



Al Ahli Bank of Kuwait (UAE Branches)

Basel III - Pillar III Disclosures

31-Dec-23

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2023

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1 General Information / ABK Group Structure

The Group structure consists of Al Ahli Bank of Kuwait K.S.C.P. (“the Bank”) and its wholly-owned subsidiary, Ahli Capital Investment Company K.S.C.C (“the Subsidiary”) and Al Ahli Bank of Kuwait - Egypt (together “the Group”) which are engaged in commercial banking activities of corporate banking, retail banking, international banking, treasury services and investment activities and advisory services. The Bank and the Subsidiary are headquartered in Kuwait. The Bank has a significant investment in Credit One Kuwait Holding Company K.S.C., which is classified as an associate and located in Kuwait.

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.

2 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

3 Capital Structure

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

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).

4 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.

5 Capital Adequacy (Standardised approach)

ABK UAE’s Capital Adequacy ratio as at 31 December 2023 was 29.53% and Tier 1 ratio was 28.36% (in 2022, the Capital Adequacy ratio was 32.95% and Tier 1 ratio 31.78%) against the regulatory requirement of minimum of 13% as per the Basel III guidelines.

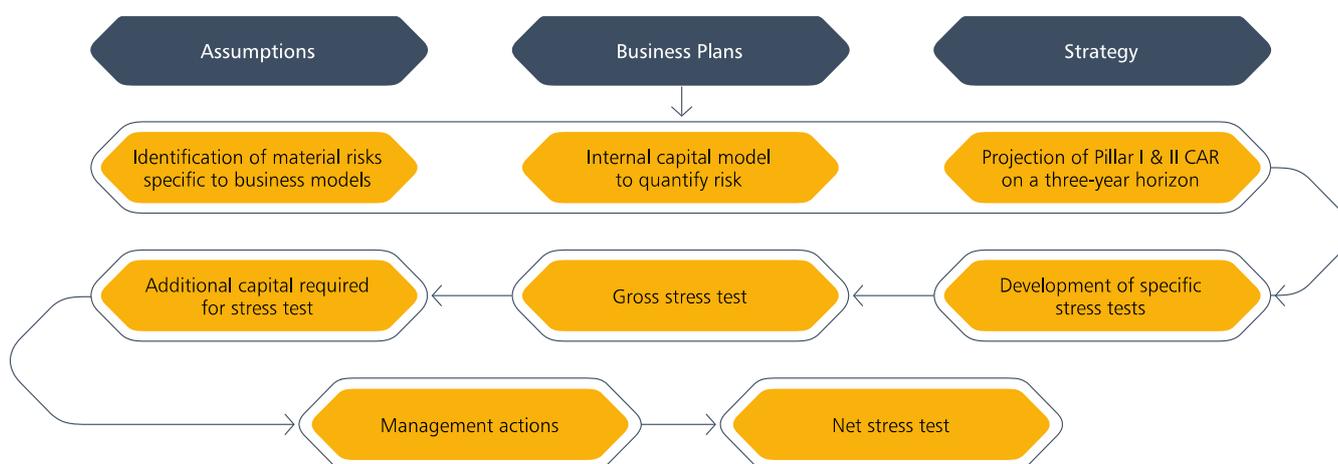
Capital Adequacy as at 31 December 2023

Capital Requirements	RWA	Capital Charge	Capital Ratio (%)
1 Credit Risk - Standardized Approach	2,497,624	324,691	13.00%
2 Market Risk - Standardized Approach	167	22	13.00%
3 Operation Risk	180,019	23,402	13.00%
Total Capital requirements	2,677,810	348,115	13.00%
Capital Ratio			
a. Total			29.53%
b. Tier 1 ratio			28.36%
c. CET1 ratio			28.36%

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.

6 ICAAP framework of the Bank



7 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.

8 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.

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.
- Model Risk : Models have become an integral part of decision-making in the banking sector for risk management, business decisions, and accounting. Inaccurate model results, e.g., based on wrong assumptions or valuations, may lead to actual or potential financial losses or an underestimation of risks.
- The bank has adopted a scorecard-based methodology to compute Model Risk Capital Charge. The Scorecard is built after incorporating General Standards of Model Management Standards.
- AML Risk: The Bank defines AML Risk as - The risk of direct or indirect loss resulting from engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have been derived from legitimate origins or constitute legitimate assets; while Terrorism Financing is defined as the use of proceeds generated from legitimate sources to finance terrorism activities. Direct losses include financial losses as well as regulatory penalties; Indirect losses

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include second order reputational and legal costs. To Carry out the Stress Test Assessment, the Bank uses external database of AML Events identified over last 20 years, which assist in preparing a reasonable loss distribution to assess the quantitative impact of a potential AML event.

- **Cyber Risk** : Cyber Risk is a failure of systems, processes and people and the Bank includes Cyber Risk as an explicit sub-component of Operational Risk. The cause of Cyber risk can be by insiders as well as outsiders.
- Cyber Risks can overlap with other risks and having an appropriate definition and (additional) separate consideration ensures that the risk is better understood, modelled and managed. The Institute of Risk Management (IRM) defines Cyber Risk as a result of some sort of failure of its information technology systems. This would be too broad a definition and include IT failures such as with TSB in the UK and it is better to differentiate this from pure “Technology risk”. The bank has not suffered any notable cyber risk losses and for the moment, does not have a ready database of events and losses. Therefore, external loss database has been considered to help inform the measurement of this risk.
- **Climate Risk** : Climate change and environmental degradation are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers - Physical Risk and Transitional Risk. The Bank has adopted internal PD /LGD based approach to quantify Climate Risk.

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.

8.1 Table KM1: Key metrics

		a	b	c	d	e
		Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	759,411	757,984	738,946	758,774	757,404
1a	Fully loaded ECL accounting model	759,411	757,984	738,946	758,774	757,404
2	Tier 1	759,411	757,984	738,946	758,774	757,404
2a	Fully loaded ECL accounting model Tier 1	759,411	757,984	738,946	758,774	757,404
3	Total capital	790,631	796,710	768,292	788,055	785,298
3a	Fully loaded ECL accounting model total capital	790,631	796,710	768,292	788,055	785,298
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	2,677,810	3,250,014	2,501,152	2,495,969	2,383,614
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	28.36%	23.32%	29.54%	30.40%	31.78%
5a	Fully loaded ECL accounting model CET1 (%)	28.36%	23.32%	29.54%	30.40%	31.78%
6	Tier 1 ratio (%)	28.36%	23.32%	29.54%	30.40%	31.78%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	28.36%	23.32%	29.54%	30.40%	31.78%
7	Total capital ratio (%)	29.53%	24.51%	30.72%	31.57%	32.95%
7a	Fully loaded ECL accounting model total capital ratio (%)	29.53%	24.51%	30.72%	31.57%	32.95%

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	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	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%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	19.03%	14.01%	20.22%	21.07%	22.45%
	Leverage Ratio					
13	Total leverage ratio measure	9,562,092	9,021,949	8,297,584	8,455,177	8,850,987
14	Leverage ratio (%) (row 2/row 13)	7.9%	8.40%	8.91%	8.97%	8.56%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	7.9%	8.40%	8.91%	8.97%	8.56%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7.94%	8.40%	8.91%	8.97%	8.56%
	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	1,040,429	1,203,576	1,197,813	1,577,982	2,245,803
22	Total liabilities	7,960,249	7,632,962	6,812,317	6,941,643	7,201,006
23	Eligible Liquid Assets Ratio (ELAR) (%)	13.07%	15.77%	17.58%	22.73%	31.19%
	ASRR					
24	Total available stable funding	4,165,561	5,010,603	4,834,673	5,119,115	4,753,741
25	Total Advances	3,354,630	3,580,067	3,047,341	2,457,840	2,760,224
26	Advances to Stable Resources Ratio (%)	80.53%	71.45%	63.03%	48.01%	58.06%

9 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 Chief Risk Officer – UAE who reports directly to the Group's Chief Risk Officer(Group CRO) who in turn reports directly to the Board Risk Committee.

ABK's Group Risk Management ensures identification and measurement of collective risks affecting the Bank and implementation of an enterprise wide strategy for monitoring and control of these risks by systematic actions in a planned manner through proper understanding and communication. The major elements of such Enterprise – wide Risk Management are:

- Risk Governance
- Risk Oversight and Control Functions
- Risk Operating Model
- Risk Management Methodology
- Portfolio Review Optimization and Pricing
- Contingency Planning and Resilience
- Risk Data Aggregation, Infrastructure and Reporting

RISK GOVERNANCE:

A. Committee Structure and Authority

Board is ultimately responsible for risk management. For optimal management of risks, Board has delegated authority to appropriate Board-level committees. Delegation of authority with a clear mandate and appropriate reports are submitted regularly to the Board by the committee(s) to which such authority has been delegated. Clear organizational structure and arrangements are in place to ensure an effective and transparent delegation of authority from the Board to Senior Executives.

B. Governing Body:

The day to day management, supervision and control of the Group is overseen by the Group Executive Officer (GCEO) who is supported by the senior executive management. The senior executive management team includes Group Risk, Group Compliance, and Group Financial Control besides Business Heads. The senior executive management team is responsible for overseeing all relevant aspects of the Bank's activities including risk evaluation and control, transaction approvals process, pricing, funding, formulation and implementation of internal policies and procedures, and regulatory reporting.

C. Group Committees

The foundation of ABK Group's Corporate Governance Framework is the commitment of its Board to set and adhere to best practices in Corporate Governance and assume accountability for ensuring ABK Group fulfils its regulatory and statutory obligations in the jurisdictions in which it operates. The principal responsibility of the ABK Group Board is to set and oversee the implementation of the Bank's strategy whilst ensuring Executive Management, who are responsible for the execution of the strategy, remain focused on long-term profitable growth and sustainable shareholder value. The Bank is subject to oversight of its activities by Management and ABK's Board Committees. To discharge its responsibilities, the Board has set up the following Board Committees whose detailed authorities are defined in their respective charters: Key authorities are as follows:

- Board Credit & Investment Committee (BC&IC)
 - (i) Credit facilities for customers whose limits exceed the approval authority of the management credit committee
 - (ii) Credit and Investment Policy to the Board for approval and
 - (iii) Non-performing credits.
- Board Corporate Governance Committee (BCGC)
 - (i) the Customer Protection Manual
 - (ii) Group AML & CFT Compliance Policies
 - (iii) Several governance related policies.

- Board Audit Committee (BAC)
 - Review, approve and/ or recommend the
 - (i) Interim and annual financial statements including adequacy of provisions and estimates
 - (ii) External Auditors' scope, independence and performance
 - (iii) External reviewers' Internal Controls report
 - (iv) Internal Audit plan and activities
 - (v) Regulatory inspection updates and
 - (vi) Quarterly Central Bank of Kuwait mandated Consumer & Installment Loan review report.

- Board Compensation Committee (BCC)
 - (i) The Committee assists the Board in all remuneration matters, promotes remuneration policies and practices across ABK to attract and retain key individuals and develops and oversees its operations and effectiveness.

- Board Nomination Committee (BNC)
 - (i) Assist the Board of Directors in all matters related to reviewing and approving nomination applications for membership of the Board of Directors of ABK,
 - (ii) Submit recommendations to the Board of Directors regarding candidacy for membership of the Board of Directors in accordance with the approved policies, regulations and instructions issued by the Central Bank of Kuwait regarding the controls of nomination for directorship, and this includes verifying the requirements necessary to ensure the independence of the independent member,
 - (iii) Review the Board structure and makes recommendations and
 - (iv) Conducts an annual evaluation of the Board Members' performance.

- Board Risk Committee (BRC)
 - Review, approve and/ or recommend
 - (i) Risk Policies, charters, models and framework
 - (ii) Risk appetite statement, framework and authority matrix
 - (iii) Limits for financial institutions and banks
 - (iv) Quarterly ICAAP submissions
 - (v) Non-Performing Credits and
 - (vi) Risk Management activities.

- Board Monitoring Committee (BMC)- UAE
 - (i) Review UAE branches business and operating performance together with the applicable regulatory and statutory obligations.
 - (ii) The Chairman of ABK Group's Board regularly follows up on the work of the Board Committees to ensure their assigned duties are performed and also to obtain follow-up reports.

The ABK Group Board is further supported by Independent Boards in its two subsidiaries, Ahli Capital Investment Co. (Ahli Capital) and Al Ahli Bank of Kuwait - Egypt (ABK-Egypt) who in turn are supported by their Board Committees.

The Management committees have been set-up which in turn report into Board committees. Some of the relevant management committees with which the Group work closely includes:

- The **Management and Investment Credit Committee** approves/recommends for approval to Board Credit and Investment committee the credit proposals submitted by the Business. It also oversees the implementation of bank-wide credit risk frameworks and review of portfolios.
- **The Provision Committee** receives reports regarding provisions made in respect of assets booked. Respective business units are responsible for implementing remedial and recovery actions instructed by the Committee. The business units must provide necessary reports to ABK Group Risk Management on periodical basis to enable incorporating such information in reports submitted to Provisions committee.
- The **Management Risk Committee** is provided with periodic risk reports by the Operational Risk Management Division on the operational risk issues. The Risk officer will also provide necessary inputs to IT Risk and IT Security units within ABK Group's Risk Management division on relevant risks
- The **Asset and Liability Committee** guides on funding requirement and management of liquidity across the group.

Chief Group Risk Officer's role and responsibilities are clearly defined to include:

- Ensure implementation of bank-wide risk management strategies, policies and procedures.
- Review the risk profile of Group portfolio and operations and ensure that these are within the risk appetite level. Ensure that the bank takes appropriate actions to reorient its portfolio, modify risk profile or adopt hedging strategy to maintain its position within risk appetite level.
- Ensure that risk management function is well/sufficiently equipped with systems, processes and methodologies and expertise for identification, measurement and monitoring of risk adequately and efficiently.
- Design and implement a robust and comprehensive Risk Management Framework that align risk appetite with the bank strategy.
- Ensure clear and timely communication of risk related information across all levels in the bank and recommend / implement appropriate mitigation actions when essential.
- The development of a comprehensive framework and suggestion of strategy, policies and procedures for managing and monitoring all risks assumed by the Bank, in accordance with the directions of the Board, and with the aim of creating "Economic Value Added" to the shareholders.
- Developing a strong and widespread of risk management culture in the entire spectrum of activities and in all hierarchical levels of the Bank. Risk management culture is defined as the sum of all models, rules, and practices regarding the behavior of individuals or groups that define the way they recognize, understand, communicate, and act in dealing with risk.

D. Holistic Approach

Bank's Risk Management goals include ensuring that ABK's credit and operational activities, asset and liability profile, its trading positions, do not expose it to undue loss. Risk management assists in ensuring that risk exposures do not become excessive, relative to ABK's capital and financial positions. ABK maintains a limit monitoring system to mitigate all over-the-counter transactions. It also hedges its foreign exchange risk using forward contracts and spot transactions and its interest rate risk using interest rate swaps and cross currency swaps for balance sheet management.

E. Risk Culture, Values and Behaviors

Risk culture refers to ABK's norms, attitudes and behaviors related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. ABK's risk culture influences the decisions of senior management and staff during their day-to-day activities and has an impact on the risks they assume.

F. Risk Appetite

Clearly articulated Risk Appetite Statement is integral to the Bank's strategic objectives. ABK has evaluated key risks through setting materiality thresholds (in context of earnings, funding, capital or other relevant factors). ABK has an established risk appetite framework and risk culture designed to ensure that risks are taken and managed within the risk appetite through capital budgeting, established risk limits and other measures. The risk appetite framework sets out qualitative and quantitative thresholds for risk levels and tolerance and provides the basis for:

- setting the risk-taking capacity;
- maintaining a risk buffer;
- setting risk limits within ABK's business strategy;
- setting risk parameters for overall business objectives; and
- establishing risk indicators for monitoring and reporting.

G. Key Risk Policies

Al Ahli Bank of Kuwait (ABK) Group's Risk framework includes its risk management policies, governance standards through committee charters, risk appetite, risk measurement, risk reporting, stress testing models and methodology, and capital adequacy assessment matrices, all of which are approved by the ABK Board.

Risk is embedded in the decision making by having appropriate segregation of functions and operational controls on all risk types to enable manage the risks assumed within acceptable levels.

RISK OVERSIGHT AND CONTROL FUNCTION:

A. Risk Management Mandate and Organization:

Risk Oversight and Control function is independent, objective and sufficiently well resourced to oversee the Risk Management Framework; and possesses sufficient authority to offer robust challenge to the business.

B. Framework & Policy Oversight and maintenance

The GCRO, along with the respective Branches' Risk Officers and risk management team, is responsible for implementing approved Risk Management Framework that enables the Head Offices and overseas locations to (a) identify, assess, mitigate, control and monitor all relevant risks facing the branches; (b) ensure that the key risks are understood by all relevant employees; (c) systematically track and report on any risk events that occur along with their financial impact, and (d) monitor to ensure sufficient capital is maintained to withstand such events.

To the extent they are relevant, such risks include but are not necessarily limited to credit risk, market risk, liquidity risk, interest rate risk in the non-trading book, operational risk, reputational risk, business continuity and group risk, and any material risks arising from non-regulated activities.

In relation to operational risk the GCRO and Branches' Risk Officers must ensure that the Risk Management Policy & Framework specifically addresses the risks associated with IT systems, information security, outsourcing and business continuity and disaster recovery.

Respective models used in risk management such as ICAAP, ECL etc. undergo model validation approvals from the Board. The results of the model must be stress tested under various scenarios such as low stress and extreme.

C. Enterprise wide view and aggregation:

The Group Risk Management Framework takes into account integration of the risk management policies, procedures and guidelines followed by the Group. The Bank follows an Enterprise wide view and aggregation risk management approach by:-

- Managing the various risks identified in section below – such as - credit risk, market risk including liquidity risk, operational risk, internal controls risk;
- Inculcating a Risk culture by identifying risks involved in various activities/products and taking steps for controlling and monitoring the risks
- Preparation of Risk Register, which helps in assessing the areas of weakness and initiate remedial action.
- Supervising the integrated risk management framework
- Reporting on Risks to respective relevant units in Head Office (HO) / Executive Committees

D. Key Risks for the Group

i. Credit Risk :

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.

The Bank has appropriate policies, guidelines, processes and procedures to cover all business areas where credit risk arises. It also ensures the consistent application of the Bank's credit extending standards and the periodic review and updating of credit policies, guidelines and procedures. Policies and procedures related to credit risk are approved by Board of Directors.

Credit Risk Governance Framework

The Risk management function of the Head office and overseas locations is overseen by the Head Office and respective Country Risk Officers who will report to the GCRO . The Country Risk Officers shall cover the following:

1. Ensure all relevant information is available for risk assessment
2. Ensure Risk assessment is carried out in consultation with relevant Risk unit and Teams at ABK HO
3. Ensure the business proposals are discussed at credit committees for decision based on authority matrix.
4. Ensure that decisions at relevant management and board committees is communicated to business and other relevant units

Credit Policies and Procedures at Group / Branches' level

ABK has clearly defined and documented policies and procedures that enable firm-wide risks to be managed in a proactive manner with emphasis on achieving:

- Objective and consistent risk identification and measurement approaches;
- Comprehensive and rigorous risk assessment and reporting systems;
- Sound valuation and stress-testing practices; and
- Effective risk monitoring measures and controls

The ABK overseas locations and Head Office will be guided by relevant Credit Policies and authority matrix of the location. Specific procedures will be defined for the operations of the overseas locations.

ii. Market Risk

Market risk is defined as the risk of losses in on and off balance sheet positions arising from adverse movement in market prices of assets or currencies or interest rate movements

Sources of Market Risk

The sources of market risk shall be limited in the branches to the open position in Fx book exposing the branches to Fx risk. The Group's treasury shall ensure that the branches' currency open position is minimized at all times. Since the branches will not be booking any investments it will not be exposed to any investment risk.

Market risk shall also arise from Interest rate risk in banking book.

Governance of Market Risk

The Bank will be guided by Market Risk Management framework at ABK Group. The framework lays down the market risk management policies, standards, processes and procedures. These will be suitably extended to the Branches for effective management. All exposures will be independently monitored by the Risk Management Division at Head office and appropriate limits as approved by the Asset Liability Committee of the Bank shall be adhered to. The exposures of the Branches will be consolidated with Group exposures for management of market risk especially currency risk and interest rate risk.

iii. Operational Risk

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; educating the employees on the operational risks they encounter in the course of their duties; and ensuring that the control framework works effectively.

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

Risk identification is vital to the development of viable operational risk monitoring and control systems. Risk identification considers internal factors such as ABK'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.

Governance of Operational Risk

For effective management of Operational Risk, the Bank has developed a comprehensive framework, which details the governance structure and the process of identifying, measuring and monitoring of Operational risk. The framework is supported by policies and processes that help manage operational risk within approved tolerances, on behalf of its stakeholders. The Operational Risk Management function reports directly to the GCRO, lays down the operational risk management policies, standards, processes, procedures; and operational risk management framework for the Bank. These will be suitably extended to the Branches for effective management of Operational risk.

Key Elements of Group Operational Risk Management Policy

Control and mitigation of operational risk

ABK 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. These include:

- Ensuring that there is appropriate segregation of duties, and that personnel are not assigned responsibilities that may create a conflict of interest, or enable them to conceal losses, errors or inappropriate actions;
- Implementing policies for managing risks associated with outsourcing activities. 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 taking into consideration compliance and regulatory guidelines;
- Ensuring IT risk and IT security controls provide adequate IT processes for mitigating risks in IT systems and information security;
- Reviewing insurance cover to mitigate operational risk; and
- Ensure implementation of disaster recovery plan and a business continuity plan. The disaster recovery plans are regularly tested for processing transactions from the disaster recovery site.
- Ensure all operational risk incidents are logged and reported via operational risk incident report reporting losses (if any) and resolution of the incident to ensure losses will not occur again of the same nature.
- Outstanding operational risks will be maintained in a management report highlighting the high medium and low risks to management (ORMs), wherein the high risks will have a capital charge.
- Ensure a self-risk assessment report method is formally established

Policies and Procedures

As stated above, the Branches will follow the Operational Risk Management Policies of the group.

iv. Liquidity Risk

Liquidity Risk is defined as the inability of the Bank to fund its assets and meet obligations as they come due, without incurring unacceptable losses. The types of Liquidity Risks the bank is exposed to are:

- Mismatch or structural Liquidity Risk
- Contingent Liquidity Risk
- Market Liquidity Risk

The Banks 's liquidity risk will be managed on a Group basis. The Branches will follow Group's liquidity risk and liquidity contingency plan as applicable to manage liquidity risk.

Governance of Liquidity Risk

ABK has established a framework of policies and guidelines to ensure sound and prudent management of liquidity risk. Liquidity management policies and a contingency liquidity plan have been established by the Bank.

The Bank has an effective system in place to maintain an appropriate balance between spreads, profitability and long-term viability. Some of the key elements of this framework include:

1. Liquidity Risk Measurement and monitoring through Liquidity Gap analysis, Liquidity Ratios, measuring Liquidity at Risk.
2. Placing appropriate internal risk appetite limits on maturity mismatch gaps and prudential ratios such as Liquidity coverage ratio, Net Stable Funding Ratio and Loan to Deposits Ratio
3. Measurement and monitoring of funding concentrations
4. Capital assessment and stress testing for Liquidity risk.

v. Strategic Risk

Strategic Risk is the risk associated with the future business plans and strategies of the entire Bank. This risk category includes plans for entering new business lines, expanding existing services through mergers and acquisitions, and enhancing infrastructure (e.g., information technology and networking). Strategic plans that include significant market expansion or the addition of new products may expose the Branches to increased risk.

It can be defined as “the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment”.

Overseas locations of ABK will be guided by the Head Office/ Group strategic risk framework for managing strategic risk.

Strategic Risk Management shall involve three components:

- Formulation of Strategy for determining the future direction of the Bank.
- Implementation of Strategy formulated.
- Strategy Control or Evaluation i.e. Success achieved with a strategy must be evaluated

The Bank shall strive to mitigate Strategic Risk by proper assessment and review of its business strategy and by effective control and evaluation.

vi. Reputational Risk

The Bank defines reputation risk as the “gap” between stakeholder’s expectation and perception on key reputational parameters and current performance/ status of those reputational risk events / issues. Major stakeholders are identified as:

- **Shareholders**
- **Customers**
- **Regulators**
- **Financial industry**
- **Community**
- **Employees**

ABK’s reputation risk management framework and focuses on:

- Identifying the various types of reputation risks;
- Establishing the roles and responsibilities of different entities in the reputation risk assessment and management process; and
- Developing a formal and structured approach through implementation of Early Warning Signals / Indicators (see Exhibit) for monitoring and managing reputation risk of the Bank.

Exhibit I

Guidelines for various stakeholders’ expectation and perception affecting Bank’s Reputation

Shareholders	<ul style="list-style-type: none"> • Strong Corporate Governance • Steady growth • Meets return expectation • Risks well managed • Transparency and solvency / Share Price
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Customers	<ul style="list-style-type: none"> • Good services / facilities / infrastructure and reliable products • Unfair treatment of customers – customers may have been overcharged or inaccurately billed, or have suffered losses due to Bank’s errors or omissions (e.g. customer instructions not properly executed) without obtaining fair compensation; • Mis-handling of customer information – customers’ confidential information may have been inadvertently destroyed, lost or exposed to third parties, thereby breaching Bank’s confidentiality obligations and privacy rules relating to personal data • Unreliable / inefficient banking services – frequent system outages, significant operational errors and oversights, and inefficient processing systems which weakens customer confidence in the Bank’s capacity to deliver quality services. Lack of new / innovative products and services to suit changing customer needs may also arouse discontent; • Mis-handling of customer complaints – customers expect Bank to be responsive to their concerns. A poor complaint-handling system runs the risk of damaging customer goodwill and overlooking early indicators of potential threats to reputation
Regulators	<ul style="list-style-type: none"> • Compliance with laws, regulations, contracts, policies • Breaking the law or contravening any relevant regulatory standards and guidelines (either deliberately or inadvertently) can lead to serious consequences, including regulatory investigations, costly and high profile litigation, public censure, civil and criminal sanctions, harmful publicity, claims for damages, or even the loss of authorization • Adequately appraise legal and regulatory risks, and put in place robust systems to ensure compliance, including enhancing staff awareness of compliance issues and identifying areas of potential threat and vulnerability
Financial industry	<ul style="list-style-type: none"> • To safeguard and bolster reputation, Bank should build up stakeholders’ trust in their financial reporting systems (e.g. that their financial exposures are fairly represented), and be able to manage stakeholders’ expectations by providing relevant factual information to facilitate their assessment of Bank’s financial performance (e.g. explaining any problems promptly, with timely actions to rectify them) and future prospects (e.g. outlining future business plans and sources of growth) • Media openness and message consistency • Long term credit rating, adequacy in capital management and liquidity
Community	<ul style="list-style-type: none"> • Good Corporate Social Responsibility (CSR) • Positive media publicity
Employees	<ul style="list-style-type: none"> • High techno-functional skill set and motivation level • Equal opportunities and honest communication • Fair treatment and proper engagement

Roles and Responsibilities:

- The Board plays a crucial role in setting the right tone from the top so that appropriate emphasis can be given to managing reputation risk;
- Senior management implements the Board's risk management policies and ensures that relevant control systems work as intended;
- Other levels of management play a part in – promoting staff awareness of reputation risk in their respective business, operation or function (in particular those that interact directly with major stakeholder groups); – identifying key risks that could significantly affect the Bank's reputation or business and bring them to senior management's attention; – being alert to early warning indicators of potential problems or threats to reputation; – ensuring that reputation risk is properly managed, with no major risks affecting reputation being inadvertently excluded (for dedicated risk management personnel);
- All other employees can help to uphold the Bank's reputation through their behaviour, remarks and actions which may influence stakeholders' perception of the Bank;
- Corporate communication / public relation unit (or its equivalent) can help promote effective external communications, especially in the handling of reputation events, and ensure that the reputation perspective is adequately considered in the Bank's risk management processes

vii. Anti Money Laundering Risk

To enable ABK Group to protect its services, monitor and detect suspicious activities, disrupt the support to criminals and deny them from access to use the financial system and to ensure compliance with regulatory requirements on Combating Money Laundering and Terrorism Financing, ABK Group has formulated AML & CFT Group Compliance Policy in light of the relevant provisions. Group Compliance Policy applies to the group of Al Ahli Bank of Kuwait, local and overseas locations and subsidiaries as a minimum.

ABK Group is committed to Combat Money Laundering and Terrorism Financing and asserts the implementation and communicating effective measures Bank wide aiming at preventing Money Laundering and Terrorism Financing. The Group is dedicated to comply with the local and international laws and regulations, ministerial resolutions and Central Bank of Kuwait, Central Bank of the UAE, Dubai Financial Service Authority (DFSA), Central Bank of Egypt, and FATF and CMA instructions in this respect (each according to applicable regulators). The provisions and stipulations of these instructions apply to the Chairman, board members and staff at the Bank at all levels.

viii. Compliance Risk

ABK's Board of Directors have the overall responsibility for overseeing the management of the Bank's regulatory compliance risk and approving ABK's Regulatory Compliance Policy. Board Affairs Function is responsible for implementation of the regulatory compliance policy on behalf of the Chairman of the BOD in addition to the following responsibilities:

- Ensure Group's Regulatory Compliance framework is updated in line with emerging regulatory and statutory requirements and implemented.
- Establish procedures for adequate and effective regulatory compliance risk assessment that covers all operations of ABK.
- To manage and monitor Regulatory Compliance risk of ABK
- Ensure adherence to deadlines for submitting reports to regulatory authorities.
- Ensure that CBK, CBUAE, DFSA and other appropriate government agencies are advised of all change in the Memorandum & Articles of Association, organization structure or other required matters.
- Coordinate with Legal Division for any changes required in the Article of Association.
- Ensure staff have a sound understanding of regulatory compliance laws, rules and standards and their practical impact on the bank's operations.

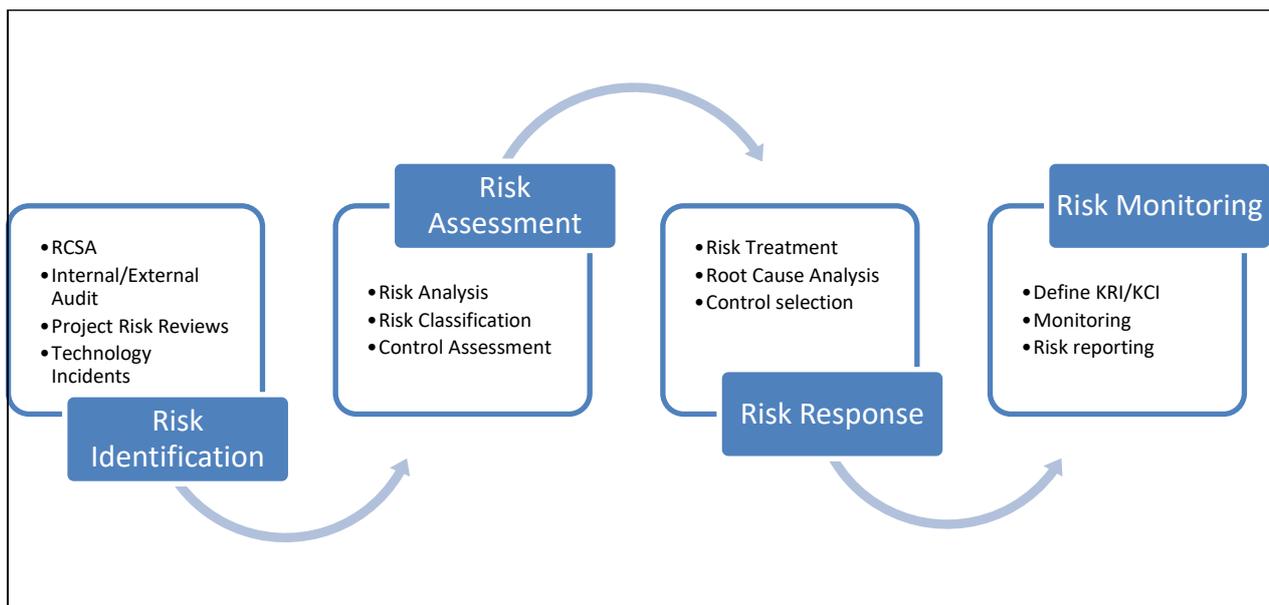
ix. Information and Technology Risk

ABK Group has an IT Risk Management Framework established which provides a structured and disciplined approach to control and governs risk exposures due to implementation and operations of information technology solutions and services. The Framework lays down the IT Risk and Information Security policies, process for Risk Identification, Risk Assessment, Risk Response and Risk Monitoring at Al Ahli Bank of Kuwait (ABK or the Bank along with its subsidiaries and overseas locations).

The bank has establish an integrated approach to identifying, measuring, monitoring and managing technology risk. Technology risk management includes but is not limited to:

- Governance and oversight controls that ensure technology, including outsourcing arrangements, are aligned with and supportive of the Bank's business objectives;
- Establishment and maintenance of appropriate information technology policies, procedures and processes to identify, assess, monitor and manage technology risks;
- Establishment of a risk appetite statement and limits as well as performance expectations to assist in controlling and managing risk;
- Implementation of an effective control environment;
- Monitoring processes that test for compliance with policy thresholds or limits; and
- Establishment and maintenance of appropriate and sound information technology infrastructure to meet the current and projected business requirements of the Bank under normal circumstances and in periods of stress and which ensures data and system integrity, security and availability.

IT Risk Management is a continuous process that involves the following key steps:



x. Information Security Risk

ABK Group considers its information and systems as critical assets. Loss, theft, or service interruption of these assets can have a detrimental effect on ABK operations, reputation, and market edge. ITD and Information Security functions are responsible for the protection of ABK Information Technology assets including both information and property.

ABK management recognizes the importance of an information security program and is committed to support it. Therefore, Information protection is every employee's responsibility. The Group has a robust Information Security program that focuses its efforts on ensuring the confidentiality, integrity, and availability of all ABK information resources, whether processed and stored on computer systems, transmitted over networks, or maintained in any form. The Information Security program defines specific accountability for information and emphasizes each employee's responsibility for its protection.

All ABK employees, contractors, suppliers, joint venture partners, service providers, or affiliates who have access to and use ABK computing systems and/or other resources are expected to protect ABK, vendor, customer, and other included entities' assets. Access to these assets must take place on a least privilege basis (strict need to know, need to have basis). Further, the Information Security Policy statements are applicable to all ABK resources at all levels of sensitivity; including temporary or permanent ABK employees, vendors, business partners, contractor personnel, and organizational units regardless of geographic location.

xi. Business Continuity Risk

Business Continuity is an integral part of ABK's current and future Operations. Due to the Scope of activities, a Crisis originating in Kuwait or any of the overseas entities may have an impact on other ABK Business Units if not appropriately handled. In this regard, the Management of the Bank has formulated the Business Continuity Policy which applies to the Group. The policy establishes the basic principles and requirements necessary to ensure response, resumption, restoration and the recovery of the Bank's operations and Business Activities during a Business disruption.

Key Objectives of the (BCM) program at the Group are:

- To establish a framework for identifying, assessing and treating the business continuity risks to which the Bank's business processes or functions may be exposed.
- To promote awareness and preparedness level for the safety of the staff recognizing that people are the most important assets of the Bank.
- To establish clarity of roles, responsibilities and accountability for the business continuity program in the Bank.
- To minimize the impact of business disruption and maintain the Bank's services at an acceptable level to the management.
- To align with the regulatory and compliance requirements.

RISK OPERATING MODEL

The risk operating model including the 3 Lines of Defense is well defined and explicit in terms of both functional and individual roles, responsibilities and accountabilities that should be observed for effective Risk Management.

Independent Evaluation of Risk Management Function by Audit

The Bank's Board of Directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate and effective system of internal controls, a measurement system for assessing the various risks of the bank's activities, a system for relating risks to the bank's capital level, and appropriate methods for monitoring compliance with laws, regulations, and supervisory and internal policies.

The Board through its Audit Committee shall ensure that the scope and frequency of the audit programme is appropriate to the risk exposures. The frequency of internal audit shall be as per the annual audit plan for the Bank approved by the Board Audit Committee.

RISK MANAGEMENT PROCESS (IDENTIFICATION, ASSESSMENT, REPORT & MONITOR)

Business Divisions and Support must create and maintain a Risk Register for Branches identifying for each business line the key risks to which the Branches are exposed, the controls in place to mitigate or reduce such risk, and an estimation of the residual risk to which the Branches are exposed assuming effective operation of controls.

As mentioned in the above, Control and mitigation of operational risk, it is the due diligence of the branches to maintain operational risk reports for management. A loss management database should also be maintained for reconciliation and reporting

The Branches' Risk Register shall be reviewed at least annually, or on any change in the business model of the Branches if more frequent.

The key controls shall be subject to testing to ensure effectiveness.

The Branches' Risk Register shall assess Strategy risk holistically for the entire branches, and also assess each business line against the following risk categories.

Type of Risk	Description
Credit risk	A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments.
Foreign Exchange Risk,	Foreign exchange risk (also known as FX risk , exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the bank .
Liquidity risk	Liquidity risk is the risk that a given security or asset cannot be traded or liquidated
Interest Rate Risk	Interest rate risk is the risk that arises from fluctuating interest rates . How much interest rate risk asset and liability has depends on how sensitive its price is to interest rate changes in the market.
Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events
Regulatory and non-compliance risk	Regulatory risk is the risk of a change in regulations and law that might affect the bank and also risk arising out of noncompliance of rules and regulations.
Legal risk	Legal risk is the risk of loss to an institution which is primarily caused by: (a) a defective transaction; or (b) a claim (including a defense to a claim or a counterclaim) being made or some other event occurring which results in a liability for the institution or other loss (for example, as a result of the termination of a contract), or;

	(c) failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution; or (d) change in law
Reputational Risk	The Bank defines reputation risk as the “gap” between stakeholder’s expectation and perception on key reputational parameters and current performance/ status of those reputational risk events / issues. Major stakeholders whose expectation / perception matters: shareholders, customers, employees, regulator, financial industry and community. All reputational risk issues to be addressed by the Primary Risk Owner(s)
AML Risk	The Bank defines AML Risk as - The risk of direct or indirect loss resulting from engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have been derived from legitimate origins or constitute legitimate assets;
Cyber Security Risk	Cyber Risk is a failure of systems, processes and people and the Bank includes Cyber Risk as an explicit sub-component of Operational Risk. The cause of Cyber risk can be by insiders as well as outsiders.
Climate Risk	Climate change and environmental degradation are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers - Physical Risk and Transitional Risk. The Bank has adopted internal PD /LGD based approach to quantify Climate Risk.
Model Risk	Models have become an integral part of decision-making in the banking sector for risk management, business decisions, and accounting.

Risk Assessment

Level of Risk

The Bank will follow guidelines issued from time to time regarding classification and assessment of levels of risk.

There are three levels of risk which are defined as below:-

High (H)

Excessive potential for damage to the financial standing or reputation of the branches. Exposure to regulatory consequences.

Medium (M)

Possible risk for damage to the financial standing or reputation of the branches, or exposure to regulatory consequences.

Low (L)

The Risk of damage to the financial standing, reputation, and exposure to regulatory consequences considered to be unlikely.

Three levels of controls are also defined which are Strong, Adequate and Weak. Based on the same, the following matrix is developed for the residual risk.

The Board or its designated committee(s) and senior management will recognize the biases and assumptions embedded in, and the constraints of, the methods or models chosen (including associated valuation and pricing methodologies) in order to better assess the results generated from risk assessment methods or models. The committee(s) will also satisfy themselves as to the adequacy and appropriateness of the key assumptions, data sources and procedures used to measure or assess the risks.

Product and services:

Bank will perform a comprehensive post implementation evaluation of new products or services (as well as existing products or services following any significant changes to their features or risk profile) to ensure no risk remains unidentified or unaddressed. The evaluation results will be taken into account for the development of any similar products or services in the future. In addition, ABK will perform regular reviews of products and services (adopting a risk-based approach as appropriate).

The GCRO will have a holistic oversight of the risks associated with new products and services and the related risk management processes. To achieve this, the risk management function will monitor and participate in the process of approving new products or services and maintain a centralized list of approved products and services. Bank must have a clear overview of the roll-out of new products or services (or significant changes to existing products or services) across different business units. Risk management function will be responsible for determining whether a new initiative should be classified or categorized as a new product/service, and have the authority to make significant changes to existing products or services. Internal audit will undertake regular reviews of the new product approval process encompassing the business units

RISK REPORTING AND SYSTEM

The Risk Reporting structure must be designed to ensure that the GCRO is aware of the management of all risks; The same is reviewed at quarterly intervals by Board Risk Management Committee. Divisions & Functions establish and maintain a management information system with adequate technological support and processing capacity (even in times of stress) to effectively capture, aggregate and report on the risks of major business activities within the organization. The risk data aggregation and risk reporting framework and any substantial change to them will be reviewed and approved by the Board (or its Risk Committee) and senior management.

9.1 Table OV1: Overview of RWA

		a	b	c	e
		RWA			Minimum capital requirements
		Dec-23	Sep-23	Jun-23	Dec-23
1	Credit risk (excluding counterparty credit risk)	2,357,082	3,074,864	2,296,449	246,108
2	Of which: standardised approach (SA)	2,357,082	3,074,864	2,296,449	246,108
3	Of which: foundation internal ratings-based (F-IRB) approach				
4	Of which: supervisory slotting approach				
5	Of which: advanced internal ratings-based (A-IRB) approach				
6	Counterparty credit risk (CCR)	138,434	22,831	51,150	14,536
7	Of which: standardised approach for counterparty credit risk	138,434	22,831	51,150	14,536
8	Of which: Internal Model Method (IMM)				
9	Of which: other CCR				
10	Credit valuation adjustment (CVA)	2,108	375	98	221
11	Equity positions under the simple risk weight approach				
12	Equity investments in funds - look-through approach				
13	Equity investments in funds - mandate-based approach				

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14	Equity investments in funds - fall-back approach				
15	Settlement risk				
16	Securitisation exposures in the banking book				
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)				
19	Of which: securitisation standardised approach (SEC-SA)				
20	Market risk	167	240	1,750	18
21	Of which: standardised approach (SA)	167	240	1,750	18
22	Of which: internal models approach (IMA)				
23	Operational risk	180,019	151,704	151,704	18,902
24	Amounts below thresholds for deduction (subject to 250% risk weight)				
25	Floor adjustment				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	2,677,810	3,250,014	2,501,152	281,170

9.2 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)	5,448,264	5,395,931		8,318
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)				
3	Total net amount under regulatory scope of consolidation				
4	Off-balance sheet amounts	3,846,691	3,846,691		
5	<i>Differences in valuations</i>				
6	<i>Differences due to different netting rules, other than those already included in row 2</i>				
7	<i>Differences due to consideration of provisions</i>		44,015		
8	<i>Differences due to prudential filters</i>				
9	Exposure amounts considered for regulatory purposes	9,294,955	9,286,637	8,318	-

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/Other Assets in the Financial Statements but the General provision as per CBUAE 28/2010 are not deducted for the purposes of Basel reporting and these amounts are reported under Other Liabilities.

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

9.3 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	690,000	Same as from CC2 template
2	Retained earnings	45,663	
3	Accumulated other comprehensive income (and other reserves)	39,195	
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	774,858	
Common Equity Tier 1 capital regulatory adjustments			
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)		CC2 (a) minus (d)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(15,447)	
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)		
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		

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24	Total regulatory adjustments to Common Equity Tier 1	(15,447)	
25	Common Equity Tier 1 capital (CET1)	759,411	
Additional Tier 1 capital: instruments			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
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)	759,411	
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	31,220	1.25% of CRWA
45	Tier 2 capital before regulatory adjustments	31,220	
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)		
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	0	
51	Tier 2 capital (T2)	31,220	
52	Total regulatory capital (TC = T1 + T2)	790,631	

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53	Total risk-weighted assets	2,677,810	
Capital ratios and buffers			
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	28.36%	
55	Tier 1 (as a percentage of risk-weighted assets)	28.36%	
56	Total capital (as a percentage of risk-weighted assets)	29.53%	
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)	0	
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.	19.03%	
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)	35,356	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	31,220	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
73	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>		
74	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>		
75	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>		
76	<i>Amount excluded from AT1 due to cap (excess after redemptions and maturities)</i>		
77	<i>Current cap on T2 instruments subject to phase-out arrangements</i>		
78	<i>Amount excluded from T2 due to cap (excess after redemptions and maturities)</i>		

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9.4

9.4 Table CC2: Reconciliation of regulatory capital to balance sheet

In AED'000	a	b	c
31-Dec-2023	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	183,914	1,040,429	(a)
Items in the course of collection from other banks			
Trading portfolio assets			
Financial assets designated at fair value	856,515		(a)
Derivative financial instruments			
Due from banks	965,594	965,653	(b)
Loans and advances to customers	3,154,681	3,358,906	(b)
Reverse repurchase agreements and other similar secured lending			
Available for sale financial investments (Includes FVOCI)			
Current and deferred tax assets	13,196		(c)
Property, plant and equipment	26,065	26,065	
Other assets	43,943	3,588,654	c & d
Investments in associates and joint ventures			
Goodwill and other intangible assets			
Of which: goodwill			
Of which: intangibles (excluding MSRs)			
Of which: MSRs			
Total assets	5,243,908	8,979,707	
Liabilities			
Due to banks	577,313	578,289	(e)
Items in the course of collection due to other banks			
Customer accounts	3,723,855	3,723,855	
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments			
Debt securities in issue			
Current and deferred tax liabilities			
Of which: DTLs related to goodwill			
Of which: DTLs related to intangible assets (excluding MSRs)			
Of which: DTLs related to MSRs			
Subordinated liabilities			

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Provisions and Interest in Suspense		219,132	(f)
Retirement benefit liabilities Staff benefits		20,554	(f)
Other liabilities	142,415	3,637,551	d & f
Total liabilities	4,443,583	8,179,381	
Shareholders' equity			
Paid-in share capital	690,000	690,000	
Of which: amount eligible for CET1	690,000	690,000	
Of which: amount eligible for AT1			
Retained earnings	44,080	29,831	(g)
Accumulated other comprehensive income	66,245	80,494	(g)
Total shareholders' equity	800,325	800,325	

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
- Current and deferred tax is disclosed separately in published financial statements whereas under regulatory scope of consolidation it is part of other assets
- 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. These are reported separately 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 separately 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
- Total 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

9.5 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)	

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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)	
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	

10 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.

Branches 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.

10.1 Table LR2: Leverage ratio common disclosure

In AED'000		a	b	e
		Dec-23	Sep-23	Dec-22
On-balance sheet exposures				
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	5,435,069	6,209,585	5,951,429
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)	5,435,069	6,209,585	5,951,429
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)	11,645	1,676	99
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	265,223	43,987	444,868
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)	276,868	45,662	444,968

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Securities financing transactions				
14	Gross SFT assets (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)	-	-	-
Other off-balance sheet exposures				
19	Off-balance sheet exposure at gross notional amount	4,377,144	3,393,990	2,690,165
20	(Adjustments for conversion to credit equivalent amounts)	(526,989)	(627,288)	(235,575)
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)	3,850,155	2,766,702	2,454,590
Capital and total exposures				
23	Tier 1 capital	759,411	757,984	757,404
24	Total exposures (sum of rows 7, 13, 18 and 22)	9,562,092	9,021,949	8,850,987
Leverage ratio				
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	7.94%	8.40%	8.56%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)			
26	CBUAE minimum leverage ratio requirement	3%	3%	3%
27	Applicable leverage buffers	4.94%	5.40%	5.56%

10.2 Table ELAR: Eligible Liquid Assets Ratio

1	High Quality Liquid Assets	Dec-23	
		Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,040,429	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,040,429	1,040,429
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	1,040,429	1,040,429
2	Total liabilities		7,960,249
3	Eligible Liquid Assets Ratio (ELAR)		13.07%

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2023

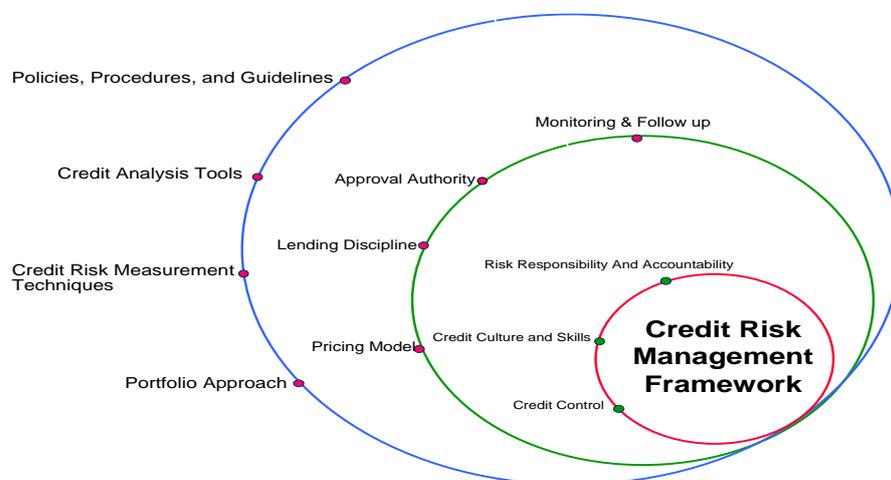
10.3 Table ASRR: Advances to Stables Resource Ratio

	Items	Dec-23
1	Computation of Advances	Amount
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	3,201,623
1.2	Lending to non-banking financial institutions	0
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	42,832
1.4	Interbank Placements	110,175
1.5	Total Advances	3,354,630
2	Calculation of Net Stable Ressources	
2.1	Total capital + general provisions	862,175
	Deduct:	
2.1.1	Goodwill and other intangible assets	0
2.1.2	Fixed Assets	26,065
2.1.3	Funds allocated to branches abroad	0
2.1.5	Unquoted Investments	0
2.1.6	Investment in subsidiaries, associates and affiliates	0
2.1.7	Total deduction	26,065
2.2	Net Free Capital Funds	836,110
2.3	Other stable resources:	
2.3.1	Funds from the head office	0
2.3.2	Interbank deposits with remaining life of more than 6 months	0
2.3.3	Refinancing of Housing Loans	0
2.3.4	Borrowing from non-Banking Financial Institutions	8,206
2.3.5	Customer Deposits	3,321,245
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
2.3.7	Total other stable resources	3,329,451
2.4	Total Stable Resources (2.2+2.3.7)	4,165,561
3	Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	80.53%

11 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 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.

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.

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 (CBK) 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.

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.

11.1 Table CR1: Credit quality of assets

(AED'000)		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	143,839	3,358,906	177,044	116,658	60,386	3,325,701
2	Debt securities	-	-	-			-
3	Off-balance sheet exposures	22,423	3,824,268	14,775	13,446	1,329	3,831,916
4	Total	166,262	7,183,174	191,819	130,104	61,715	7,157,618

11.2 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	136,127
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	
4	Amounts written off	-
5	Other changes	7,712
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	143,839

12 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
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

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

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GROSS CREDIT EXPOSURE BY CURRENCY TYPE AS ON 31 DECEMBER 2023

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	1,635,955	-	1,635,955	89,950	547,032	3,719,648	4,356,630	5,992,585
AED	1,722,951	-	1,722,951	183,650	715,934	127,043	1,026,627	2,749,578
Total	3,358,906	-	3,358,906	273,600	1,262,966	3,846,691	5,383,257	8,742,163

GROSS CREDIT EXPOSURE BY GEOGRAPHY AS ON 31 DECEMBER 2023

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
United Arab Emirates	3,007,137		3,007,137	212,392	1,262,966	2,374,096	3,849,454	6,856,591
GCC excluding UAE	291,065		291,065	61,208		370,845	432,053	723,118
Arab League (excluding GCC)			-				-	-
Asia	-		-			1,101,750	1,101,750	1,101,750
Africa			-					-
North America			-				-	-
South America			-				-	-
Caribbean			-				-	-
Europe	5,617		5,617			-	-	5,617
Australia			-				-	-
Others	55,087		55,087				-	55,087
Total	3,358,906	-	3,358,906	273,600	1,262,966	3,846,691	5,383,257	8,742,163

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2023

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	67,920		67,920	61,209		4,196	65,405	133,325
Electricity and water	58,688		58,688			8,237	8,237	66,925
Construction and Real Estate	708,127		708,127	183,650		22,466	206,116	914,243
Trade	392,784		392,784	-		3,759,747	3,759,747	4,152,531
Transport, Storage and Communication	314,183		314,183			8,821	8,821	323,004
Financial Institutions	150,621		150,621		1,262,966	3,323	1,266,289	1,416,910

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Services	770,099		770,099	28,741		22,272	51,013	821,112
Government	662,250		662,250			-	-	662,250
Retail / Consumer Banking	234,234		234,234	-			-	234,234
All Others			-			17,629	17,629	17,629
Total	3,358,906	-	3,358,906	273,600	1,262,966	3,846,691	5,383,257	8,742,163

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2023

RESIDUAL CONTRACTUAL MATURITY	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded
Less than 3 months	1,069,347		1,069,347	61,209	1,116,146	265,065	1,442,420
3 months to one year	694,368		694,368	212,391	146,820	3,576,200	3,935,411
One to five years	1,345,335		1,345,335			4,931	4,931
Over five years	249,856		249,856	-		495	495
Grand Total	3,358,906		3,358,906	273,600	1,262,966	3,846,691	5,383,257

IMPAIRED LOANS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2023

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		143,839	143,839	116,658				27,181
Trade		-	-	-				-
Transport, Storage and Communication			-					
Financial Institutions			-	-				-
Services								-
Government			-					
Retail / Consumer Banking			-					
All Others			-					
Total	-	143,839	143,839	116,658	-			27,181

IMPAIRED LOANS BY GEOGRAPHICAL DISTRIBUTION AS ON 31 DECEMBER 2023

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		138,222	138,222	116,658		116,658	116,658	21,564
Europe		5,617	5,617					5,617
Total		143,839	143,839	116,658	-			27,181

13 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.

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.

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

(AED'000) 31-Dec-2023		a	b	c	d	e	f
		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	
1	Sovereigns and their central banks	1,695,306	-	1,695,306		-	0%
2	Public Sector Entities	829,130	-	829,130		829,130	100%
3	Multilateral development banks	-	-			-	
4	Banks	965,653	3,323	965,653	1,909	265,699	27%
5	Securities firms	-	-			-	
6	Corporates	1,280,843	4,339,746	1,280,843	3,788,685	883,452	17%
7	Regulatory retail portfolios	3,015	-	3,015		3,015	100%
8	Secured by residential property	7,655	-	7,655		2,679	35%

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2023

9	Secured by commercial real estate	432,175	11,652	432,175	11,452	425,945	96%
10	Equity Investment in Funds (EIF)			-	-		
11	Past-due loans	143,839	22,423	-	8,980	2,320	26%
12	Higher-risk categories	-	-			-	
13	Other assets	90,649	-	90,649		83,276	92%
14	Total	5,448,265	4,377,144	5,304,426	3,811,026	2,495,516	

13.2 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	1,695,306								1,695,306
2	Public Sector Entities						829,130			829,130
3	Multilateral development banks									-
4	Banks		726,940		240,622		-			967,562
5	Securities firms									-
6	Corporates	4,175,135					821,454		72,939	5,069,528
7	Regulatory retail portfolios					-	3,015			3,015
8	Secured by residential property			7,655						7,655
9	Secured by commercial real estate	17,682					425,945			443,627
10	Equity Investment in Funds (EIF)									-
11	Past-due loans	6,660					2,320			8,980
12	Higher-risk categories									-
13	Other assets	7,373	-				83,276			90,649
14	Total	5,902,156	726,940	7,655	240,622	-	2,165,14	-	72,939	9,115,452

14 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.

14.1 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	167
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	Total	167

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 2023.

14.2 Table IRRBB1: Quantitative information on IRRBB

In reporting currency (AED)	ΔEVE		ΔNII	
	2023	2022	2023	2022
Parallel up	0	-	0	-13,070
Parallel down	-6,479	-21,548	-22,413	-16,366
Steeper	-1,647	-11,973		
Flattener	0	-		
Short rate up	0	-		
Short rate down	-5,383	-24,132		
Maximum	-6,479	-24,132		
Period	2023		2022	
Tier 1 capital	759,411		757,404	

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

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.

15 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.

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.

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.

15.1 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	3
2		Total fixed remuneration (3 + 5 + 7)	4,662	3,483
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	3
10		Total variable remuneration (11 + 13 + 15)	2,491	969
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)		7,156	4,454