q4 2022, the capital requirement has decreased slightly compared to Q3 22 (RWA has reduced from AED 15.66Mn to AED 15.38Mn) due to the decrease in Mark to Market (MTM) of the Profit Rate Swaps (PRS) from AED 36.98Mn in Q3 2022 to AED 36.78Mn in Q4 2022.

Equity Investment in Funds (EIF): Bank has invested in 2 funds – Global Sukuk Fund (GSF) and GCC Equity Fund for which capital computation has been done. The Look Through Approach (LTA) has been used to calculate the RWA for these Equity Investment in Funds. Based on this approach, the total RWA is AED 51.64Mn as of Q4 2022.

Market Risk Capital: The Market risk capital in AHB comprises of only Foreign Exchange Risk. There is no capital requirement for derivatives as there is no trading position. Market Risk capital has increased compared to Q3 2022 (from AED 97.24 Mn in Q3 2022 to AED 102.86 Mn in Q4 2022) due to increase in aggregate long and short positions across all currencies (excluding USD and AED).

7.4. Overview of risk weighted assets (OV1)

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	RWA				Minimum capital requirements
	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2022
Credit risk (excluding counterparty credit risk)*	8,088,055	7,998,328	8,144,279	7,995,231	1,051,447
Of which: standardised approach (SA)	8,088,055	7,998,328	8,144,279	7,995,231	1,051,447
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)	15,385	15,663	9,674	4,520	1,615
Of which: standardised approach for counterparty credit risk	15,385	15,663	9,674	4,520	1,615
Credit valuation adjustment (CVA)	30,746	34,415	27,763	-	3,228
Equity investments in funds - look-through approach	51,643	61,571	-	-	5,422
Equity investments in funds - mandate-based approach	-	-	-	-	-
Equity investments in funds - fall-back approach	-	-	-	-	-
Settlement risk	-	-	-	-	-
Securitisation exposures in the banking book	-	-	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-	-	-
Market risk	102,868	97,247	100,100	94,148	10,801
Of which: standardised approach (SA)	102,868	97,247	100,100	94,148	10,801
Operational risk	815,528	815,528	815,528	815,528	85,630
Total	**9,104,225**	**9,022,753**	**9,097,344**	**8,909,426**	**1,158,145**

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)

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Summary comparison of accounting assets vs leverage ratio exposure	**12/31/2022**	**9/30/2022**	**6/30/2022**	**3/31/2022**
Total consolidated assets as per published financial statements*	13,273,411	13,549,449	13,894,771	13,765,587
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-	-
Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-	-	-
Adjustments for temporary exemption of central bank reserves (if applicable)	-	-	-	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-	-
Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-	-	-	-
Adjustments for eligible cash pooling transactions	-	-	-	-
Adjustments for derivative financial instruments	67,124	68,663	43,546	30,556
Adjustment for securities financing transactions (ie repos and similar secured lending)	-	-	-	-
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	66,758	59,429	60,963	51,892
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments	(138,558)	(13,770)	(16,723)	(18,416)
Leverage ratio exposure measure	13,268,735	13,663,772	13,982,557	13,829,619

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

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

8.2. Leverage ratio common disclosure (LR2)

The total derivatives exposure in the leverage ratio has slightly decreased due to decrease in replacement cost of Profit Rate Swaps (from AED 36.98Mn in Q3 2022 to AED 36.78Mn in Q4 2022). Total derivative exposure is 1.4 times sum total of replacement cost and add-on amount for PFE (Potential future exposure). Add-on amount is calculated based on SA-CCR methodology which is adopted from Q2 2022.

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	12/31/2022	9/30/2022	6/30/2022	3/31/2022
On-balance sheet exposures				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,273,411	13,549,449	13,894,771	13,765,587
Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-	-	-
(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-	-	-
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-	-	-
(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-	-	-
(Asset amounts deducted in determining Tier 1 capital)	(138,558)	(13,770)	(16,723)	(18,416)
Total on-balance sheet exposures (excluding derivatives and SFTs)	13,134,853	13,535,679	13,878,048	13,747,171
Derivative exposures				
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	51,500	51,779	18,399	-
Add-on amounts for PFE associated with *all* derivatives transactions*	15,624	16,884	25,147	30,556
(Exempted CCP leg of client-cleared trade exposures)	-	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
Total derivative exposures	67,124	68,663	43,546	30,556

Securities financing transactions				
Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
CCR exposure for SFT assets	-	-	-	-
Agent transaction exposures	-	-	-	-
Total securities financing transaction exposures	-	-	-	-
Other off-balance sheet exposures				
Off-balance sheet exposure at gross notional amount	413,598	455,098	462,409	443,941
(Adjustments for conversion to credit equivalent amounts)	(346,841)	(395,668)	(401,446)	(392,049)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				
Off-balance sheet items	66,758	59,429	60,963	51,892
Capital and total exposures				
Tier 1 capital	1,441,043	1,539,511	1,576,867	1,621,395
Total exposures	13,268,735	13,663,772	13,982,557	13,829,619
Leverage ratio				
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)				
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.86%	11.27%	11.28%	11.72%
CBUAE minimum leverage ratio requirement	3%	3%	3%	3%
Applicable leverage buffers	7.86%	8.27%	8.28%	8.72%

** With 1.4 multiplier*

9. Funding and liquidity risk

Funding and Liquidity risk involves the inability of the Bank to fund increase in assets, manage unplanned changes in funding sources and to meet obligations when required. Liquidity risk primarily arises due to the maturity mismatch associated with assets and liabilities of the Bank.

9.1. Liquidity Risk Management (LIQA)

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

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

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

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

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

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

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

The key measures used by the Group for managing liquidity risk are regulatory driven ratios which are Advance to stable ratio ("ASRR"), and Eligible Liquid Asset Ratio (ELAR). ASRR takes into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2022, the Bank's ASRR was 81.97%.

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 2022, this ratio stood at 13.95%.

9.2. High-quality liquid assets

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

9.3. Eligible Liquid Assets Ratio (ELAR)

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High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	1,144,454	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	1,144,454	1,144,454
UAE local governments publicly traded debt securities	1,218,002	
UAE Public sector publicly traded debt securities		
Sub Total	1,218,002	352,140
Foreign Sovereign debt instruments or instruments issued by their respective central banks	25,262	25,262.00
Total	**2,387,718**	**1,521,856**
Total liabilities		10,905,721
Eligible Liquid Assets Ratio (ELAR)		**13.95%**

9.4. Advances to Stable Resources Ratio (ASRR)

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Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,764,037
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	34,725
Interbank Placements	-
Total Advances	7,798,762
Calculation of Net Stable Resources	
Total capital + general provisions	1,724,283
Deduct:	
Goodwill and other intangible assets	138,558
Fixed Assets	411,216
Funds allocated to branches abroad	-
Unquoted Investments	2,320
Investment in subsidiaries, associates and affiliates	50,462
Total deduction	602,556
Net Free Capital Funds	1,121,727
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	-
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	-
Customer Deposits	6,557,966
Capital market funding/ term borrowings maturing after 6 months from reporting date	1,834,499
Total other Stable Resources	8,392,465
Total Stable Resources	9,514,192
Advances To Stable Resources Ratio (ASRR)	81.97

10. Credit Risk Management

10.1. Credit quality of assets (CR1)

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	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	92,331	7,720,708	181,688	43,911	137,777	7,631,350
Debt securities	-	3,294,169	2,570		2,570	3,291,599
Off-balance sheet exposures**	-	74,183	-			74,183
Total	**92,331**	**11,089,059**	**184,258**	**43,911**	**140,347**	**10,997,132**

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

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

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Defaulted loans and debt securities at the end of the previous reporting period	133,183
Loans and debt securities that have defaulted since the last reporting period	29,364
Returned to non-default status	(13,735)
Amounts written off	(51,657)
Other changes	(4,824)
Defaulted loans and debt securities at the end of the reporting period	92,331

10.3. Credit risk mitigation techniques – overview (CR3)

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	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	5,152,014	2,479,336	3,739	-	-	-	-
Debt securities	3,022,627	268,972	-	268,972	268,972		
Total	8,174,641	2,748,308	3,739	268,972	268,972	-	-
Of which defaulted	16,160	76,171	-	-	-	-	-

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

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	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	2,470,822	-	2,470,822	-	273,095	3%
Public Sector Entities	516,336	-	516,336	-	202,811	3%
Multilateral development banks	37,040	-	37,040	-	-	0%
Banks	745,635	67,124	745,635	67,124	310,811	4%
Securities firms	-	-	-	-	-	0%
Corporates	1,721,790	303,493	1,721,790	30,293	1,614,637	20%
Regulatory retail portfolios	5,231,848	110,105	5,231,848	-	4,238,805	52%
Secured by residential property	1,424,663	-	1,424,663	-	557,254	7%
Secured by commercial real estate	64,551	-	64,551	-	64,551	1%
Equity Investment in Funds (EIF)		-	-	-	-	0%
Past-due loans	48,419	-	48,419	-	48,540	1%
Higher-risk categories	-	-	-	-	-	0%
Other assets	1,187,247	-	1,187,247	-	792,936	10%
Total	**13,448,353**	**480,723**	**13,448,353**	**97,417**	**8,103,440**	**100%**

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

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Risk weight* / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	1,935,500	-	-	-	524,455	-	10,867	-	-	2,470,822
Public Sector Entities	268,972	-	-	-	89,107	-	158,258	-	-	516,336
Multilateral development banks	37,040	-	-	-	-	-	-	-	-	37,040
Banks	-	-	324,378	-	484,892	-	3,489	-	-	812,760
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	3,739	-	-	-	267,415	-	1,480,930	-	-	1,752,083
Regulatory retail portfolios	-	-	-	-	-	3,972,173	1,259,676	-	-	5,231,848
Secured by residential property	-	-	-	1,328,913	-	14,462	81,288	-	-	1,424,663
Secured by commercial real estate	-	-	-	-	-	-	64,551	-	-	64,551
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	48,177	242	-	48,419
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	394,312	-	-	-	-	-	792,936	-	-	1,187,247
Total	**2,639,562**	**-**	**324,378**	**1,328,913**	**1,365,868**	**3,986,635**	**3,900,172**	**242**	**-**	**13,545,770**

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

As on December 31, 2022 AED"000"

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

As on December 31, 2021 AED"000"

Asset Classes	On & Off Balance Sheet Gross Outstanding	Credit Risk Mitigation (CRM) Exposure Before CRM	CRM	On & Off Balance Sheet Net Exposure After Credit Conversion Factors (CCF)	Risk Weighted Assets
Claims on Sovereigns	2,774,785	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 Multi Lateral Development Banks					
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

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

As on December 31, 2022 AED"000"

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

As on December 31, 2021 AED"000"

	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 Multi Lateral Development Banks	-	-	-	-	-
Claims on Banks	855,720	17,727	873,447	873,447	313,155
Claims on Government Related Enterprises (GRE with >50 % Govt. Ownership) and Other Corporates	740,246	1,212,880	1,953,126	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	159,277	77,255	88,730
Other Assets	-	1,059,372	1,059,372	1,059,372	842,030
Total	3,293,576	11,136,718	14,430,294	13,783,343	7,975,510

Use of external ratings

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

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

10.8. Gross credit risk by currency

As on December 31, 2022 AED"000"

	Gross Financing	Investment Securities	Total Funded	Total Commitments to extend Credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	1,008,839	3,414,424	4,423,263	254,540	1,064,474	37,005	1,356,019	5,779,282
AED	6,799,736	2,320	6,802,056	110,105	-	37,178	147,283	6,949,339
Total	7,808,575	3,416,744	11,225,319	364,645	1,064,474	74,183	1,503,302	12,728,621

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	35,018	2,008,115	13,248,498

10.9. Gross credit risk by geography

As on December 31, 2022 AED"000"

Geographic Distribution	Gross Financing	Investment Securities	Total Funded	Total Commitments to extend Credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet Exposures	Total Non-Funded	Total
United Arab Emirates	6,799,736	2,545,659	9,345,395	110,105	951,896	37,178	1,099,179	10,444,574
GCC (excluding UAE)	-	377,654	377,654	-	-	-	-	377,654
Asia	1,008,839	493,431	1,502,270	254,540	-	37,005	291,546	1,793,815
North America	-	-	-	-	-	-	-	-
Europe	-	-	-	-	112,578	-	112,578	112,578
Total	**7,808,575**	**3,416,744**	**11,225,319**	**364,645**	**1,064,474**	**74,183**	**1,503,302**	**12,728,621**

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**

10.10. Gross credit risk by residual maturity

As on December 31, 2022 AED"000"

Contractual Residual Maturity	Gross Financing	Investment Securities	Total Funded	Total Commitments to extend Credit	Islamic Derivative Financial Instruments	Other Off-Balance Sheet Exposures	Total Non-Funded	Total
Less than 3 months	337,320	425,945	763,265	107,451	228,123	19,312	354,886	1,118,151
3 months to one year	609,718	280,744	890,462	19,195	29,393	27,060	75,648	966,110
One to five years	1,549,009	1,877,681	3,426,690	237,867	495,855	162	733,884	4,160,574
Over five years	5,312,528	832,374	6,144,902	132	311,103	27,649	338,884	6,483,786
Total	**7,808,575**	**3,416,744**	**11,225,319**	**364,645**	**1,064,474**	**74,183**	**1,503,302**	**12,728,621**

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	8,046,110
Total	**7,873,113**	**3,367,270**	**11,240,383**	**561,346**	**1,411,751**	**35,018**	**2,008,116**	**13,248,498**

10.11. Gross credit risk by economic sector

As on December 31, 2022 AED"000"

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

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**

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. Movement of the individual and collective impairment allowance on credit risk exposure were as follows:

a) Impaired loans by geography

As on December 31, 2022 AED"000"

Geographic Region	Regular	Past due but not impaired		Impaired and non-performing	Gross Financing	Specific Allowance	Collective Allowance	Write-offs, recoveries and other	Unwinding's on renegotiated	Total Carrying Amount
		Less Than 90 days	90 days & above							
United Arab Emirates	6,519,835	191,636	-	88,265	6,799,736	39,448	136,704	63,266	6,926	6,623,585
GCC (excluding UAE)	-	-	-		-	-	-	-	-	-
Asia	1,008,839	-	-	-	1,008,839	-	3,643	22,308	-	1,005,196
North America	-	-	-	-	-	-	-	-	-	-
Grand Total	**7,528,674**	**191,636**	**-**	**88,265**	**7,808,575**	**39,448**	**140,347**	**85,574**	**6,926**	**7,628,781**

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

b) Impaired loans by economic sector

As on December 31, 2022 AED"000"

Industry Segment	Regular	Past due but not impaired		Impaired and non-performing	Gross Financing	Specific Allowance	Collective Allowance	Write-offs, recoveries and other	Unwinding's on renegotiated	Total Carrying Amount
		Less Than 90 days	90 days & above							
Agriculture	100,371	-	-	-	100,371	-	403	-	-	99,968
Energy	64,089	-	-	-	64,089	-	247	-	-	63,842
Trading	115,640	-	-	-	115,640	-	381	22,308	-	115,259
Transport & communication	79,292	-	-	-	79,292	-	25	-	-	79,267
Personal	6,568,015	191,636	-	88,265	6,847,916	39,448	136,713	63,266	6,926	6,671,756
Manufacturing	39,591	-	-	-	39,591	-	273	-	-	39,318
Others	561,676	-	-	-	561,676	-	2,304	-	-	559,372
Grand Total	**7,528,674**	**191,636**	**-**	**88,265**	**7,808,575**	**39,448**	**140,347**	**85,574**	**6,926**	**7,628,781**

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	-	144	-	-	27,263
Energy	79,275	-	-	-	79,275	-	43	-	-	79,232
Trading	151,553	-	-	26,247	177,800	20,751	559	-	-	156,490
Transport & communication	49,534	-	-	-	49,534	-	33	-	-	49,501
Personal	6,832,521	244,189	-	123,954	7,200,664	53,773	144,136	83,017	8,259	7,002,755
Manufacturing	33,421	-	-	-	33,421	-	316	-	-	33,105
Others	304,446	-	-	566	305,012	6	1341	-	-	303,665
Grand Total	**7,478,157**	**244,189**	**-**	**150,767**	**7,873,113**	**74,530**	**146,572**	**83,017**	**8,259**	**7,652,011**

11. Market Risk

11.1 Market Risk Weighted Assets

Capital is allocated in respect of market risk under the frameworks set out in the Standards and Guidance issued by the Central Bank of UAE in December 2022. 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.

Market Risk Weighted Assets under standardised approach

	AED "000"
Market Risk Weighted Assets	**12/31/2022**
General Interest rate risk (General and Specific)	-
Equity risk (General and Specific)	-
Foreign exchange risk	102,868
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	-
Securitisation	-
Total	**102,868**

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)

RWA has increased in Q4 2022 compared to Q2 2022 owing to increase in MTM of the Profit Rate Swaps (PRS).

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	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	36,786	11,160	-	1.4	67,124	15,385
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						15,385

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)

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

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Risk weight** / Regulatory portfolio*	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	-	-	60,590	6,535	-	-	-	-	67,124
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	**60,590**	**6,535**	-	-	-	-	**67,124**

12.6 Credit valuation Adjustment (CVA) capital Charge (CCR2)

CVA Capital charge was implemented from Q2 2022 onwards. This has been calculated as per CBUAE standardised approach for Credit Valuation Adjustment (CVA) Capital. CVA Capital Charge has increased in Q4 2022 compared to Q2 2022 which is due to increase in MTM of the Profit Rate Swaps (PRS) from Q4 2022 to Q2 2022.

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	EAD post-CRM	RWA
All portfolios subject to the Standardised CVA capital charge	67,124	30,746
All portfolios subject to the Simple alternative CVA capital charge	-	-
Total subject to the CVA capital charge	**67,124**	**30,746**

12.7 Prudent Valuation Adjustment (PVA)

AED'000s

	Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
Closeout uncertainty, of which:	-	-	-	-	-	-	-	-
Mid-market value	-	-	-	-	-	-	-	-
Closeout cost	-	-	-	-	-	-	-	-
Concentration	-	-	-	-	-	-	-	-
Early termination	-	-	-	-	-	-	-	-
Model risk	-	-	-	-	-	-	-	-
Operational risk	-	-	-	-	-	-	-	-
Investing and funding costs	-	-	-	-	-	-	-	-
Unearned credit spreads	-	-	-	-	-	-	-	-
Future administrative costs	-	-	-	-	-	-	-	-
Other	-	25,330	-	-	-	-	-	25,330
Total adjustment	-	25,330	-	-	-	-	-	25,330

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

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

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

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

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

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

Roles and Responsibilities

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

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

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

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

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

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

Determination of appropriate stress scenarios;

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

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

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

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

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

Economic Value of Equity (EVE)

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

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

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

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

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

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

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

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

Earnings at Risk (EaR)

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

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

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

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

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

Following points are factored in PRRBB measurements:

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

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

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

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

∆NII for 100 bps parallel up and down has also decreased YoY. Primary reason for reduction in NII is due to increase in short term funding from Group to fund the reduction in deposits YoY.

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

December 31, 2022	Years
Wtd Avg Maturity (Years)	3.56
Longest Maturity (Years)	4.5

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

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December 31, 2022	ΔEVE	ΔNII
Parallel up	123,960	892
Parallel down	(219,057)	(20,077)
Steepener	150,190	
Flattener	(143,005)	
Short rate up	(52,396)	
Short rate down	54,988	
Maximum	150,190	
Tier 1 capital	**1,441,043**	

14. Operational risk

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

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

The Board/ Board Committee assumes an overall responsibility for operational risk management. This includes defining risk appetite for operational risk, approval of the Operational Risk Management Framework, oversight of senior management to ensure that strategies, policies and processes are implemented effectively at all levels and review.

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

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

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

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

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

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

✓ Ensure consistent approach to managing operational risk at AHB

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

Three lines of defence

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

The three lines of defence are summarised below:

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

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

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

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

c) Third Line of Defence

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

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

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

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

Operational Risk Treatment

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

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

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

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

g) Accept the risk

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

Fraud risk

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

Business continuity management

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

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

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

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

Risk Measurement

For operational risk measurement and determination of the amount that the Bank needs to hold to absorb potential operational losses, AHB follows the standardised approach under Basel II. The capital charge including buffer requirements for the year ended 31 December 2022 was AED 85,630 thousand.

15. Remuneration

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

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Remuneration Amount		Senior Management
Fixed Remuneration	Number of employees	14
	Total fixed remuneration	17,340
	Of which: cash-based	17,340
	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	8
	Total Variable remuneration	2,179
	Of which: cash-based	1,701
	Of which: deferred	1,224
	Of which: shares or other share-linked instruments	478
	Of which: deferred	-
	Of which: other forms	-
	Of which: deferred	-
Total Remuneration		19,519

15.2. Special payments (REM2)

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Special Payments	Guaranteed Bonuses		Sign on Awards		Severence Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	-	-	1	500	-	-

15.3. Deferred remuneration (REM 3)

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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	800	800	-	-	622
Shares	335	335	-	-	176
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	1135	1135	-	-	798