



Al Ahli Bank of Kuwait (UAE Branches)

Basel III - Pillar III Disclosures

31-Dec-21

Pillar III disclosures

Al Ahli Bank of Kuwait KSCP, UAE (ABK UAE, the Bank, the Branches) Basel Pillar III disclosures have been prepared in accordance with the guidelines prescribed by the Central Bank of the UAE (CBUAE) wherein the UAE banks are required to follow Standardised approaches for Pillar I minimum capital requirement i.e. Capital adequacy ratio to be at 13% or above, conduct Pillar II Supervisory Review and Evaluation Process (SREP) to assess internal Capital adequacy and Pillar III requirements to complement the other two pillars to focus on enhanced transparency of information disclosure, covering risk and capital management.

ABK UAE has adopted these guidelines in its capital adequacy assessment and management of all material risks covered under Pillar I and Pillar II:

- The Bank maintains a capital adequacy ratio at a minimum of 13 per cent.
- The Bank adopts the Standardised Approach for implementing Basel III
- The Bank conducts an Internal Capital assessment for all material risks (Pillar II risks) under the Internal Capital Adequacy Assessment Process (ICAAP). These risks include credit concentration risk, Credit Risk Mitigation CRM risks, operational risk, legal risk, interest rate risk, liquidity risk, strategic risk, reputation risk etc.
- The Bank conducts stress testing of its one year forward business projections under different scenarios and assess the impact on capital adequacy and profitability.
- The Bank provides timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enable users to assess its activities and risk profile. The following public disclosures are made in line with the requirements of the Central Bank of UAE.

These disclosures provide qualitative and quantitative information on risk management objectives and practices, capital management and capital adequacy to enable users to assess the Bank's activities and risk profile. The following public disclosures are made in line with the requirements of the Central Bank of UAE (standardized approach) and include:

- Risk weighted assets of the ABK UAE - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications and ratings profile basis, gross credit exposure, credit risk mitigation and impaired loans by economic activity, geographical region and maturity

The Group Structure

Al Ahli Bank of Kuwait KSCP (the Group) structure consists of parent bank in Kuwait, a wholly owned subsidiary in Kuwait (Ahli Capital Investment Company), a subsidiary bank in Egypt (Al Ahli Bank of Kuwait – Egypt) and operates in UAE through its branches in Dubai, Abu Dhabi and DIFC.

The Group is engaged in commercial banking activities, retail banking, international banking, treasury services , investment activities and advisory services.

The Basel III Pillar III Disclosure herein pertains to the activities of ABK UAE and all numbers are stated in AED thousands unless stated otherwise.

Capital Structure

The Central Bank of the UAE sets and monitors capital requirements for the branches of foreign banks.

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

ABK UAE, calculates its Capital Adequacy Ratio in line with the guidelines issued by the Central Bank of the UAE. The minimum capital adequacy ratio prescribed by the CBUAE was set to be maintained at 13.0% , at all times of Risk Weighted Assets (RWA), calculated as per the guidelines. Being branches of the Group the capital support remains at all times from the Parent entity.

ABK UAE's regulatory capital comprises of two tiers:

- Tier 1 Capital, which primarily include common Equity Tier 1 CET1 capital comprising of share capital, statutory reserve, other reserves and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 Capital, which includes general provision of RWA under standardized approach (subject to maximum of 1.25 per cent of total credit risk weighted assets).

Capital Management

ABK UAE follows the Group capital management philosophy aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum Pillar I as well as Pillar II capital requirements. The Pillar II capital requirements for ABK-UAE are also assessed similar to the Group's internal estimate of the capital required to cover all the material risks, including those which are not captured under Pillar I capital and these risks include credit concentration risk, interest rate risk in the banking book, liquidity risk, legal risk, residual operational risk, strategic risk and reputation risk.

The Group manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders), while supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The Pillar I Capital Adequacy report is prepared by the Financial Control Division at UAE, the Pillar II charges and stress testing is conducted jointly by the Risk Management in UAE with the Group Risk Management in Kuwait. The ICAAP assessment has a strong governance process in place with Financial Control responsible for accuracy of input data and Group Internal Audit responsible for compliance with the Group policies. The Group Risk Management has an independent ICAAP unit responsible for reviewing the Pillar 2 models, consolidating the results and ensuring relevant reconciliation and accuracy of data.

Capital Adequacy (Standardised approach)

ABK UAE's Capital Adequacy ratio as at 31 December 2021 was 22.6% and Tier 1 ratio was 21.46% (in 2020, the Capital Adequacy ratio was 22.46% and Tier 1 ratio 21.34%) against the regulatory requirement of minimum of 13% as per the Basel III guidelines.

Capital Adequacy as at 31 December 2021

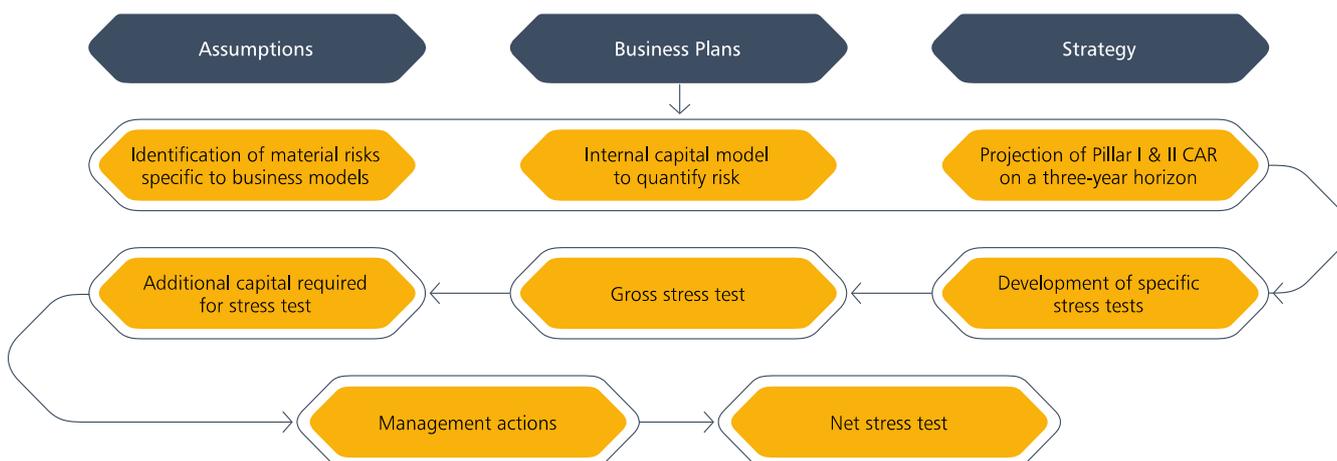
Capital Requirements	RWA	Capital Charge	Capital Ratio (%)
1 Credit Risk - Standardized Approach	2,128,119	276,656	13.00%
2 Market Risk - Standardized Approach	1,814	236	13.00%
3 Operation Risk	223,981	29,118	13.00%
Total Capital requirements	2,353,915	306,009	13.00%
Capital Ratio			
a. Total			22.59%
b. Tier 1 ratio			21.46%
c. CET1 ratio			21.46%

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

The Bank has established an ICAAP framework which entails:

- Incorporation of the business plan with a three-year horizon for capital assessment;
- Assessment and measurement of the material risks in the Bank's exposures as per Pillar I & II guidelines;
- Monitoring of risks against the risk limits established;
- Monitoring capital within the risk appetite framework
- Stress testing to assess its capital adequacy in case of adverse scenarios; and
- Periodic assessment and reporting of the ICAAP results to the senior management and Board so the appropriate remedial actions can be taken.

ICAAP framework of the Bank



Capital adequacy planning framework

ABK UAE reviews the adequacy of its regulatory capital to support its current and future activities on an ongoing basis. Strategic business objectives and future capital needs are assessed within this framework. The Bank ensures that capital ratios are maintained above the regulatory minimum. Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework.

ABK UAE plans its capital projections for a three year period basis to assess the capital availability and adequacy taking considering the strategic business plans and other initiatives. Strategic business environment and other factors are considered in the three year forward looking capital assessment process.

Sensitivity analysis and stress testing

The Group has set up a structural program for the stress testing whereby Risk Management in coordination with the business lines identifies all the material risk factors affecting the Bank's operations. Based on these risk factors, plausible stress scenarios (mild, medium and severe) are designed and exposures are stressed to assess the impact on the Group's capital adequacy and profitability.

Under the framework, that has been adopted and implemented at ABK UAE, sensitivity analysis on the volatility of collateral, fair valuation reserves, possible rating downgrades of borrowers/ guarantors, income etc., and the impact on profit are carried out to assess capital solvency. The stress test results are reported to the Board of Directors for appropriate capital management action.

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

The Stress Testing Program is conducted to assess the impact on the capital adequacy requirements, over a period of one year. This process is performed at ABK - UAE on an annual basis and reported to the Board of the Group.

This program covers the following risk categories.

- Credit Risk – Default on the loans provided to counterparties including financial institutions, corporate and retail borrowers.
- Concentration Risk – Concentration in the form of exposures towards individuals, or particular industry/sector, collateral or concentration in countries or regions.
- Interest rate Risk – Adverse changes in interest/yield curve.
- Market Risk – Adverse changes in prices of assets and the effect of these changes on the portfolio of the Bank.
- Liquidity Risk – Reduction in credit lines, non-availability of financing facilities, bank specific & systemic liquidity shocks etc.
- Operational Risk – Risk categories as defined by Basel guidelines.
- CRM Risk – Collateral values considered as CRM are stressed taking into consideration the decline in market values of shares, real estate etc.,
- Legal Risk: Are stressed as part of the Operational risk scenario analysis.
- Strategic Risk & Reputation Risk: Capital for strategic risk and reputation risk is further stressed under the mild, medium & severe scenarios.

For the purpose of stress testing, the different risk categories are individually considered and grossed to assess the impact on a consolidated basis at ABK UAE. Different levels of stress are applied for various risk categories as quantified under the three scenarios to determine the stress losses (the three Scenarios includes 'Mild', 'Medium' and 'Severe' scenarios).

The Bank also has instituted sufficient governance processes for its capital adequacy and assessment process with independent review by control functions for compliance with policy, accuracy of data and reasonableness of output.

TABLE KM1: Key metrics

		a	b
		2021	2020
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	505,228	490,682
1a	Fully loaded ECL accounting model	505,228	490,682
2	Tier 1	505,228	490,682
2a	Fully loaded ECL accounting model Tier 1		
3	Total capital	531,829	516,569
3a	Fully loaded ECL accounting model total capital		
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	2,353,915	2,299,826
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	21.46%	21.34%
5a	Fully loaded ECL accounting model CET1 (%)		
6	Tier 1 ratio (%)	21.46%	21.34%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)		

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

7	Total capital ratio (%)	22.59%	22.46%
7a	Fully loaded ECL accounting model total capital ratio (%)		
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)		
10	Bank D-SIB additional requirements (%)		
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	12.09%	11.96%
Leverage Ratio			
13	Total leverage ratio measure	6,699,260	4,650,843
14	Leverage ratio (%) (row 2/row 13)	7.54%	10.55%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)		
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7.54%	10.55%
Liquidity Coverage Ratio			
15	Total HQLA		
16	Total net cash outflow		
17	LCR ratio (%)		
Net Stable Funding Ratio			
18	Total available stable funding		
19	Total required stable funding		
20	NSFR ratio (%)		
ELAR			
21	Total HQLA	785,412	926,990
22	Total liabilities	5,518,844	3,541,558
23	Eligible Liquid Assets Ratio (ELAR) (%)	14.23%	26.17%
ASRR			
24	Total available stable funding	2,991,665	3,294,025
25	Total Advances	2,640,052	2,442,365
26	Advances to Stable Resources Ratio (%)	88.25%	74.15%

Risk Management Framework at ABK UAE

ABK UAE has a well-defined Risk management structure with clear reporting lines and segregation of duties. ABK UAE has a full time resident Risk manager [Head-Risk Management, UAE] who reports directly to the Group's Chief Risk Officer(Group CRO) who in turn reports directly to the Board Risk Committee.

Head-Risk Management, UAE manages various risk management activities in co-ordination with the operating divisions in UAE (Credit, Financial, Operational, Treasury, HR, Trade Finance and Retail).

Head-Risk Management is responsible

- for assessing & managing the risks,
- monitoring requisite capital levels,
- providing guidance in managing Asset & Liabilities of UAE.

ABK UAE has an Asset Liability Committee (ALCO) to manage the risks arising from the quality of earnings, asset/liability composition, liquidity risk, interest rate risk, currency risk, liability concentration, changes in market rates, volatility and concentration of revenues. This committee monitors and evaluates the branch performance to achieve projected profits, whilst ensuring liquidity risk and interest rate risk arising from structure and composition of the balance sheet are managed optimally.

For a comprehensive discussion of Risk Management at Al Ahli Bank of Kuwait including its consolidated subsidiaries & overseas branches, please refer to Pillar III disclosure of the Group's Annual Report for the year ended 31st December'2021.

The Group has a well laid out governance structure with Board level and Management level committees.

The Group's CRO oversees the branches in UAE regularly providing support and guidance for effective risk management.

- Credit Risk:** Head-Risk Management, UAE, performs pre-fact reviews of all credit requests (new, renewal, ad-hoc enhancement) and provides recommendation to the credit committees. Periodic review and pro-active measures on the credit portfolio are carried out in UAE. All credits of branches in UAE are approved based on the delegation of authority matrix approved by the Board. The delegation is given to various committees including Management *Credit Committee (Group)*, the *Board Credit and Investment Committee (Group)* and also delegation at UAE level.
- Market Risk:** Treasury for UAE branches is centralized at the Dubai branch, which monitors and reports (on a daily basis) key risk parameters to Head-Risk Management and also to Head Office Risk Management. ABK UAE has an Asset Liability Committee (ALCO) which monitors the market and liquidity risk besides net interest income, cost of funds and takes appropriate steps to optimize the balance sheet management. ALCO also monitors and manages the interest rate and currency risk of the UAE operations.
- Operational Risk:** The frequency and severity analysis is conducted for all open operational risk issues and capital is allocated. Periodic review of all issues is taken up for resolution.
- Pillar II Risks & Stress Testing:** For computing the Pillar II risks capital charge and stress losses, ABK UAE has adopted the Group bank-wide Pillar II risks & stress testing methodology. The same is uniformly applied while conducting the ICAAP process.

Governance

- Corporate Governance:** ABK UAE is governed by the Group's corporate governance policy and uniformly applied in ABK UAE.
- Audit:** ABK UAE has a resident Internal Audit team supported by Group Audit team at H.O. with regular visits based on the audit plan. ABK UAE audit reports are discussed at the *Board Audit Committee (Group)* based on the committee charter.

TABLE OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		2021	2020	2021
1	Credit risk (excluding counterparty credit risk)	2,070,001	2,048,210	
2	Of which: standardised approach (SA)	2,070,001	2,048,210	217,350
3				
4				
5				
6	Counterparty credit risk (CCR)	58,118	22,789	
7	Of which: standardised approach for counterparty credit risk	58,118	22,789	6,102
8				
9				
10				
11				
12	Equity investments in funds - look-through approach			
13	Equity investments in funds - mandate-based approach			
14	Equity investments in funds - fall-back approach			
15	Settlement risk			
16	Securitisation exposures in the banking book			
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	1,814	4,845	
21	Of which: standardised approach (SA)	1,814	4,845	190
22				
23	Operational risk	223,981	223,981	23,518
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	2,353,915	2,299,826	247,161

TABLE LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	3,853,826	3,851,283		2,543	
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	5,578,231				
3	Total net amount under regulatory scope of consolidation					
4	Off-balance sheet amounts	2,835,744	2,835,744			
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	Exposure amounts considered for regulatory purposes					

Main sources of differences between regulatory exposure amounts and carrying values in financial statements

IFRS stage 1 and stage 2 (general provision) are netted off from Loans and advances and Due from banks in the Financial Statements but the General provision as per CB UAE 28/2010 are not deducted for the purposes of Basel reporting and these amounts are reported under Other Liabilities.

There are no differences between carrying values and amounts considered for regulatory purposes shown in LI2.

TABLE CC1: Composition of regulatory capital

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	390,000	
2	Retained earnings	76,335	
3	Accumulated other comprehensive income (and other reserves)	38,893	
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>		
5	Common share capital issued by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory deductions	505,228	
Common Equity Tier 1 capital regulatory adjustments			
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles including mortgage servicing rights (net of related tax liability)		
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Securitisation gain on sale		
13	Gains and losses due to changes in own credit risk on fair valued liabilities		
14	Defined benefit pension fund net assets		
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
16	Reciprocal cross-holdings in CET1, AT1, Tier 2		
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

20	Amount exceeding 15% threshold		
21	Of which: significant investments in the common stock of financials		
22	Of which: deferred tax assets arising from temporary differences		
23	CBUAE specific regulatory adjustments		
24	Total regulatory adjustments to Common Equity Tier 1	0	
25	Common Equity Tier 1 capital (CET1)	505,228	
Additional Tier 1 capital: instruments			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
27	Of which: classified as equity under applicable accounting standards		
28	Of which: classified as liabilities under applicable accounting standards		
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>		
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)		
31	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
32	Additional Tier 1 capital before regulatory adjustments		
Additional Tier 1 capital: regulatory adjustments			
33	Investments in own additional Tier 1 instruments		
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
36	CBUAE specific regulatory adjustments		
37	Total regulatory adjustments to additional Tier 1 capital		
38	Additional Tier 1 capital (AT1)	0	
39	Tier 1 capital (T1= CET1 + AT1)	505,228	
Tier 2 capital: instruments and provisions			
40	Directly issued qualifying Tier 2 instruments plus related stock surplus		
41	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>		
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
43	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
44	Provisions	26,601	1.25% of CRWA
45	Tier 2 capital before regulatory adjustments	26,601	
Tier 2 capital: regulatory adjustments			
46	Investments in own Tier 2 instruments		
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		

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48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
49	CBUAE specific regulatory adjustments		
50	Total regulatory adjustments to Tier 2 capital		
51	Tier 2 capital (T2)	26,601	
52	Total regulatory capital (TC = T1 + T2)	531,829	
53	Total risk-weighted assets	2,353,915	
Capital ratios and buffers			
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	21.46%	
55	Tier 1 (as a percentage of risk-weighted assets)	21.46%	
56	Total capital (as a percentage of risk-weighted assets)	22.59%	
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)		
58	Of which: capital conservation buffer requirement	2.50%	
59	Of which: bank-specific countercyclical buffer requirement		
60	Of which: higher loss absorbency requirement (e.g. DSIB)		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	12.09%	
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
Amounts below the thresholds for deduction (before risk weighting)			
66	Significant investments in common stock of financial entities	0	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	
Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	26,601	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
73	Current cap on CET1 instruments subject to phase-out arrangements		

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74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
75	Current cap on AT1 instruments subject to phase-out arrangements		
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)		
77	Current cap on T2 instruments subject to phase-out arrangements		
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)		

TABLE CC2: Reconciliation of regulatory capital to balance sheet

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	185,528	785,412	(a)
Financial assets designated at fair value	599,884		(a)
Due from banks	271,661	459,585	(b)
Loans and advances to customers	2,723,686	2,577,066	(b)
Property, plant and equipment	23,311	23,311	
Other assets	8,452	2,261,049	(c)
Total assets	3,812,522	6,106,423	
Liabilities			
Due to banks	356,242	360,181	(d)
Customer accounts	2,864,882	2,864,882	
Provisions and Interest in Suspense		59,387	(e)
Retirement benefit liabilities Staff benefits		16,555	(e)
Other liabilities	61,558	2,277,226	(c) & (e)
Total liabilities	3,282,682	5,578,231	
Shareholders' equity			
Paid-in share capital	390,000	390,000	

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Of which: amount eligible for CET1	390,000	390,000	
Retained earnings	76,335	61,673	(f)
Accumulated other comprehensive income	63,505	76,519	(f)
Total shareholders' equity	529,840	528,192	

Difference between carrying value reported in Financial statements and regulatory consolidation

- Under balance sheet as in published financial statements, M bills are disclosed under Financial assets designated at fair value whereas under regulatory scope of consolidation its grouped with cash and bank balances at central banks
- Bills discounted are presented under Loans and advances in the published financial statements whereas its included under due from banks under regulatory scope of consolidation. Further, the IFRS-9 general provision are netted off from the due from banks and loans and advances whereas the general provision as per CBUAE 28/2010 are reported under other liabilities
- Acceptances are reported under other assets and other liabilities in regulatory scope of consolidation whereas they are not reported in the balance sheet as in published financial statements, however are reported seperately under contingent liabilities in the notes to the financial statements
- Cashier order and CBUAE statutory reserve adjustment amounts are reported under Due to banks in regulatory consolidation whereas these amounts are reported under other liabilities in the financial statements
- Other liabilities as reported in the financial statements include non cash provisions, retirement benefits and other liabilities whereas these are seperately disclosed in the regulatory reporting. Further the provisions and interest in suspense include provisions on due from banks, Loans and advances and Interest in suspense and excess provision over and above IFRS-9 provision in line with CBUAE general provision as per 28/2010
- Current year profits reported under accumulated other comprehensive income under regulatory reporting and excess provision over and above IFRS-9 provision in line with CBUAE general provision as per 28/2010 are reported under General impairment reserve in the financial statements

TABLE CCA: Main features of regulatory capital instruments

		Quantitative / qualitative information
1	Issuer	Designated capital from Head Office
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	
3	Governing law(s) of the instrument	
	Regulatory treatment	
4	Transitional arrangement rules (i.e. grandfathering)	
5	Post-transitional arrangement rules (i.e. grandfathering)	
6	Eligible at solo/group/group and solo	
7	Instrument type (types to be specified by each jurisdiction)	
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	

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9	Nominal amount of instrument	
9a	Issue price	
9b	Redemption price	
10	Accounting classification	
11	Original date of issuance	
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date, contingent call dates and redemption amount	
16	Subsequent call dates, if applicable	
	Coupons / dividends	
17	Fixed or floating dividend/coupon	
18	Coupon rate and any related index	
19	Existence of a dividend stopper	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step-up or other incentive to redeem	
22	Non-cumulative or cumulative	
23	Convertible or non-convertible	
24	Writedown feature	
25	If writedown, writedown trigger(s)	
26	If writedown, full or partial	
27	If writedown, permanent or temporary	
28	If temporary write-own, description of writeup mechanism	
28a	Type of subordination	
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	
30	Non-compliant transitioned features	
31	If yes, specify non-compliant features	

Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates.

The Bank's projected liquidity needs are analyzed and optimum alternatives to manage the liquidity are recommended. . Liquidity management policies and a contingency liquidity plan have been established. Liquidity Stress testing is conducted to assess the impact of withdrawal of deposits, crystallization of contingent liabilities etc. under mild, medium & severe scenarios, both under bank specific and systemic scenario. The concentration in deposits is monitored on a regular basis and reviewed by ALCO.

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Branch also monitors Liquidity risk through risk appetite parameters that include –, loans to deposits; cumulative negative maturity mismatch; concentration of deposits; stress testing under severe scenario and capital consumption. These appetite parameters are used for driving liquidity risk and the exposure the Bank would be willing to take and manage risk levels within the appetite levels.

Under Pillar II, the liquidity risk is assessed for bank specific and general market scenario and capital provided to manage the risk.

TABLE LR2: Leverage ratio common disclosure

		a	b
		2021	2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	3,854,032	3,917,208
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)		
6	(Asset amounts deducted in determining Tier 1 capital)		
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	3,854,032	3,917,208
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,560	31,905
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	263,893	0
10	(Exempted CCP leg of client-cleared trade exposures)		
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	Total derivative exposures (sum of rows 8 to 12)	267,453	31,905
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions		
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	CCR exposure for SFT assets		
17	Agent transaction exposures		
18	Total securities financing transaction exposures (sum of rows 14 to 17)	0	0
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	2,954,468	1,168,942
20	(Adjustments for conversion to credit equivalent amounts)	-376,693	-467,213

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21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	Off-balance sheet items (sum of rows 19 to 21)	2,577,775	701,730
Capital and total exposures			
23	Tier 1 capital	505,228	490,682
24	Total exposures (sum of rows 7, 13, 18 and 22)	6,699,260	4,650,843
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	7.54%	10.55%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		
26	CBUAE minimum leverage ratio requirement		
27	Applicable leverage buffers		

TABLE ELAR: Eligible Liquid Assets Ratio

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	785,412	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	785,412	785,412
1.3	UAE local governments publicly traded debt securities	0	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	Total	785,412	785,412
2	Total liabilities		5,518,844
3	Eligible Liquid Assets Ratio (ELAR)		14.23%

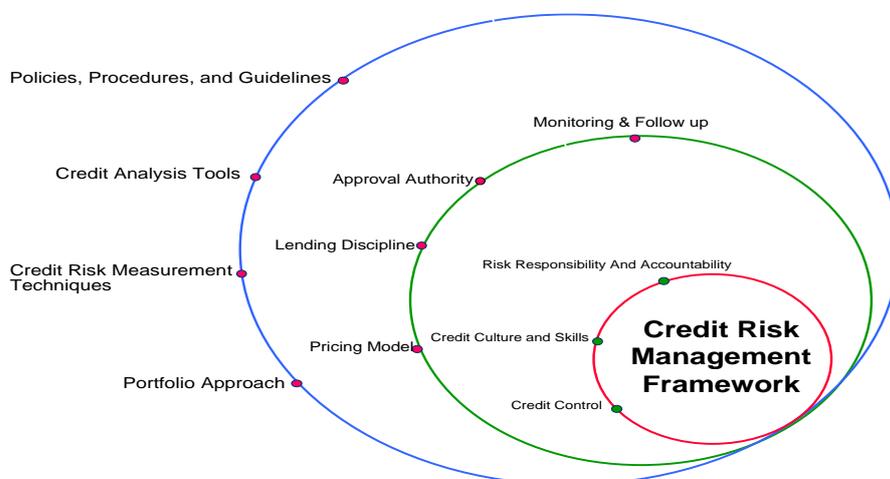
TABLE ASRR: Advances to Stables Resource Ratio

		Items	Amount
1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	2,442,828
	1.2	Lending to non-banking financial institutions	106,773
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-5,552
	1.4	Interbank Placements	96,003
	1.5	Total Advances	2,640,052
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	560,114
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	23,311
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	Total deduction	23,311
	2.2	Net Free Capital Funds	536,803
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	
	2.3.2	Interbank deposits with remaining life of more than 6 months	
	2.3.3	Refinancing of Housing Loans	
	2.3.4	Borrowing from non-Banking Financial Institutions	134,470
	2.3.5	Customer Deposits	2,320,393
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	Total other stable resources	2,454,862
	2.4	Total Stable Resources (2.2+2.3.7)	2,991,665
3		Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	88.25%

Credit Risk Management

Bank’s Credit Risk Management Policy Framework:

Risk Management ensures that credits are granted according to the approved standards and that all risks are highlighted in the credit risk review, including policy exceptions.



With international borrowers and foreign financial institutions, the Bank relies on credit rating agencies for credit grading assessments, including political risk assessment, and deals mainly with investment grade borrowers and countries. The Bank uses Standard & Poor’s, Moody’s and Fitch Ratings for claims on sovereign and bank exposures. The Bank chooses the higher of the lowest two ratings for assigning risk weight to an exposure.

The Bank follows mapping notation of Standard & Poor’s public issue ratings to assets in the Bank’s books.

S&P Rating	ABK Revised Risk Grade
AAA	1
AA+, AA, AA-	2
A+, A, A-	3
BBB+, BBB, BBB-	4+, 4, 4-
BB+, BB, BB-	5+, 5, 5-
B+, B, B-	6+, 6, 6-
CCC/CC/C	7,8,9
D	10

Credit risk arises from the potential financial loss resulting from customers failing to honour the terms of their contracts. It also includes the risk of loss in portfolio value as a result of credit quality migration from lower risk to higher risk categories. Credit risk is the most significant risk the Bank is exposed to and proactive management ensures the Bank’s long-term success.

The Bank has a comprehensive due diligence system for approving credit facilities and well-defined policies for assessment, controlling and managing credit risk at the counter-party, group, economic sector and country levels.

The Bank has a robust system of Obligors' risk ratings that assesses the default risk of corporate borrowers. Credit borrowers are graded from 1 to 10, with one being excellent and 10 being bad. The Obligor's risk rating model takes into consideration key factors, such as business and financial risk factors including country, industry, competitive position, cash-flow & leverage parameters which are duly weighted to arrive at the rating. Borrowers' ratings changes/migration is monitored annually. The Obligor rating models is also complemented with a Facility Risk Rating Model in order to derive at a composite rating of an obligor.

The Bank has a retail risk rating scorecard to assess retail credit risk, which also provides an end-to-end automated system for processing loans and credit cards. However branches at UAE at present do not undertake retail lending or credit cards issuance except a few on exceptional basis.

All corporate and sovereign credits require an independent credit risk review as per the risk management framework. Borrower exposures are assigned exposure limits and wherever group exposure exceeds a stipulated limit, approval as per credit authority matrix is required. Credits extended to the Board of Directors is approved strictly in accordance with Central Bank of Kuwait requirements and executed on an arms-length basis which are governed through Bank's Corporate Governance framework.

With regard to credit culture, Risk Management ensures that appropriate policies, guidelines, processes and procedures exist to cover all business areas where credit risk arises. It also ensures consistent application of the Bank's credit extending standards and the periodic review and updating of credit policies, guidelines and procedures.

The policy sets limit criteria for individual exposures, group exposures, economic sector and countries. Business with any counterparty does not commence until a credit line has been approved. A strict credit approval process exists with authority levels delegated to ensure the efficient conduct of business considering relevant risk elements.

Risk Management ensures that credits are granted according to the approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. Credit facility risk covers the analysis of the nature of on and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities, and reporting thereof.

Portfolio risk arises because of high positive correlation between individual credit facilities and default of one borrower can lead to several related borrowers who bear that correlation. This would include:

- Concentration of exposures in terms of geography, sector, counterparties
- Systemic risk arising from market, economy, region and other macro-economic factors both globally and locally
- Trend in portfolio quality migration
- Trend analysis in volume, sectors and concentration

ABK UAE reports to CBUAE, on a quarterly basis, on large exposures as per CBUAE circular. At the consolidated level, the Bank also monitors and reports to Central Bank of Kuwait on quarterly basis, statements of all credit concentrations and large exposures as per CBK guidelines.

In addition, the Bank has prudent internal portfolio exposure limits to manage concentration in various sectors. Portfolio exposure analysis is performed at regular intervals to manage the risk in various sectors. Whenever required, the Bank revises and/ or limits its exposures to manage risks.

Past due loans and non-performing loans are monitored and managed for follow up and recovery. The recovery is managed by Recovery Manager in Risk Management Division which monitors and provides guidance and support in structuring and recovery.

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The Bank manages the provisioning process on its past dues and NPLs through appropriate committees (as defined in the risk policy manual) to ensure provision against loan assets are taken appropriately in line with the specifics of the case, IFRS-9 & CBUAE guidelines & accounting practices.

Under Pillar II risk concentration risk is also assessed to provide capital and manage the concentration risk prudently. CRM risk is also assessed based on the quality of collateral, the liquidity, the volatility and the effectiveness of documentation etc.

TABLE CR1: Credit quality of assets

		a	b	c	d	e	f
		Gross carrying values of		Allowances/Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	47,486	2,717,396	41,088	13,813	27,275	2,723,794
2	Debt securities						-
3	Off-balance sheet exposures	13,681	2,822,063	16,435	13,544	2,891	2,819,309
4	Total						

TABLE CR2: Changes in stock of defaulted loans and debt securities

		a
1	Defaulted loans and debt securities at the end of the previous reporting period	56,887
2	Loans and debt securities that have defaulted since the last reporting period	47,486
3	Returned to non-default status	
4	Amounts written off	51,914
5	Other changes	4,973
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	47,486

Additional disclosures related to the credit quality of assets

Past due Credit exposures

ABK UAE defines past due exposure in line with Central Bank of UAE guidelines. Loans are considered past due if any part of the contractual interest and/or principal payment is not met on time.

ABK UAE provides specific and general provisions based on Central Bank of UAE guidelines, as set out below:

Specific provision

The required minimum specific provision is computed based on the Central Bank of UAE guidelines specified in the table below:

Classification	Criteria	Provision
----------------	----------	-----------

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

Sub -standard loans	Payment of principal is in arrears beyond 90 days or some loss is possible due to adverse factors.	Specific Provision Minimum 25% of the net exposure amount
Doubtful loans	Full recovery seems doubtful based on the available information, leading to a loss or part of these loans.	Specific Provision Minimum 50% of the net exposure amount
Loss loans	Possibility of no recovery at all after the bank has exhausted all available courses of action	Specific Provision Minimum 100% of the net exposure amount

Also, appropriate haircuts (as per the CBUAE regulations) are applied on various types of collateral including property, shares, bonds and others.

General Provision

The general provision is applied as per the Central Bank of UAE guidelines which states that 1.50% of the Credit Risk Weighted Assets should be considered as general provision, where no specific provision has been made. Also, Total Risk Weighted Assets is calculated using the Standardized Approach.

ECL provision

Significant increase in credit risk

The Branches continuously monitor all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Branches assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating in line with the IFRS 9 policy of the Branches.

The Branches also consider that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
 - Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
 - Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
 - Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
 - Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.
 - In the case of retail portfolio, qualitative indicators such as fraudulent customers, and death of customer.
- The Branches consider a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

Event of default

The Branches consider a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branches for consideration for moving the facility to stage 2/stage 1.

The Branches consider investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Branches consider externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted

Internal rating and PD estimation process

In managing its portfolio, the Branches utilise ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branches use S&P Risk Rating System (CRE) as its internal credit-rating engine. The CRE tool provides the ability to analyze a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Branches also use external ratings by recognised rating agencies for externally rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. PD estimation process requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branches' estimate of the future asset quality. Then through the cycle, (TTC) PDs are generated from rating tool based on the internal/external credit ratings. The Branches convert the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

Incorporation of forward-looking information

The Branches incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio relevant to United Arab Emirates. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations.

Renegotiated loans

In the event of a default, the Branches may seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. If renegotiated terms are substantial, the loan is derecognised and recognised as a new facility with amended terms and conditions. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continually

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reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and its classification between stages.

GROSS CREDIT EXPOSURE BY CURRENCY TYPE AS ON 31 DECEMBER 2021

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	1,128,045		1,128,045	45,835	607,645	2,313,137	2,966,617	4,094,662
AED	1,636,837	-	1,636,837	72,459	802,847	522,607	1,397,913	3,034,750

GROSS CREDIT EXPOSURE BY GEOGRAPHY AS ON 31 DECEMBER 2021

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
United Arab Emirates	2,014,622		2,014,622	108,851	920,492	359,597	1,388,940	3,403,562
GCC excluding UAE	622,793		622,793	9,443	490,000	121,911	621,354	1,244,147
Arab League (excluding GCC)								-
Asia	110,358		110,358			2,203,500	2,203,500	2,313,858
Africa	4,191		4,191					4,191
North America								-
South America								-
Caribbean								-
Europe	56		56			150,736	150,736	150,792
Australia								-
Others	12,862		12,862					12,862
Total	2,764,882	-	2,764,882	118,294	1,410,492	2,835,744	4,364,530	7,129,412

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2021

INDUSTRY SEGMENT	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Agriculture, Fishing and related industries								
Crude Oil, Gas, Mining and Quarrying								
Manufacturing	52,768		52,768	6,432		14,174	20,606	73,374
Electricity and water	58,429		58,429				-	58,429
Construction and Real Estate	393,457		393,457	30,770		296,041	326,811	720,268
Trade	552,654		552,654	4,487	645	2,358,145	2,363,277	2,915,931
Transport, Storage and Communication	33,025		33,025				-	33,025
Financial Institutions	539,207		539,207	69,753	1,409,847	121,579	1,601,179	2,140,386
Services	210,935		210,935	4,852		45,787	50,639	261,574
Government	512,250		512,250			18	18	512,268
Retail / Consumer Banking	412,157		412,157	2,000			2,000	414,157
All Others								
Total	2,764,882	-	2,764,882	118,294	1,410,492	2,835,744	4,364,530	7,129,412

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2021

RESIDUAL CONTRACTUAL MATURITY	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded
Less than 3 months	823,315		823,315	67,427	1,349,901	1,069,808	2,487,136
3 months to one year	609,537		609,537	50,867	60,591	1,755,178	1,866,636
One to five years	1,231,155		1,231,155			10,023	10,023
Over five years	100,875		100,875			735	735
Grand Total	2,764,882		2,764,882	118,294	1,410,492	2,835,744	4,364,530

IMPAIRED LOANS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2021

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

INDUSTRY SEGMENT	Overdue			Provisions		Adjustments		Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write - offs	Write - backs	
Agriculture, Fishing and related industries								
Crude Oil, Gas, Mining and Quarrying								
Manufacturing								
Electricity and water								
Construction								
Trade		47,486	47,486	13,813				33,673
Transport, Storage and Communication								
Financial Institutions								
Services								
Government								
Retail / Consumer Banking								
All Others								
Total		47,486	47,486	13,813	-			33,673

IMPAIRED LOANS BY GEOGRAPHICAL DISTRIBUTION AS ON 31 DECEMBER 2021

GEOGRAPHICAL REGION	Overdue			Provisions		Adjustments		Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	Less than 90 days	90 days and above	Total	
United Arab Emirates		47,486	47,486	13,813		13,813	13,813	33,673
Total		47,486	47,486	13,813		13,813	13,813	33,673

Credit Risk Mitigation

The policies and processes for on- and off-balance sheet netting (and the extent to which ABK UAE makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

Credit risk mitigation (CRM) encompasses collateral management, credit guarantee and netting arrangements. Netting techniques are currently not employed as a CRM technique.

However, ABK UAE has in place collateral - management system (Collateral Module in Core Banking).

Real estate collateral is valued each year.

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All listed equity collaterals are valued daily, for the collateral coverage determination. To manage the concentration risk of equity collateral, the Bank has a stipulated percentage of paid-up capital of the company as the maximum that can be accepted as collateral.

To manage the quality of quoted equity collaterals the equity shares have been graded in three groups based on the liquidity and financial strength of the equity with Grade I representing high quality. The required collateral coverage increases from Grade I to Grade III.

TABLE CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

	Asset classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	1,290,191	-	1,290,191		-	0%
2	Public Sector Entities	41,782	-	41,782		41,782	100%
3	Multilateral development banks	-	-			-	
4	Banks	459,585	121,579	459,585	61,137	266,970	51%
5	Securities firms						
6	Corporates	1,358,447	2,637,953	963,390	240,005	1,141,704	95%
7	Regulatory retail portfolios	2,366		2,366		1,775	75%
8	Secured by residential property	14,201		14,201		4,970	35%
9	Secured by commercial real estate	600,534	62,530	595,889	32,808	628,696	100%
10	Equity Investment in Funds (EIF)						
11	Past-due loans	47,486	13,681	33,565		33,564	100%
12	Higher-risk categories					-	
13	Other assets	39,440		39,440		8,658	22%
14	Total	3,854,032	2,835,743	3,440,408	333,950	2,128,119	

TABLE CR5: Standardised approach - exposures by asset classes and risk weights

	a	b	c	d	e	f	g	h	i
Risk weight	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Asset classes									
1 Sovereigns and their central banks	1,290,191								1,290,191
2 Public Sector Entities						41,782			41,782
3 Multilateral development banks									-
4 Banks		161,594		248,953		110,175			520,722
5 Securities firms									-
6 Corporates						1,046,130		157,266	1,203,396
7 Regulatory retail portfolios					2,366				2,366
8 Secured by residential property			14,201						14,201
9 Secured by commercial real estate						628,696			628,696
10 Equity Investment in Funds (EIF)									-
11 Past-due loans						33,564			33,564
12 Higher-risk categories									-
13 Other assets	30,782					8,658			39,440
14 Total	1,320,973	161,594	14,201	248,953	2,366	1,869,005	-	157,266	3,774,358

FINANCIAL RISK MANAGEMENT

Market Risk

Market risk is the risk of the adverse impact on the value of assets, liabilities or revenues because of changes in market conditions or movement in market rates or prices. Market-sensitive assets and liabilities are generated through loans, investments and deposits associated with the traditional banking business, as well as customer and proprietary trading operations. The exposures are monitored through various ratios and risk metrics on daily basis and appropriate limits are approved by the Asset Liability Management Committee (ALCO).

Market risk capital is also assessed under Pillar II for any concentration in trading positions, illiquidity in the markets, positions marked to model etc. The Bank adopts a standardized approach to measuring market risk.

TABLE MR1: Market risk under the standardised approach (SA)

		a
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	1,814
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7		
8	Securitisation	
9	Total	1,814

Interest rate risk in the banking book (IRRBB)

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ABK UAE is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Head Office in line with Board approved interest rate risk policy has established acceptable levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The adherence to these limits is monitored by local and Group ALCO.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2021.

Table IRRBB1: Quantitative information on IRRBB

In reporting currency (AED)	ΔEVE		ΔNII	
Period	2021	2020	2021	2020
Parallel up	(2,004)	547	21,968	26,608
Parallel down	2,004	(547)	(21,968)	(26,608)
Steeper	1,967	364		
Flattener	(2,418)	(240)		
Short rate up	(3,018)	5		
Short rate down	3,018	(5)		
Maximum	3018	546		
Period	2021		2020	
Tier 1 capital	505,228		490,682	

Foreign Exchange Risk

Foreign exchange risk represents the Bank's exposures to fluctuations in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include: foreign currency-denominated loans, future cash flows in foreign currencies arising from foreign exchange transactions, the Bank's proprietary positions and customers' foreign exchange transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, options etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures of UAE are centrally managed by ABK-UAE's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies.

Operational Risk Management

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Managing this risk relies on identifying risks that exist within the organization; the education of the Bank employees on the operational risks they encounter in the course of their duties; and ensuring that the control framework works effectively.

The Bank identifies and assesses the operational risk in products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification considers internal factors such as the Bank's structure, the nature of its activities, the quality of its human resources, organizational changes and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Operational Risk Models

The Bank has developed Operational Risk Models (ORMs) to identify key risks in the Bank's business and support areas through a self-assessment exercise and/or other risk assessment methods. The risks highlighted in the ORMs are discussed with the respective business units and are reviewed at H.O..

The Bank has an operational risk VaR model to quantify its exposure by systematically tracking and recording the frequency and severity of individual error and loss events and other relevant information about them and measures the losses through operational risk VaR model.

Under Pillar II, residual operational risk is assessed using the VaR model, to internally assess all material operational risks.

Legal Risks are assessed as part of the operational risk VaR model, and capital at risk is assessed based on the impact and likelihood of material legal risk issues.

The Bank's internal error/loss database captures material activities and exposures. It also tracks individual internal error/loss data (actual loss, potential loss, near misses and attempted frauds), mapping these into the relevant business lines. The Bank also collects information about the date of events and recoveries, as well as descriptive information about the causes and drivers of the loss events. The loss data events collected are analysed and any deficiencies in the Bank's processes are remedied.

Control and Mitigation of Operational Risk

The Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk exposures and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

- The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.
- Policies for managing risks associated with outsourcing activities have been established. Outsourcing arrangements are based on robust contracts and service level agreements that ensure a clear allocation of responsibilities between external service providers and the Bank.
- The Bank ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.
- The Bank has an independent compliance risk unit to monitor compliance with various regulatory and internal guidelines.
- The Bank at Group level has an IT Risk Unit to ensure adequate IT processes and controls for IT systems and information security controls.
- The Bank takes insurance cover to mitigate operational risk.
- The Bank has a Disaster Recovery Plan and a Business Continuity Plan in place. The disaster recovery sites are periodically tested for processing transactions from the disaster site.
- Anti-money laundering and compliance units are in place.

REMUNERATION GOVERNANCE & PROCESS

ABK UAE is governed by the group's remuneration policy. ABK Group has a centralised performance evaluation system for determining the overall remuneration and rewards for all employees including employees in UAE branches. In addition, ABK UAE also structures remuneration packages based on the requirements of local law & regulations.

ABK Group has established policies over remuneration practices and guides its remuneration based on performance and risk. For this purpose, the Bank has set up the Board Nomination and Remuneration Committee (BNRC) to independently assess and monitor remuneration systems. This committee's mandate is to ensure appropriate policies, performance measurement, remuneration and risk tolerance, and award and disclosure systems are in place in line with Labour law and Central Bank regulations.

The remuneration policy provides the basis of determining remuneration to the Bank's associates, senior management and executive management based on their responsibilities and authority levels. This remuneration philosophy and general framework apply to all ABK employees of the Group with appropriate changes based on local legislations, market conditions and practices.

The guiding principle of the remuneration policy is pay for performance. The remuneration has fixed and variable components, which comprises both a cash and deferred component. Specific employee role and responsibility-related performance metrics are designed in the form of Key Performance Indicator Metrics (KPIs) to continuously evaluate executive and staff performance, which is evaluated based on a combination of

- a) targets and their achievement measured on a transparent basis and
- b) behavioural dimension or expected behaviours which represent robust and prudent leadership, and applied for determining rewards.

The objective of the policy is to link reward to performance, while considering the panning out of risk over a long-term horizon through a claw back on the deferred remuneration for key risk taking as well as other executives.

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2021

The BNRC regularly reviews the remuneration policy and updates as needed. The Bank has an automated system - Success Factors to internally manage the expectation and performance of staff against set objectives.

The remuneration of risk and audit employees is not linked to the Bank's financial performance. The Board Risk Committee and Board Audit Committee oversee the remuneration of risk and audit staff respectively, based on performance measures determined by the respective committees.

The KPIs are in the form of a balanced scorecard and are based on financial, risk and control parameters, as well as strategic achievements.

Table REM1: Remuneration awarded during the financial year

		a	b	
	Remuneration Amount	Senior Management	Other Material Risk-takers	
1	Fixed Remuneration	Number of employees	3	1
2		Total fixed remuneration (3 + 5 + 7)	6,072	1,309
3		Of which: cash-based		
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	Variable Remuneration	Number of employees	3	1
10		Total variable remuneration (11 + 13 + 15)	901	548
11		Of which: cash-based		
12		Of which: deferred		
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	Total Remuneration (2+10)	6,973	1,857	