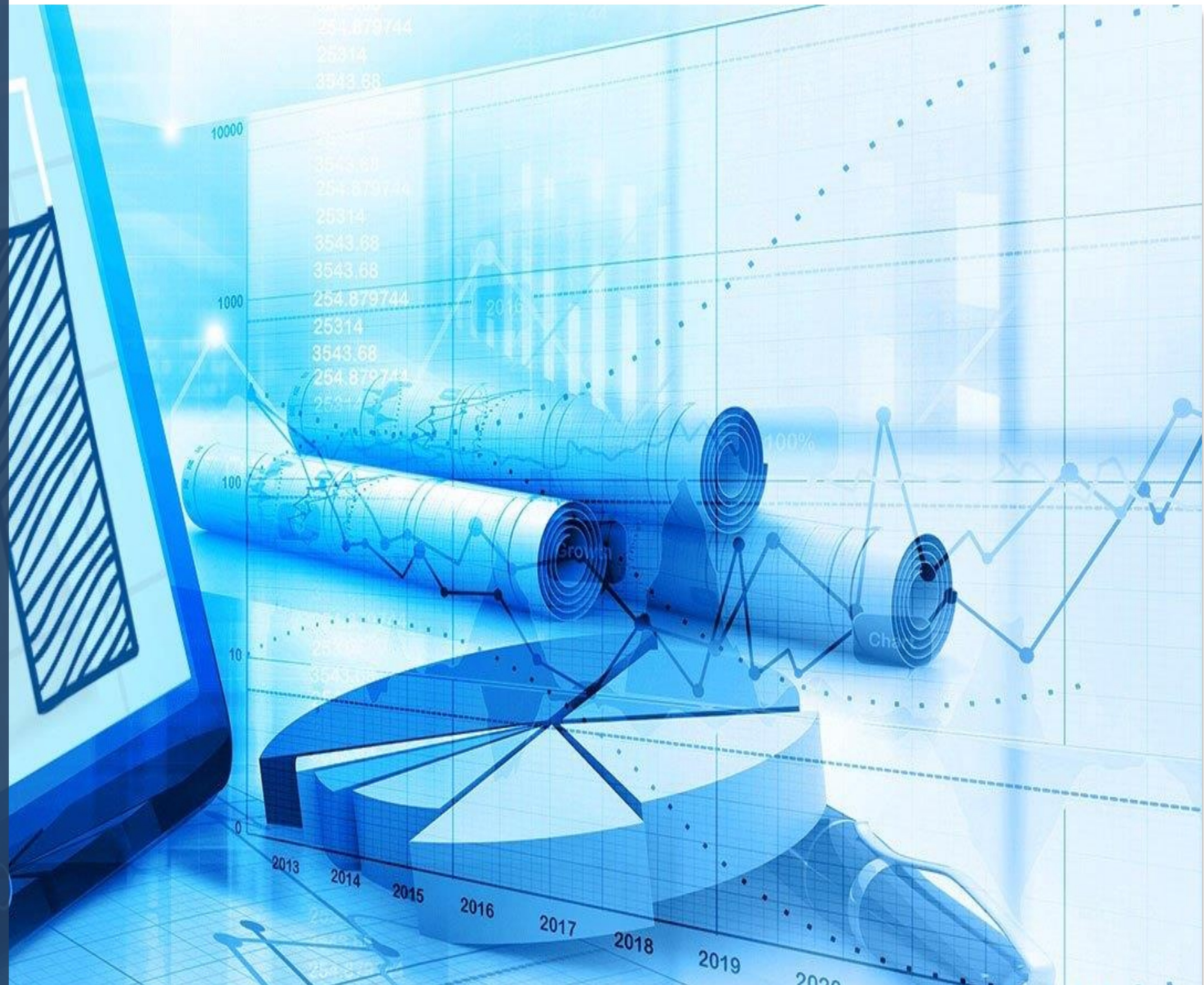
ARAB BANK

ARAB BANK PLC

RISK MANAGEMENT & PILLAR III DISCLOSURES

FOR THE YEAR ENDED
31 DECEMBER 2021



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1. Overview, risk management, key prudential metrics and RWA:

OVERVIEW

Introduction

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three ‘pillars’: Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess the organization’s key prudential metrics, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Notice No. CBUAE/BSD/N/2020/4980, and are mainly based on audited financial statements as at 31 December 2021 with comparative figures for 31 December 2020 where relevant. Some of the comparative figure disclosures have been represented to comply with the latest published standards.

Objective

The objective of this report is to provide information on risk management in the Bank to relevant stakeholders and supervisory bodies. In particular, it describes the Bank’s capital adequacy and liquidity position.

Scope

Arab Bank plc, United Arab Emirates Branches (interchangeably referred to as “AB UAE” or the “Bank”) were incorporated in the United Arab Emirates (“UAE”) as a commercial bank in 1971. The Head Office of the Branches is Arab Bank plc (interchangeably referred to as “HO” or the “Group”), a public shareholding bank, listed on the Amman Securities Exchange.

The Bank operates within the UAE through the following branches:

Abu Dhabi	3 branches
Dubai	3 branches
Sharjah	1 branch
Ras al-Khaimah	1 branch

Arab Bank – UAE Branches follows the standardized approach in the calculation of capital charges and subsequent Pillar III disclosures. The scope of regulatory consolidation represents the data prepared in Banking Return Forms (BRF) as well as the capital adequacy computation according to the CBUAE regulations and explanatory notes, while the consolidated financial statements represents the figures in the audited financial statements prepared according to applicable International Accounting Standards and related IFRSs. There are differences between the scope of regulatory reporting and audited financial statements, which mainly comprise of netting of provisions and interest in suspense as well as different classifications of asset line items.

Regulatory Changes

a.) IFRS9 Transitional adjustments

The IFRS9 partial add-back transitional adjustments was introduced as a ‘prudential filter’ to smooth the impact of ECL accounting on capital by providing relief to any increases in Stage1 and 2 Expected Credit Losses (ECL), based on a 5-year transitional period as follows:

- 100% from 1st January 2020 to 31 December 2021
- 75% for 2022
- 50% for 2023
- 25% for 2024

b.) IBOR reform

Following the decision by global regulators to phase out IBOR's and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The Head of Treasury is responsible for the delivery of IBOR Transitions and the project includes senior representatives from functions across the Bank. During 2021, the Bank has put in place detailed plans, processes and procedures to support the transition in line with the regulatory expectations and milestones. Further details are included in Note 33 of the financial statements.

Bank Risk Management Approach

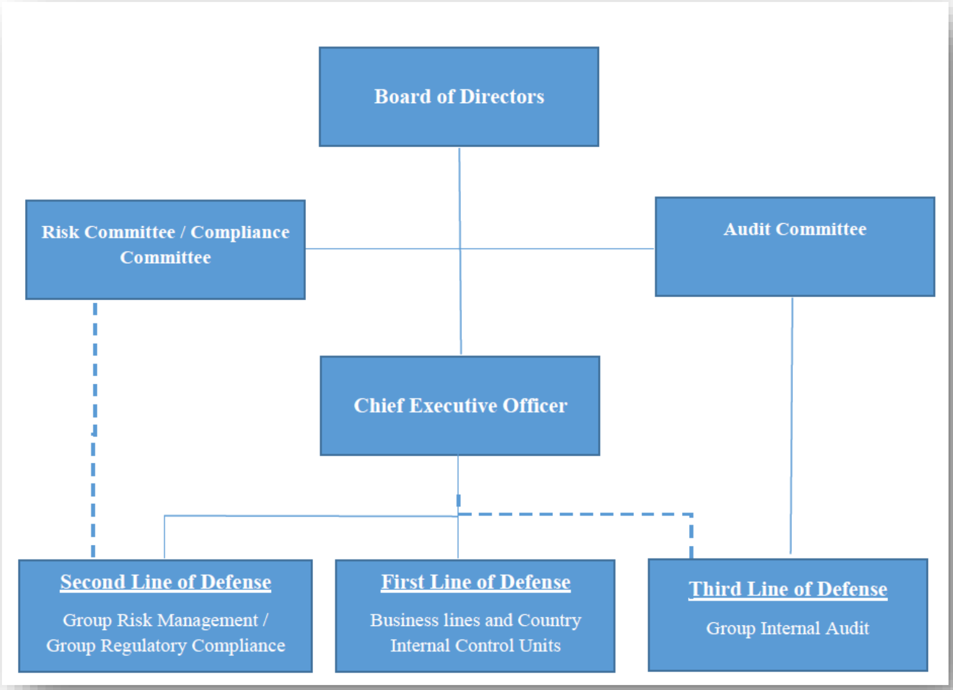
Arab Bank addresses the challenges of banking risks comprehensively through an Enterprise-Wide Risk Management Framework based on leading practices, and supported by a Board and Executive level risk governance structure consisting of the following committees and three independent levels of oversight:

Committees:

· Audit Committee. (Board of Directors)
· Risk Management Committee. (Board of Directors)
· Credit Committee. (Board of Directors)
· High Asset and Liability Management Committee
· Executive Credit Committees
· Operational Risk-related Committees including Investigation Committee, Information Security and Business Continuity Committee.
· Executive Credit Committees
· Compliance Committee

The internal control process consists of three levels as follows:

1. First Level: Business Line and Country Internal Control Units.
2. Second Level: Group Risk Management (GRM) and Group Regulatory Compliance (GRC).
3. Third Level: Group Internal Audit (GIA).



The Risk Appetite Statement (RAS) is part of the ERM framework "Strategy and Objective Setting" pillar and it compliments the bank's internal policies, procedures, rules and guidelines. The purpose of the RAS is to state clearly the high-level quantitative limits and qualitative principles for the bank's risk-taking aligned with strategic business objectives while meeting regulatory limits. Specifically, the objectives of the RAS are the following:

- To provide clear articulation of the bank's risk appetite.
- To raise the awareness of the bank's material risks and to guide the personnel regarding acceptable and unacceptable risks.
- To provide tools for the Head Office and local Management to continuously monitor and align the bank's actual profile with the risk appetite.

The Board of Directors reviews and approves the Bank's overall risk management strategy, and oversees its execution. In addition, the Board of Directors oversees and ensures, through its various committees, that comprehensive risk management policies and procedures are established in all bank locations.

The Heads of Strategic Business Units manage risks within their specific business lines whether credit or operational. In addition, the Global Treasurer is responsible for the management of liquidity and market risks. They operate within formally delegated risk limits and are responsible and accountable for identifying, assessing, controlling, mitigating and reporting on risks in the course of their business activities.

The Chief Risk Officer (CRO) is responsible for ensuring that the Bank has a robust system for the identification and management of risk and for establishing appropriate risk frameworks consistent with the Bank's overall business strategy and risk appetite.

The Chief Compliance Officer (CCO) is responsible for assuring that the Bank is in compliance with applicable laws, rules and regulations, in particular those issued by regulatory authorities.

The Chief Financial Officer (CFO) is in charge of defining financial risks, reviewing any differences in financial regulatory controls, safeguarding the quality of financial data, and for ensuring the accuracy and reliability of the Bank's Financial Statements. The finance department is responsible for measuring, monitoring and reporting of liquidity risks as well as reporting of breaches identified and monitoring execution of remediation actions. The department is also charged with monitoring of regulatory requirements and undertaking associated liquidity regulatory reporting ensuring compliance with the requirements.

The Bank's Internal Audit Division is independent from executive management and reports to the Audit Committee of the Board. It contributes to achieving the Bank's objectives by following a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It also provides an independent and objective assurance that the Bank's functions work in compliance with approved policies and procedures, and that all functions are committed to maintain an effective and efficient internal control environment, within approved methodologies and frameworks. Group Internal Audit provides the Board Audit Committee, the Chief Executive Officer and the respective business units with the audit outcome and monitors the implementation of remedial actions

RISK MANAGEMENT

Group Risk Management represents one of the fundamental levels of oversight and is part of the organizational structure framework for managing the bank's risks. Group Risk Management is responsible for developing a robust and effective system for the identification of risks to which the bank is exposed and for the management thereof as follows:

A. Monitor the level of compliance of executive divisions with defined acceptable risks

B. The Board of Directors ensures remediation of deviations above and beyond acceptable risk levels

C. The Board of Directors ensures that GRM regularly conducts stress testing to measure the ability of the bank to withstand shocks and elevated risks, and has a key role in validating test assumptions and scenarios, discussing test results and approving any required actions.

D. The Board approves a methodology for conducting a comprehensive Internal Capital Adequacy Assessment (ICAAP). This methodology must take into consideration the bank's strategic capital and is effective in identifying all types of risks which might be faced by the management plans. This process is reviewed periodically to ensure proper implementation and to provide continued assurance that the bank maintains ongoing adequate capital for all potential risk exposures.

E. The Board takes into consideration all potential risks prior to approving any expansion activities

F. GRM submits reports to the Risk Committee of the Board and has the necessary authority to obtain information from other Bank divisions in order to carry out its mandate.

G. The Board approves the bank's Risk Appetite Statement.

H. Additional GRM duties include the following at a minimum:
   - Establish the bank's Risk Management Framework for ratification by the Board.
   - Implement the risk management strategy and develop frameworks, policies and procedures for all types of risks and monitor their implementation.
   - Develop appropriate risk measurement tools and models to measure, control and oversee all types of risks.
   - Submit reports to the Board (through the Risk Committee) and to Executive Management on the Risk Profile of the bank and its status in relation to the bank's Risk Appetite, and follows-up to ensure the proper remediation of deviations.
   - Ensure proper integration between risk measuring tools and IT systems.
   - Study and analyze all types of risks that might be faced by the bank.
   - Provide recommendations to the Risk Committee of the Board on mitigating risk exposures and document and report any exception to policies and standards.
   - Provide the necessary information for required risk reporting and disclosures.
   - Improve and raise the level of risk awareness among all employees based on acceptable practices and standards especially those pertaining to the financial sector.

Each of the following departments within Group Risk Management has specific roles and responsibilities aimed at advancing the Bank's risk management capabilities based on best practices, international guidelines and requirements of regulatory authorities. Group Risk Management Division includes the following departments: Credit risk Department, Business Risk Review Department, Market and Liquidity Risk department, Operational Risk Department, Information Security Department, Business Continuity Management Department, Insurance Department, and the Policy Center.

- The Credit Risk Management Department is responsible for the centralized reporting of credit risk, Credit policy review, and the internal risk rating systems. These rating systems are designed to improve "probability of default" measurements and lead to the implementation of the Bank's risk adjusted return-on-capital model. The department is also responsible for the implementation of Central Banks and Basel Committee requirements that are related to Credit Risk and any amendments thereof.
- The Business Risk Review Department conducts comprehensive individual, portfolio and business risk reviews. It ensures that the Bank's various portfolios are aligned to their economic perspective, business strategy and target market and recommends corrective action, if necessary. The department also assesses the quality of the loan portfolio, lending policies and processes and the capabilities of the credit staff. Supplemental targeted reviews are undertaken based on market conditions, the size and sectorial nature of portfolios. In specific instances, such reviews are supported by tailored stress testing scenarios.

- The Market and Liquidity Risk Management Department is responsible for setting comprehensive market and liquidity risk policy frameworks. The policy framework ensures independent measurement, monitoring and control of the Bank's market and liquidity risk. The department is also responsible for setting and monitoring risk limits, the calculation of Value-at-Risk, stress testing and other quantitative risk assessments (such as those related to Basel III) which are performed in coordination with Treasury and Finance.

- The Operational Risk Management Department, which also covers strategic and reputation risks, leads the implementation of a Bank-wide operational risk management framework, as part of the overall strengthening and continuous improvement of the internal control systems within the Bank. The framework consists of policies and aims at the identification, assessment, mitigation, monitoring, and reporting of operational risks in all business activities. Major tools used for operational risk management include Risk and Control Self- Assessment (RCSA), Key Risk Indicators (KRIs), in addition to loss data collection and analysis for operational risks.

- The Information Security Department aims at enabling and supporting business growth by minimizing information and technology risks, maximizing compliance and enabling technology adoption in all lines of business including the digital banking services enjoyed by our clients. The goal is to ensure that assets (information, people, processes and technologies) are adequately protected from possible threats, whether internal or external, deliberate or accidental. Our strategy recognizes the importance of Information Security in establishing and maintaining trust relationship with our customers, business partner, and bank employees. This is built to instill good security practices, raise information risk awareness, strengthen controls, and ongoing enhancement for the effectiveness of prevention security controls, monitoring and incident response.

- The Business Continuity Management Department aims to counteract interruptions to business activities, to protect critical processes from the effects of major information systems failures or disasters, whether natural or otherwise, and to ensure their timely resumption. The framework is based on identifying major risks and analyzing their impact on business. The teams conduct risk assessments and use a centralized database to build the bank's comprehensive continuity plans. These plans are kept up-to-date by each country through the use of a web-based application, and are tested on a regular basis to ensure timely resumption of essential operations and services.

- The Insurance Department oversees all the Bank's insurance operations using a centralized database at the local and group levels. It also arranges adequate insurance cover for all insurable risks. The department provides the Bank Divisions with the necessary support in reviewing, recommending, and delivering customized insurance coverage for products, portfolios, credit facilities, and financial transactions related to the Bank clients.

- The Policy Center Department is responsible for centrally managing all the Bank's high level policies from the development phase until final ratification, according to a standard framework specifically customized for the Bank. These high level policies are then embedded in more details into the bank's various operational processes and its policies and procedures.

- The various GRM departments work in coordination with Finance on Capital Management related assignments to assess the impact of Basel III on capital, and to deliver a comprehensive Internal Capital Adequacy Assessment (ICAAP) supported by a stress test framework which includes multiple scenarios covering credit, market, liquidity and operational risk events. Periodic reporting to Senior Management and to banking regulators further ensures that our capital is managed effectively.

CREDIT RISK:

Arab Bank's conservative risk strategy combined with its dynamic and proactive approach in managing credit risk are key elements in achieving its strategic objective of maintaining and further enhancing its asset quality and credit risk profile. The conservative, prudent and well-established credit standards, policies and procedures and risk methodologies, as well as strong risk monitoring and control infrastructure enable the Bank to deal effectively with emerging risks and challenges.

Portfolio management decisions are based on the Bank's business strategy and risk appetite. The quality of the portfolio is examined on a regular basis in relation to key performance indicators. Diversification is the cornerstone for mitigating portfolio risks which is achieved through industry, geographical and customer tolerance limits. Periodic stress testing based on conservative scenarios which are regularly reviewed are key tools in managing the credit portfolio.

The credit process at Arab Bank is well defined and is institutionally predicated on:

- Clear tolerance limits and risk appetite set at the Board level, well communicated to the business units and periodically reviewed and adjusted as appropriate
- Credit Committee structure that ensures credit approvals are made by consensus by committees and not individuals.
- Clear segregation between Business and Credit.
- Authorities are delegated based on risk-differentiated grids for each committee at Country and Head Office levels which are reviewed on a regular basis.
- Well-defined target market and risk asset acceptance criteria.
- Rigorous financial, credit and overall risk analysis for each customer/ transaction.
- Regular credit risk reporting to Senior Management, Credit Committees and Risk Committee of the Board.
- Concentrations together with mitigation strategies are continuously assessed.
- Early warning system is continually validated and modified to ensure proper functioning for risk identification.
- Advanced systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgment, these methodologies undergo regular validation and calibration processes.
- Systematic credit limits management enabling the Bank to monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels.
- Solid documentation and collateral management processes where collateral is continuously monitored and assessed to ensure proper coverage and top-up triggers.
- Annual and interim individual credit reviews to ensure detecting any signs of weakness or warning signals and considering proper remedies in case of need.
- Implementation of strict control and monitoring systems which are based on disciplined follow up and monitoring.
- The Bank offers several consumer banking products which are managed on a product portfolio basis through a well-established Credit Product Program. The program is considered the principal approval vehicle for credit products offered to a homogenous set of customers in multiple locations, and is subject to annual review and approval and regular assessment of the program performance at Arab Bank Head Office.
- Conservative approach to provisioning and managing bad debt collection and early identification of problem areas. Such approach is subject to periodic legal and credit reviews and account strategies set to minimize NPLs and maximize recoveries and collections.
- Regular Stress-testing scenarios for top exposures and portfolios and assessment of impact on capital and earnings.
- On an ongoing basis the Bank enhances its processes and technology infrastructure taking into account the changing banking environment and the availability of new systems in the industry.
- Our credit processes are supplemented by sectorial portfolio reviews focused on countries, regions or specific industries which are intended to identify any inherent risks in the portfolios resulting from changes in market conditions.
- Business Risk Review department within Group Risk Management and Group Internal Audit provide independent regular reviews and assessments on the quality of the credit portfolios within the bank and the related credit management processes.
- The Bank is focused on developing and enhancing its credit staff competencies through specialized training programs to ensure that they are well equipped to effectively carry out their roles and responsibilities.

LIQUIDITY RISK:

Liquidity is defined by the Bank for International Settlements as the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Arab Bank has a robust infrastructure of policies, processes and people, in order to support its strategy and ensure that all obligations are met in a timely manner, under all circumstances and without undue cost.

Liquidity continues to be an area of great focus for Arab Bank. The Bank has a highly diversified and stable funding footprint. In addition, it maintains a large portfolio of highly liquid assets, which acts as a contingent funding source which further boosts liquidity. Arab Bank's long-standing emphasis on maintaining a broad and stable liquidity base has protected the Bank from any negative effects of market volatility.

Arab Bank's liquidity management strategy is determined by the High Asset and Liability Management Committee (High ALCO). The operations of the country level Treasury teams are centrally controlled, and monitored. In coordination with local Asset and Liability Management Committees, the various countries' Treasury teams across Arab Bank work together to meet local and Group needs. The Asset and Liability Management Committees analyse liquidity and market risk exposures and take action where appropriate to adjust the pricing and product mix in order to ensure an optimal balance sheet structure and market risk profile for the bank.

The Global Treasurer and Group Risk Management receive daily information on actual, forecast and modeled liquidity. Such information is received at country level, legal entity level and at Group level. This provides the Treasurer with high quality decision support information, and ensures that Treasury can provide the High ALCO with comprehensive management information on liquidity across the Group. This reporting is supported by stress testing, which applies various stress scenarios to existing forecast results. The process of stress testing is owned and managed by the Chief Risk Officer. The establishment of limits for Arab Bank's tolerance for liquidity risk, (as with other forms of risk), is managed by the Chief Risk Officer and the High ALCO.

The Bank uses a variety of tools to measure liquidity risk in the balance sheet. These metrics help the Bank to plan and manage its funding and help to identify any mismatches in assets and liabilities which may expose the Bank to roll risk. These metrics include one week and one month liquidity ratios, cumulative liquidity modeling, inter-group borrowing and lending analysis, loan to deposit ratios, large depositor concentration monitoring, Basel III liquidity ratios, and stress testing.

Arab Bank's comprehensive approach to measuring and managing liquidity gives the Group a great deal of confidence in its ability to endure all unforeseen market events, while still being able to meet all of its obligations to its customers and regulators.

Liquidity risk will continue to have a major influence on how the world's banks operate and interact, and regulators will continue to require increasingly high standards of liquidity governance. Arab Bank's approach to liquidity management, along with its current and contingent funding structures, leaves it very well placed to face the future with great confidence. Arab Bank's funding model has shown itself to be extremely resilient for many years and hence remains materially unchanged.

MARKET RISK:

Market risk is defined as the potential for loss from changes in the value of the Bank's portfolios due to movements in interest rates, foreign exchange rates, equity prices and commodity prices. Historically the Bank has managed its market risk across its Trading and Banking Books on a consolidated basis as this is a more conservative approach to the management of this risk. In addition, through its Funds Transfer Pricing Policy, the Bank ensures that market risk is transferred from Corporate and Institutional Banking and Consumer Banking to Treasury, where it can be centrally managed.

In addition to customer deposit taking and lending activity, three main activities which can expose the Bank to market risk are: Money Markets Trading, Foreign Exchange Trading and Capital Markets Trading.

The Bank's market risk management strategy is to maximise the economic return of assets taking into account the Bank's risk appetite as well as local regulatory constraints. Market risk is governed by the Global Treasurer, the Chief Risk Officer and the Chief Financial Officer. The High ALCO provides market risk oversight and guidance on risk appetite and policy settings, and establishes the global limits which are then allocated to the various entities by the Global Treasurer. The Global Treasury Policies and Procedures clearly define the rules that exist for the active management of all the Group's portfolios which are subject to market risk. Group Risk Management, in coordination with Global Treasury, ensures that the policies and procedures are updated on a regular basis, or when the need arises. The market risk limits are established based on the Bank's strategy and risk appetite, and risks are monitored by an independent Middle Office and are reviewed on a regular basis by Global Treasury and Group Risk Management.

I. Market Risk Management

Managing market risk is a key part of the Bank's business planning process, and in line with the Bank's risk appetite, is kept at a minimal level. Our main tools used for measuring and managing market risk are the following:

1. PV01: PV01 measures the risk to economic value arising from changes in interest rates by 0.01%. This is measured at country, legal entity and Group level. All interest rate positions are included in the PV01 calculation, including both on-balance sheet and off-balance sheet products in the Trading and Banking Books.

2. NII 100: NII100 measures the effect of a 1% increase in interest rates on first and second year pretax earnings. This is measured at country, legal entity and Group level.

3. Overall Net Open FX Position: The Overall Net Open FX Position measures the open position for each currency, including precious metals, at country, legal entity and Group level.

4. Value at Risk (VaR): VaR is currently used as an internal measure of market risk to estimate the maximum loss that may be experienced by the Group over a one day holding period with 99% confidence level using the Historical Simulation approach supported by 500 days of data. The Group's VaR calculation is run at the consolidated and unit levels and covers both interest rate and foreign exchange risk.

5. Stress Testing: The Stress Testing model aims to complement the Group's Value at Risk calculations by identifying and quantifying the effects of extreme, but plausible events on the Group's portfolio. The methodologies used range from single factor to multi-factor stress tests. The single factor stress tests incorporate a number of standard shocks in addition to worst historical movements for each risk factor. The multi-factor tests consist of hypothetical and historical tests as well as a hybrid of the two. All scenarios are tailored to account for the special characteristics of the Group's portfolio.

II. Interest rate risk:

Interest rate risk in the Group is limited, well managed, and continuously supervised. A large proportion of the interest rate exposure is concentrated in the short end of the yield curve, with durations of up to one year. Exposures of more than one year are particularly limited.

Interest rate risk is managed in accordance with the policies and limits established by the High ALCO. The Asset and Liability Management Committees in the various countries, as well as the respective treasurers, handle the day-to-day management of interest rate risks.

III. Capital Market Exposure:

Investments in capital markets instruments are exposed to market risk arising from changes in interest rates and credit spreads. Arab Bank Group's exposure to this kind of risk is limited due to its strong control over credit and interest rate risk. The equity investment portfolio represents a very small percent of the Bank's overall investments and generally consists of direct investments in strategic alliances as well as seed investment in mutual funds originated from within the Group.

IV. Foreign Exchange Risk:

Foreign exchange activity arises principally from customers' transactions. Strict foreign exchange risk limits are set to define exposure and sensitivity tolerance for trading in foreign exchange. The Bank hedges itself appropriately against potential currency fluctuations in order to minimize foreign exchange exposure.

In Treasury, positions are usually held open only for small risk equivalents. The majority of positions arising from customers are covered on a daily basis. Positions are measured and supervised by local management daily and by global management weekly. Foreign exchange exposure resulting from participations is strictly managed.

OTHER RISK:

Arab Bank faces a number of other banking risks, which include compliance risk and strategic risk.

COMPLIANCE RISK:

Arab Bank continues to maintain an unwavering commitment to integrity and exercises the highest ethical standards across its operation, applying both the letter and spirit of regulations to ensure compliance with statutory, regulatory, and supervisory requirements. Evolving to meet the needs of rapidly changing business environments, Arab Bank ensures that its internal processes are consistent with applicable regulatory requirements, promote efficiency, foster effectiveness and meet or exceed customer and regulatory expectations.

Group Regulatory Compliance Division reporting directly to the Chief Executive Officer and with direct access to the Audit Committee of the Board of Directors, is responsible for ensuring compliance with requirements impacting the business lines including, but not limited to, Know Your Customer, Anti-Money Laundering, and Combating Terrorist Financing.

With the steadfast support and commitment of the Arab Bank Board of Directors and Senior Management, coupled with the dedication of Bank staff, Arab Bank is resolved to sustain and further strengthen its sound compliance program and to continue to meet and/or exceed the regulatory expectations. There have been no regulatory sanctions nor any significant fines associated with non-compliance.

Arab Bank gives great importance to customer complaints, recognizing that it is one of the key indicators of the level of service quality and performance of its products and services offered to customers. Customer Complaints are managed and handled by the Service Excellence Unit under the Consumer Banking Division, with the exception of Jordan, Egypt and Palestine where customer complaints are managed by a separate unit within Compliance in accordance with local regulatory guidelines / requirements in these countries, and has been equipped with qualified and trained staff who are able to handle, analyze, and act on customer complaints as required.

All complaints are handled in an effective and highly professional manner. Complaints and inquiries are followed-up on a timely basis with the concerned departments of the Bank to ensure they are given proper attention, including the identification of root causes to avoid a repeat complaint. All customer complaints received by Arab Bank during 2021, have been reviewed, analyzed, and handled in accordance with the Bank's policies and procedures and in a fair and transparent manner.

STRATEGIC RISK:

The bank maintains a Strategic risk management framework that includes clear roles and responsibilities for managing strategic risk across the Bank. The Bank also maintains clear work standards and comprehensive strategic planning procedures. The bank's Senior management periodically analyses its strategic risk exposure through a survey that covers the Bank's Strategic Governance, Strategic planning, its Execution of the strategy & quality of implementation, in addition to the impact of Environment Dynamics & its responsiveness to change.

Achievement of the bank's clearly-defined objectives depends on a basic principle; its ability to fully leverage its wide spread net work of branches, maintain and develop its strong customer base, continuously expand and improve its products and services and maintain its sound financial position.

Management assesses AB-UAE's financial performance in light of the current strategy and the need to revise its objectives, if necessary, in the context of a continuously changing work and market environment. As such, profitability and commitments of projects to be undertaken are assessed in the context of "Business As Usual" as well as "Stressed Conditions" scenarios.

REPUTATIONAL RISK:

The Bank maintains a Reputational risk management framework that clearly defines the roles and responsibilities of different stakeholders within the Bank in managing and reporting of reputational risk exposures.

The Bank's senior management regularly assesses its exposure to reputational risks through a survey covering multiple potential drivers of reputational risk including Leadership, Solvency, Products & Services, Innovation, Workplace, Ethics & Governance, and Citizenship.

Material issues identified through the risk assessment activities and/ or any events that take place are advised to senior management and to Branding and Communication Division who have their own media monitoring process to ensure that any adverse publicity is addressed in a timely manner.

OUTSOURCING RISK:

Outsourcing Risk is covered in the Enterprise Risk Management Program and is specifically addressed under the Outsourcing Risk Management Framework issued by the Operational Risk Management Department at Head Office.

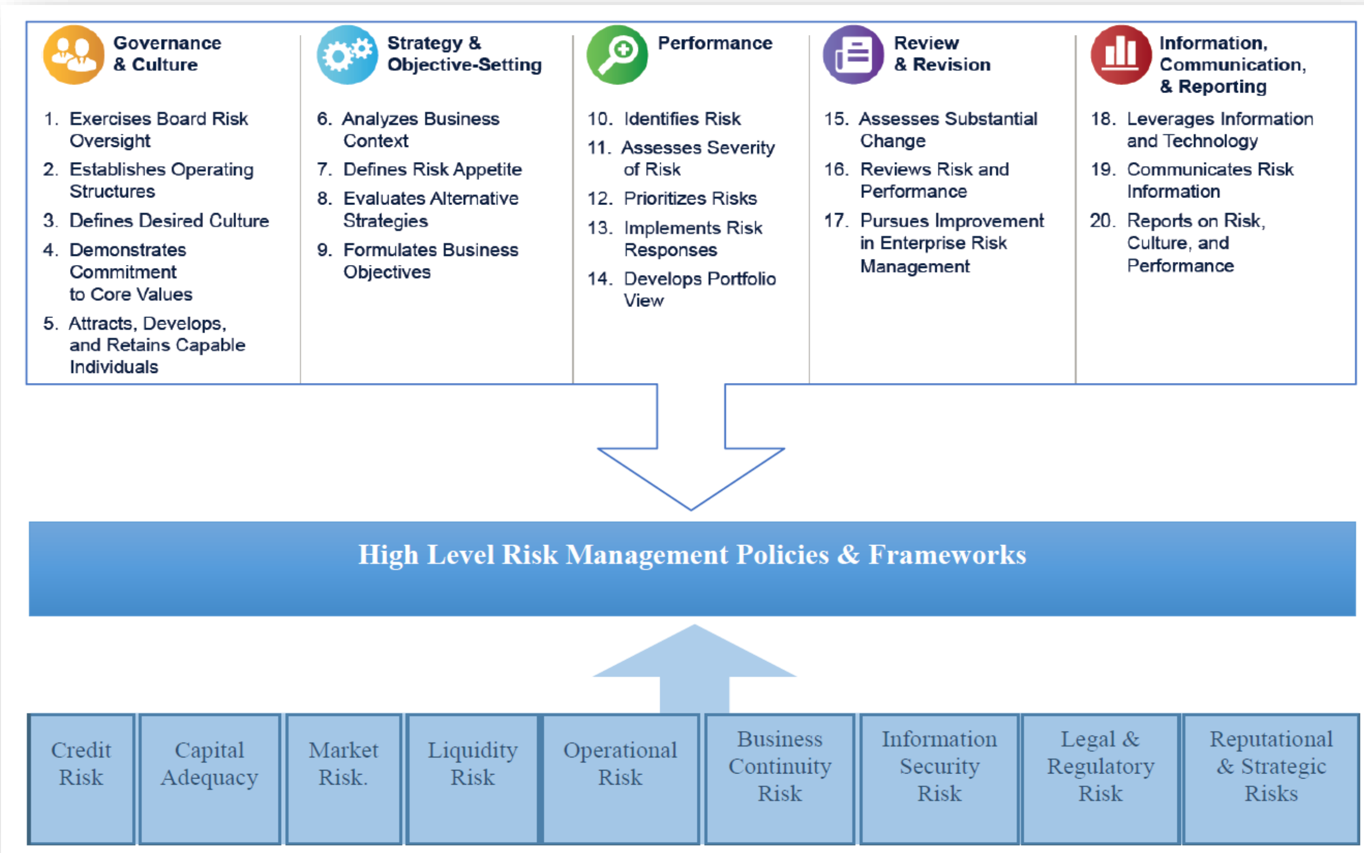
PENSION OBLIGATION RISK:

The Bank is subject to end of term indemnity in line with UAE requirements. Obligations are quantified, and are not considered material as such they do not currently present a risk. Should this obligation become material, processes exist to ensure that appropriate consideration will be given to the risk and its incorporation into the capital assessment process.

COSO ERM Framework

Arab Bank plc. adopts a Risk Management methodology in line with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework.

The COSO ERM Framework defines ERM as “the culture, capabilities and practices, integrated with strategy-setting and performance that organizations rely on to manage risk in creating, preserving and realizing value.” The five components in the COSO Enterprise Risk Management – Integrating with Strategy and Performance are supported by a set of principles as per the figure below1. These principles enable the Bank to better understand and manage the Risks associated with its strategy and business objectives.



Key Metrics

		31-Dec-2021	31-Dec-2020
		AED'000	*AED'000*
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	**1,524,614**	1,888,740
1a	Fully loaded ECL accounting model	**1,524,614**	1,888,740
2	Tier 1	**1,524,614**	1,888,740
2a	Fully loaded ECL accounting model Tier 1	**1,524,614**	1,888,740
3	Total capital	**1,810,981**	2,277,443
3a	Fully loaded ECL accounting model total capital	**1,810,981**	2,277,443
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	**13,584,415**	15,825,608
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	**11.22%**	11.93%
5a	Fully loaded ECL accounting model CET1 (%)	**11.22%**	11.93%
6	Tier 1 ratio (%)	**11.22%**	11.93%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**11.22%**	11.93%
7	Total capital ratio (%)	**13.33%**	14.39%
7a	Fully loaded ECL accounting model total capital ratio (%)	**13.33%**	14.39%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**2.50%**	2.50%
9	Countercyclical buffer requirement (%)	**-**	-
10	Bank D-SIB additional requirements (%)	**-**	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	**2.50%**	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	**2.72%**	3.43%
	Leverage Ratio		
13	Total leverage ratio measure	**22,049,633**	23,456,831
14	Leverage ratio (%) (row 2/row 13)	**6.91%**	8.05%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	**6.91%**	8.05%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	**6.91%**	8.05%
	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	**4,469,523**	3,228,944
22	Total liabilities	**15,727,705**	16,419,538
23	Eligible Liquid Assets Ratio (ELAR) (%)	**28.42%**	19.67%
	ASRR		
24	Total available stable funding	**15,365,476**	16,210,028
25	Total Advances	**9,750,047**	11,491,761
26	Advances to Stable Resources Ratio (%)	**63.45%**	70.89%

Overview of RWA

	AED'000	RWA 31-Dec-2021	RWA 31-Dec-2020	Minimum capital requirements 31-Dec-2021	Minimum capital requirements 31-Dec-2020
1	Credit risk (excluding counterparty credit risk)	12,382,723	14,592,599	1,304,203	1,532,223
2	Of which: standardised approach (SA)	12,382,723	14,592,599	1,304,203	1,532,223
3	[redacted]				
4	[redacted]				
5	[redacted]				
6	Counterparty credit risk (CCR)	38,262	38,164	4,017	4,007
7	Of which: standardised approach for counterparty credit risk	38,262	38,164	4,017	4,007
8	Of which: Internal Model Method (IMM)	-	-	-	-
9	Of which: other CCR	-	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-	-
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	-	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-	-
15	Settlement risk	-	-	-	-
16	Securitisation exposures in the banking book	-	-	-	-
17	[redacted]				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
20	Market risk	12,135	5,306	1,274	557
21	Of which: standardised approach (SA)	12,135	5,306	1,274	557
22	[redacted]				
23	Operational risk	1,151,295	1,189,539	120,886	124,902
24	[redacted]				
25	[redacted]				
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**13,584,415**	**15,825,608**	**1,430,381**	**1,661,689**

2. Linkages between financial statements and regulatory exposures

Table 1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2021

			Carrying values of items:				
AED'000	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the securitisation framework**	**Subject to market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets							
Cash and balances with Central Bank[1]	2,161,184	4,451,185	4,451,185	-	-	-	-
Due from banks	1,621,300	1,621,300	1,621,300	-	-	-	-
Due from the Head Office and branches abroad	186,558	186,852	186,852	-	-	-	-
Loans and advances[2]	9,211,200	11,175,361	11,175,361	-	-	-	-
Other financial assets[1]	3,961,240	1,675,378	1,675,378	-	-	-	-
Right-of-use assets	24,116	24,116	24,116	-	-	-	-
Other Assets[3]	399,817	399,817	388,692	5,943	-	-	5,182
Deferred tax assets	366,016	366,016	171,832	-	-	-	194,184
Property and equipment	7,851	7,851	7,851	-	-	-	-
Total Assets	**17,939,282**	**19,907,876**	**19,702,567**	**5,943**	**-**	**-**	**199,365**
Liabilities							
Due to banks	72,084	72,084	-	-	-	-	72,084
Due to the Head Offices and branches abroad	121,035	121,035	-	-	-	-	121,035
Customers' deposits	13,744,673	13,744,673	-	-	-	-	13,744,673
Security deposits[4]	1,211,098	1,211,098	964,100	-	-	-	-
Other liabilities	514,484	542,307	-	-	-	-	542,307
Provisions[2]	30,105	1,970,876	1,894,896	-	-	-	-
Deferred tax liability	176	176	-	-	-	-	176
Lease Contracts Liability	19,418	19,418	-	-	-	-	19,418
Subordinated loan[5]	374,595	374,595	-	-	-	-	243,490
Total Liabilities	**16,087,668**	**18,056,262**	**2,858,996**	**-**	**-**	**-**	**14,743,183**

Table 2 - Main sources of differences between regulatory capital adequacy exposure amounts and carrying values in financial statements

31 December 2021

	AED'000	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)**	19,708,510	19,702,567	-	5,943	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(2,858,996)	(2,858,996)	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**16,849,514**	**16,843,571**	**-**	**5,943**	**-**
4	Off-balance sheet amounts	9,057,606	3,648,846	-	46,311	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	(76,470)	(76,470)	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**25,830,650**	**20,415,947**	**-**	**52,254**	**-**

[1]Classification of M-bills as other financial assets in the financial statements whereas under balances with central bank under regulatory capital adequacy calculation purposes.

[2] The main differences between the loans and advances' asset carrying value reported in the audited financial statements and regulatory reporting is due to netting of provisions and interest in suspense in the financial statements while the carrying amounts for regulatory purposes are reported on a gross basis before regulatory adjustments and exclude general provisions.

[3] Items which are subject to regulatory deductions from capital, such as intangible assets, deferred tax assets (subject to threshold deduction) which are excluded from the asset carrying value amount under scope of regulatory capital adequacy calculation.

[4] Under capital adequacy calculation, the cash margins are calculated on a coverage basis (i.e. whichever is less of exposure value and cash margin) while in the financials they are reported on gross basis.

[5] Subordinated debt is considered tier 2 capital subject to amortization

3. Regulatory Capital

3.1 Capital Structure Summary

Consolidated Capital Structure under Basel III as on 31st December - *AED'000*		
Details	**2021**	2020
	AED'000	*AED'000*
Capital Base	**1,810,981**	2,277,443
1.1) Share Capital	**620,704**	620,704
1.2) Share premium account	**-**	-
1.2) Eligible reserves	**333,668**	333,670
1.2) Retained Earnings/(-) Loss	**769,608**	1,041,543
1.2) Eligible amount of minority interest	**-**	-
1.2) Capital Shortfall, if any	**-**	-
CET1 capital before the regulatory adjustments and threshold deductions	**1,723,980**	1,995,917
Less: Regulatory deductions	**5,182**	5,761
Less: Threshold deductions	**194,184**	101,416
CET1 capital after the regulatory adjustments and threshold deductions	**1,524,614**	1,888,740
2. Additional Tier 1 (AT1) Capital		
1.2) Eligible AT1 capital (After grandfathering)	**-**	-
1.2) Other AT1 Capital e.g. (Share premium, minority interest)	**-**	-
Total AT1 capital	**-**	-
3. Tier 2 (T2) Capital		
1.2) Tier 2 instrument e.g. subordinated (After grandfathering and/or amortization)	**131,105**	205,818
1.2) Other Tier 2 Capital (including General Provision, etc.)	**155,262**	182,885
Total T2 Capital	**286,367**	388,703
Total T2 Capital after transitional arrangement (T2)	**286,367**	388,703

31 December 2021

Capital Requirement	**RWA**	**Capital Charge**	**Capital Ratio (%)**
AED'000			
1. Credit Risk - Standardized Approach	**12,420,985**	**1,304,203**	**10.500%**
2. Market Risk - Standarized Approach	**12,135**	**1,274**	**10.500%**
3. Operational Risk - Basic Indicator Approach	**1,151,295**	**120,886**	**10.500%**
Total Capital Requirements		**1,426,364**	
Capital Ratio			
a) Total for Top consolidated group			**13.33%**
a) Tier 1 ratio only for top consolidated group			**11.22%**
a) CET1 ratio only for top consolidated group			**11.22%**

In addition to minimum capital requirement of 10.5% banks were also required to maintain a Capital Conservation buffer of 2.5% for the year 2021.

31 December 2020

Capital Requirement	RWA	Capital Charge	Capital Ratio (%)
AED'000			
1. Credit Risk - Standardized Approach	14,630,763	1,536,230	10.500%
2. Market Risk - Standarized Approach	5,306	557	10.500%
3. Operational Risk - Basic Indicator Approach	1,189,539	124,902	10.500%
Total Capital Requirements		1,661,689	
Capital Ratio			
a) Total for Top consolidated group			14.39%
a) Tier 1 ratio only for top consolidated group			11.93%
a) CET1 ratio only for top consolidated group			11.93%

In addition to minimum capital requirement of 10.5% banks were also required to maintain a Capital Conservation buffer of 2.5% for the year 2020.

3.2 Composition of regulatory capital

		31-Dec-2021
	Common Equity Tier 1 capital: instruments and reserves	***AED'000***
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	620,704
2	Retained earnings	769,608
3	Accumulated other comprehensive income (and other reserves)	333,668
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**1,723,980**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles including mortgage servicing rights (net of related tax liability)	5,182
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	194,184
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	-
24	**Total regulatory adjustments to Common Equity Tier 1**	**199,366**
25	**Common Equity Tier 1 capital (CET1)**	**1,524,614**
	Additional Tier 1 capital: instruments	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
27	OF which: classified as equity under applicable accounting standards	-
28	Of which: classified as liabilities under applicable accounting standards	-
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-
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	*Of which: instruments issued by subsidiaries subject to phase-out*	-
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)**	**-**
39	**Tier 1 capital (T1= CET1 + AT1)**	**1,524,614**
	Tier 2 capital: instruments and provisions	
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	*Directly issued capital instruments subject to phase-out from Tier 2*	131,105
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	*Of which: instruments issued by subsidiaries subject to phase-out*	-
44	Provisions	155,262
45	**Tier 2 capital before regulatory adjustments**	**286,367**
	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**	**-**
51	**Tier 2 capital (T2)**	**286,367**
52	**Total regulatory capital (TC = T1 + T2)**	**1,810,981**
53	**Total risk-weighted assets**	**13,584,415**
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**11.22%**
55	**Tier 1 (as a percentage of risk-weighted assets)**	**11.22%**
56	**Total capital (as a percentage of risk-weighted assets)**	**13.33%**
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)**	**339,610**
58	**Of which: capital conservation buffer requirement**	**339,610**
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.**	**2.72%**
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	**9.50%**
63	Tier 1 minimum ratio	**11.00%**
64	Total capital minimum ratio	**13.00%**
	Amounts below the thresholds for deduction (before risk weighting)	
[redacted]		
66	Significant investments in common stock of financial entities	-
[redacted]		

68	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	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)	186,315
70	Cap on inclusion of provisions in Tier 2 under standardised approach	155,262
[redacted]		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
73	*Current cap on CET1 instruments subject to phase-out arrangements*	-
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
75	*Current cap on AT1 instruments subject to phase-out arrangements*	-
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	-
77	*Current cap on T2 instruments subject to phase-out arrangements*	131,105
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	243,490

3.3 Reconciliation of regulatory capital to balance sheet

31 December 2021	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period-end	As at period-end
Assets	*AED'000*	*AED'000*
Cash and balances with Central Bank[1]	2,161,184	4,451,185
Due from banks	1,621,300	1,621,300
Due from the Head Office and branches abroad	186,558	186,852
Loans and advances[2]	9,211,200	11,175,361
Other financial assets[1]	3,961,240	1,675,378
Right-of-use assets	24,116	24,116
Other Assets	394,635	394,635
Deferred tax assets[3]	366,016	366,016
Property and equipment	7,851	7,851
Goodwill and other intangible assets	5,182	5,182
Of which: goodwill	-	-
Of which: intangibles (excluding MSRs)	*5,182*	5,182
Of which: MSRs	-	-
Total assets	**17,939,282**	**19,907,876**
Liabilities		
Due to banks	72,084	72,084
Due to the Head Offices and branches abroad	121,035	121,035
Customers' deposits	13,744,673	13,744,673
Security deposits [4]	1,211,098	1,211,098
Other liabilities	514,484	542,307
Provisions [2]	30,105	1,970,876
Lease Contracts Liability	19,418	19,418
Subordinated loan [5]	374,595	374,595
Current and deferred tax liabilities	176	176
Total liabilities	**16,087,668**	**18,056,262**
Shareholders' equity		
Paid-in share capital	620,704	620,704
Of which: amount eligible for CET1	*620,704*	620,704
Of which: amount eligible for AT1	-	-
Retained earnings	769,608	769,608
Statutory reserve	310,352	310,352
Other reserves	23,000	23,000
Impairment Reserve	127,247	127,247
Accumulated other comprehensive income	703	703
Total shareholders' equity	**1,851,614**	**1,851,614**

[1]Classification of M-bills as other financial assets in the financial statements whereas under balances with central bank under regulatory capital adequacy calculation purposes.

[2] The main differences between the loans and advances' asset carrying value reported in the audited financial statements and regulatory reporting is due to netting of provisions and interest in suspense in the financial statements while the carrying amounts for regulatory purposes are reported on a gross basis before regulatory adjustments and exclude general provisions.

[3] Items which are subject to regulatory deductions from capital, such as intangible assets, deferred tax assets (subject to threshold deduction) which are excluded from the asset carrying value amount under scope of regulatory capital adequacy calculation.

[4] Under capital adequacy calculation, the cash margins are calculated on a coverage basis (i.e. whichever is less of exposure value and cash margin) while in the financials they are reported on gross basis.

[5] Subordinated debt is considered tier 2 capital subject to amortization

3.4 Main features of regulatory capital instruments

The summary of key characteristics of each instrument are in the below prescribed table:

	31 December 2021	**Share Capital**	**Subordinated Debt**
		Quantitative / qualitative information	**Quantitative / qualitative information**
1	Issuer	**Arab Bank PLC - UAE Branches**	**Arab Bank PLC - UAE Branches**
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	UAE	UAE
	Regulatory treatment		
4	Transitional arrangement rules (i.e. grandfathering)	Common Equity Tier 1	Tier 2
5	Post-transitional arrangement rules (i.e. grandfathering)	Common Equity Tier 1	Tier 2 (amortized)
6	Eligible at solo/group/group and solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share Capital	Subordinated Debt
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 621 Mn	AED 131 Mn
9	Nominal amount of instrument	AED 621 Mn	USD 102 Mn
9a	Issue price	100	100
9b	Redemption price	100	100
10	Accounting classification	Shareholder's Equity	Liability at amortised cost
11	Original date of issuance	Various	9/30/2008
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	9/30/2023
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A	Floating
18	Coupon rate and any related index	N/A	3M USD LIBOR + 1% per annum
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
21	Existence of step-up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	Write-down feature	None	None
25	If write-down, write-down trigger(s)	N/A	N/A
26	If write-down, full or partial	N/A	N/A
27	If write-down, permanent or temporary	N/A	N/A
28	If temporary write-own, description of write-up mechanism	N/A	N/A

28a	Type of subordination	N/A	Contractual
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Subordinated debt	Unsubordinated creditors
30	Non-compliant transitioned features	No	Yes
31	If yes, specify non-compliant features	N/A	The terms and conditions do not have a provision that requires the instrument to fully absorb losses at the point of non-viability

4. Leverage Ratio

4.1 Summary comparison of accounting assets vs leverage ratio exposure

		31-Dec-2021 AED'000
1	Total consolidated assets as per published financial statements	17,939,282
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	46,311
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4,248,774
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(184,734)
13	**Leverage ratio exposure measure**	**22,049,633**

4.2 Leverage ratio common disclosure template

		31-Dec-2021	31-Dec-2020
On-balance sheet exposures		**AED'000**	AED'000
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	**17,953,914**	18,849,613
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)	**(199,366)**	(5,761)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**17,754,548**	18,843,852
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	**4,868**	886
9	Add-on amounts for PFE associated with *all* derivatives transactions	**41,443**	8,256
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)**	**46,311**	9,142
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	**9,057,606**	9,256,517
20	(Adjustments for conversion to credit equivalent amounts)	**(4,808,832)**	(4,652,680)
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)**	**4,248,774**	4,603,837
Capital and total exposures			
23	**Tier 1 capital**	**1,524,614**	1,888,740
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**22,049,633**	23,456,831
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**6.91%**	8.05%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**6.91%**	8.05%
26	CBUAE minimum leverage ratio requirement	**3%**	3%
27	**Applicable leverage buffers**	**0%**	0%

5. Liquidity

Liquidity is an area of great focus for the bank. The bank has highly diversified and stable funding sources. The bank's comprehensive approach to measure and manage liquidity gives the bank a great deal of confidence in its ability to ensure all unforeseen market events or crises while still being able to meet all of its obligations to its customers and regulators. Furthermore, the treasury system includes a risk measurement system (Fusion Risk) which provides all necessary ALCO reports, stress testing analysis and liquidity Basel III ratios calculations.

Liquidity risk Measurement

The bank uses several tools to measure liquidity risk in the balance sheet, in addition to the local liquidity tools required by CB-UAE. These metrics help management to plan and manage daily funding requirements and help to identify any behavioral and contractual mismatches in assets and liabilities that may expose the bank to roll risk. The metrics are:

1) **One Week and One Month Liquidity Ratios**: This indicates net cash flows, including the cash effect of liquidating "liquid" securities, as a percentage of liabilities. This is a measure of structural liquidity and can be an early warning of likely liquidity crisis.
2) **Cumulative Liquidity Gap Report by Currency**: This is a forward-looking model of inflows, outflows and available liquidity, which recognizes and predicts liquidity gaps on a behavioral and contractual basis. This model also identifies a liquidity horizon, which tells when the liquidity gap turns negative i.e. how long the bank can survive without incremental funding, given certain assumptions.
3) **Intergroup Borrowing and Lending**: This measure shows the net intercompany borrowing and lending position of the bank and measures the self-sustainability of the bank.
4) **Loan to Deposit Ratio:** The LTD is assessed at the aggregate and stand-alone basis in local and foreign currency to ensure that the bank has enough liquidity to cover any unforeseen funds requirements.
5) **Basel III Liquidity Ratios:** The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are assessed on regular basis according to Basel Committee guidelines.
6) **Large Depositor Concentration**: Top ten depositors are defined as lenders or group of connected lenders to the bank.
7) **Stress Testing**: The impact of possible future liquidity stress scenarios are assessed on its cash flow, liquidity position and solvency. The liquidity stress testing methodology consists of hypothetical events inspired by the bank's own experience, regulatory requirements and external events of relevance to the bank's portfolio.

Furthermore, the bank has a methodology for analysing the behavior of corporate and consumer clients on regular basis which will leads to more accurate behavior cash flow assumption and assist in better liquidity risk management. Based on this methodology, deposits stickiness assumptions were introduced at the local level in 2015 based on the historical analysis of deposits to reflect "business as usual" conditions. The analysis is based on Cash flow at Risk methodology at a 99% confidence level according to the below criteria:

A. **Deposit type**: Current Account, Saving Account, Time Deposit.
B. **Segment:** Retail and Corporate.
C. **Currency**: Local and Foreign currencies.
D. **Accounting area**: at the country level.
E. **Historical period**: two years daily data.
F. **Frequency:** daily, weekly, monthly, quarterly, semi annually and annual.

Liquidity Risk Monitoring

The local Middle Office reports the liquidity risk position to local management as well as to Global Treasury and Group Risk Management on daily basis using the standard liquidity risk reporting template which displays:

- The cumulative cash flow and liquidity position per time bucket
- The one week and one month liquidity ratio
- One week and one month liquidity ratio breaches, if any.

Furthermore, Global Treasury and Group Risk Management centrally control and monitor liquidity risk with the aim to identify trends, concentrations and other significant issues at the branch and group level.

Liquidity Risk Management

The liquidity risk limits for the bank are applied at the currency consolidated level (on- and off- balance sheet items and across all businesses). Limits are currently applied to:

- The one-week and one-month liquidity ratios,
- Intergroup Funding,
- Loan to Deposit Ratio.
- Interbank lending is subject to a maximum tenor of one month unless otherwise authorized by special approval from the Global Treasurer.

Liquidity Risk Mitigation

The bank has highly diversified and stable funding sources. In addition, the bank maintains a portfolio of liquid assets as a contingent funding source. These have been identified whether saleable or repo-able with an estimate of conservative haircuts and time needed to be liquefied. In addition, the bank has established strict guidelines for the provision of committed facilities. Moreover, the bank has a contingency Funding Plan (CFP), which is approved by HALCO and updated on regular basis.

Role of Senior Management

Liquidity risk management is part of the local ALCO's roles and responsibilities.

Role of Head Office

The liquidity risk management is part of the High ALCO's roles and responsibilities. Additional monitoring takes place by the Asset Liability Management Unit (ALM) and the Market and Liquidity Risk Management Department within the Group Risk Management at Head Office.

5.1 Eligible Liquid Assets Ratio

31 December 2021

In AED'000

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	**4,451,185**	
1.2	UAE Federal Government Bonds and Sukuks	**0**	
	Sub Total (1.1 to 1.2)	**4,451,185**	**4,451,185**
1.3	UAE local governments publicly traded debt securities	**18,338**	
1.4	UAE Public sector publicly traded debt securities	**0**	
	Sub total (1.3 to 1.4)	**18,338**	**18,338**
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	**0**	**0**
1.6	**Total**	**4,469,523**	**4,469,523**
2	Total liabilities		**15,727,705**
3	**Eligible Liquid Assets Ratio (ELAR)**		**28.42%**

31 December 2020

In AED'000

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	3,210,620	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	3,210,620	3,210,620
1.3	UAE local governments publicly traded debt securities	18,324	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	18,324	18,324
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	Total	3,228,944	3,228,944
2	Total liabilities		16,419,538
3	Eligible Liquid Assets Ratio (ELAR)		19.67%

5.2 Advances to Stables Resource Ratio

		Items	31-Dec- 2021	31-Dec-2020
1		**Computation of Advances**	**AED'000**	AED'000
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	**9,280,466**	11,002,738
	1.2	Lending to non-banking financial institutions	**-**	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	**469,581**	489,023
	1.4	Interbank Placements	**-**	-
	1.5	**Total Advances**	**9,750,047**	11,491,761
2		**Calculation of Net Stable Resources**		
	2.1	Total capital + general provisions	**2,285,275**	2,590,356
		Deduct:		
	2.1.1	Goodwill and other intangible assets	**5,182**	5,761
	2.1.2	Fixed Assets	**7,851**	10,056
	2.1.3	Funds allocated to branches abroad	**-**	-
	2.1.5	Unquoted Investments	**2,641**	2,648
	2.1.6	Investment in subsidiaries, associates and affiliates	**-**	-
	2.1.7	**Total deduction**	**15,674**	18,465
	2.2	**Net Free Capital Funds**	**2,269,601**	2,571,891
	2.3	**Other stable resources:**		
	2.3.1	Funds from the head office	**-**	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	**-**	-
	2.3.3	Refinancing of Housing Loans	**-**	78,342
	2.3.4	Borrowing from non-Banking Financial Institutions	**-**	-
	2.3.5	Customer Deposits	**13,095,875**	13,559,795
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	**-**	-
	2.3.7	**Total other stable resources**	**13,095,875**	13,638,137
	2.4	**Total Stable Resources (2.2+2.3.7)**	**15,365,476**	16,210,028
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**63.45**	70.89

6. Credit Risk

Credit Risk Measurement

- The main measure of Credit Risk is at the counterparty level where the exposure is measured in line with the bank's risk appetite at the industry and country levels as well as alignment with the credit standards applicable by the bank and detailed in the policies and procedures.
- All requests for credit facilities to new counterparties, or increases to facilities with existing counterparties, require the submission of a Credit Request (CR) via the Credit Department for approval.
- Borrower credit rating is an important aspect of credit risk assessment. It is a mandatory requirement by the Head Office to assign credit ratings for obligors by the business units. Such ratings are reviewed and approved by the Credit Department to ensure independence with a maker/checker process in place. In addition and as part of Business Risk Review/Credit Risk Management process and the Credit Audit process, ratings are reassessed and checked on a sample basis.
- Arab Bank UAE is using Moody's Risk Analyst (MRA) since 2008 (Recently upgraded to CreditLens) to help support their lending processes. MRA/ Credit Lens is a financial analysis and ratings platform that aggregates quantitative and qualitative information on individual obligors to obtain an assessment that can be used to determine a credit rating for each obligor.
- The model went through validation, optimization and calibration phases which lead to the development of a new model.
- The model already helps AB UAE to better comply with regulatory requirements. The continuous PDs generated by the new model serves as important building blocks for the calculation of credit expected loss to determine provisions under IFRS9 ECL
- Group Risk Management centrally administers CrediLens system at Head Office level and it is supported by Credit Group and CIB.
- The risk weights for each position are assigned in line with Central bank of UAE Basel III Regulations. This also covers the Credit Conversion Factors (CCF) of commitments and other off-balance sheet positions.
- In cases where combined (overlapped) limits are approved, these are treated as if they had the characteristics of the highest risk limit within the facility.
- Group IDs (Local and Global) are input on both the Customer Credit Report and the Core banking system enabling the MIS teams to pull aggregate group positions whether the group is local or global on funded and unfunded basis.
- All requests for consumer credit facilities to new customers require assessment by the consumer credit department under an approved credit policy framework and product programs.
- With regard to IFRS 9 "International Financial Reporting Standards" effective date being 1st January 2018 and pursuant to CBUAE:
    1) Notice 89/2016 dated 10th May 2016 on the impact of IFRS9; and
    2) Notice 315/2017 the Guidance Note on IFRS 9,
    3) Notice No. CBUAE/BSD/2018/458, dated 30 April 2018
- Arab Bank UAE in coordination with AB Group Head Office related departments (Finance, Risk and Credit) has conducted the IFRS9 ECL Calculation based on AB Group IFRS9 Methodology, Processes and Corporate Governance which was reviewed and approved by the Board of Directors. Moreover, the calculation and the results have been reviewed by our "AB UAE" external auditors and have shown no significant impact on overall capital and liquidity of the Branch.

- The assumptions considered while conducting the calculation are derived from the impairment requirements set in IFRS 9 accounting standard and Arab Bank group IFRS9 Methodology, processes and Corporate Governance. The calculation is done using reliable data where customer ratings and PDs were imported from Moody's Risk Analytics (MRA); moreover, the management has applied multiple stress scenarios and assumptions.
- Arab Bank UAE enhanced its credit assessment process considering the IFRS 9 impairment stages and forward looking Expected credit loss models. Moreover, AB UAE took into account Central Bank of UAE's additional considerations in assessing significant increase in credit risk (Guidance on IFRS 9 – 2.3.5).

- Moreover, COVID-19 impact have been taken into consideration in the IFRS9 Calculation, through the additive of extra stress scenario / or by changing the weight of the applied scenarios to accommodate for the COVID-19 impact and uncertainty. Noting that Moody's is already embedding/ updating the Impairment Calc. with the new Macroeconomic data/ Country Data Buffet which is taking into consideration the COVID-19 Impact.

Credit Risk Monitoring

- The credit risk monitoring process takes place during the on-boarding of the customer. The approved limits are documented by the credit administration unit which is independent of the business and reports dually to the Head of Credit in the Area and the Global Head of Credit Admin at Head Office.
- The credit risk monitoring process first phase initially starts by the Documentation Unit who's responsible of insuring the fulfilment with P&P, all approvals' terms, as well as supervising the preparation, review and custody of all required credit legal documentation.
- The documentation unit is responsible of confirming the completeness and validity of the credit package as well as the collateral values, existence and coverage. Subsequently; the preparation of all required Documents will take a place to proceed in the facilities renewal.
- Additionally documentation team are controlling a share point to maintain a follow up procedure for all kind of exceptions in collaterals, securities and documents required by area management or Head office. This share point will also allow the team to assure full supervision of all credit documentation deferrals and expiries in full coordination with respective CIB and credit managers to mitigate any resulting risks.
- After that, the credit risk monitoring process proceeds to the second phase that is carried on in the Operations unit. The main responsibility of the unit is to review credit approvals as well as inputting and managing credit limits and approved terms and conditions in both the operating system and Trade finance system. In addition of managing the collateral recording system.
- The last phase of the credit risk monitoring process is ending in the Credit Monitoring & Reporting Unit, which will confirm post-approval compliance with guidelines, P&P, and terms of approval.
- Credit Monitoring & Reporting Unit is handling a following up process for all recurring excesses, significant past dues in limits, overdrawn accounts and Due CRs on a daily basis in addition to maintaining the data of UAE Central Bank Risk Bureau system through updating Arab Bank customer's facilities (Limit & Risk). This process will highlight to the RMs and area Managers any irregularities, negative account behavior or any other associated risk.

- Credit Monitoring & Reporting Unit is handling Data Quality development process which will lead to accuracy in conducting all the daily, monthly, quarterly, semi-annual and annual reports to meet the requirements of H.O and Central Bank of Jordan and the Central Bank of UAE and all other departments and area needs.
- Credit Monitoring & Reporting Unit is fully responsible of reviewing all Cheques and bills discounting requests. This process initially starts with reviewing all Credit package in order to mitigate any associated risk. Once the request is approved the unit develops data quality and monitoring system to follow up all transactions until the settlement.
- A quarterly "Portfolio" Credit Risk report and analysis is being conducted and presented to the Country Credit Committee (CCC) including discussions, recommendations and follow-ups on improvement and breaches issues. The final report with the CCC Minutes of meeting are submitted and shared with H.O. Credit and Risk management Department. Moreover, other aggregate month end reports are generated by Group Risk Management (H.O.) on monthly basis showing the various country exposures by groups, rating, country of risk, product, industry etc. These are distributed to the CEO, Group Credit as well as all stakeholders within the bank with frequent compliance reporting and high level portfolio reporting to the Risk Committee of the Board of Directors.

Credit Risk Management

- Credit risk is managed by the Credit Department and the Country Credit Committee, with delegated authorities based on a sliding scale with additional oversight by the Credit Risk Management department within Group Risk Management (H.O.)
- The decision making process and the structure of the various Credit Committees at both AB-UAE and H.O. levels is governed by the Credit Policy Manual which is produced and maintained by Head Office and reviewed frequently.
- For some industries, industry studies, target markets and Risk Asset Acceptance Criteria (RAAC) are used to enhance financial analysis and improve credit risk management.
- The Consumer Banking portfolio of each product and sub product is being reviewed, analysed and monitored on a monthly basis showing delinquency trends, vintage analysis and provisions using a proactive approach as an early detection technique for remedial.
- In addition to policy review and alignment in accordance with economic & political changes. A deviation assessment is an essential part of portfolio management through a monthly breakdown analysis of high deviation (type and the performance) under the deviation max ceiling per product, with the possibility of charging an additional pricing for some deviation cases covering the additional risk factors associated with the portfolio.
- As mentioned earlier and in line with recent regulatory initiatives in relation to Environmental Risks, Arab Bank has developed an Environmental Risk Policy at Group Level. The policy defines Arab Bank's approach to Environmental Risk and provides general guidelines on its management. It proposes the risk appetite, specifies industries to be avoided, and due diligence requirement for existing and new client exposure. It also defines the approach for stress testing, monitoring and reporting.
- The policy introduces a materiality categorization for potential Environmental Risks (Categories A, B and C as illustrated in the policy document) and impacts that are based on the IFC's environmental and social categorization. Moreover it is highlighted that Arab Bank will not engage in financing activities or relationships that fall within category (A) above i.e. where there is evidence of significant damage to the environment. Examples: clearing of primary forests, illegal logging, construction or expansion of coal fired power plants.

Credit Risk Mitigation

- The use of risk mitigants is currently determined on a case by case basis with regard to the underlying transaction. This is different from the consumer banking portfolio where economies of scale do exist and mitigants on a portfolio basis can be beneficial to both the bank and the customer.
- For corporate exposures, the main type of tangible collateral (as second way out) is cash deposits followed by real estate. As part of providing support to the credit exposures, we insist on having the personal / corporate guarantees of the owners where applicable.
- The bank has a collateral recording module that enables it as well to stress test the impact of economies downturn its portfolio in the future.
- Project finance is approved on a transaction by transaction basis with detailed due diligence performed prior to financing such project (i.e. Project’s Feasibility, Project’s Cash Flow, etc.). For contractors, project financing must be self liquidating via either Run off or pay back on the completion of the project.
- On the consumer side, we ensure that financed properties are mortgaged in our favor, financed cars are pledged, and in the case of most personal loans we request salary transfer to the bank.
- According to the Credit Policy Manual (CPM), all tangible securities should be inspected at least once every other year.
- Real Estate property (as security) is appraised by an approved evaluator and is carried out once every other year for corporate exposures only. In case cash, stocks, shares and bonds are used as collateral, these are valued weekly or as often as necessary. This would be incorporated and highlighted in the Credit Recommendation (CR).
- All tangible, physical securities are to be insured with prime insurance companies acceptable to the bank and the bank’s interest to be noted as loss payee. In the case of real estate property, insurance should cover at least fire accidents and earthquakes. Other types of insurance to be obtained as per local market practice and where necessary in consultation with the Insurance Division within Group Risk Management.
- In the event that the credit risk doesn’t meet our credit risk appetite and we are unable to mitigate it, we will decline the transaction or implement an exit strategy with existing counterparties.

Role of Senior Management

- The AB-UAE Management Credit Committee is the main approval authority in the country. It comprises the Area Manager, Head of Credit, Head of Corporate and Investment banking (CIB) in addition to credit, CIB and Financial Institutions/Project Finance staff (if required). The committee meets at least on a weekly basis and approvals take place in accordance with the delegated authority required by Head Office.
- CIB and Credit (at country level) reports to Head Office on a monthly basis regarding changes in the portfolio including any breaches of the Credit Policy Manual, updates on bad and doubtful accounts, and any other credit related issues which they wish and/ or required to be brought to the attention of Head Office.

- The Head of Credit at country level provides a summary report to the Country Management Committee and Local ALCO on a monthly basis covering the portfolio's composition, major movements, and changes in risk concentration. These reports are also reviewed by Head Office through the Group Credit, CIB, and Group Risk Management.

Role of Head Office

- Head Office monitors credit risk at both Group and country levels in addition to the various Credit Committees based on delegated authorities, where for credits above $5 Million H.O. credit committees' approval is required.
- Borrower Credit Rating is an important aspect of credit risk assessment. It is a mandatory requirement by the Head Office to assign credit ratings for obligors by the business units. Such ratings are reviewed and approved by the Credit Department to ensure independence with a maker/checker process in place. In addition and as part of Business Risk Review process and the Credit Audit process, ratings are reassessed and checked on a sample basis. Similarly, all credit organisational design, policies, procedures, processes and forms are provided and maintained by Head Office with regular checks to ensure compliance with all.
- All country specific changes to the Credit Policy Manual must be approved by Head Office.

6.1 Credit Quality of Assets

31 December 2021

	In 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[1]	2,019,140	9,139,481	1,691,461	1,638,756	52,705	9,467,160
2	Debt securities[2]	-	3,961,555	2,956	-	2,956	3,958,599
3	Off-balance sheet exposures[3]	164,558	10,308,570	3,293	181	3,112	10,469,835
4	**Total**	**2,183,698**	**23,409,606**	**1,697,710**	**1,638,937**	**58,773**	**23,895,594**

[1] This figure is net of interest received in advance

[2] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

[3] This figures includes trade finance (including irrevocable other commitments amounting to AED 82Mn), OTC derivatives, and excluding revocable other commitments.

6.2 Changes in stock of defaulted loans and debt securities

		31 Dec 2021
		AED'000
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**1,890,564**
2	Loans and debt securities that have defaulted since the last reporting period	378,864
3	Returned to non-default status	
4	Amounts written off	177,178
5	Other changes	(73,110)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**2,019,140**

6.3 Additional disclosure related to the credit quality of assets

a) Qualitative disclosure (Definition of past due and impaired for accounting purpose):

The adoption of IFRS 9 has fundamentally changed the Banks loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL); unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branch has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Branch calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanism of the ECL calculations is outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Branch considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Significant increase in credit risk (SICR):

To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes

The mechanisms of the ECL method are summarized below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Branch calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Branch records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For financial assets which are considered credit-impaired, the Branch recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100% and with higher LGD than the first two stages.

Loan commitments and letter of credit

When estimating LTECLs for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

Financial guarantee contracts

The Branch's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated statement of income, and the ECL provision. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within other liabilities.

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

b) Quantitative Disclosures

i. Gross Credit Exposure by Currency type:

31 December 2021

In AED'000	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures[3]	Total Non-Funded	Total
FC	**771,322**	**1,489,236**	**2,260,558**	**-**	**914,801**	**1,337,303**	**2,252,104**	**4,512,662**
AED	**10,387,299**	**2,472,319**	**12,859,618**	**82,446**	**2,984,179**	**5,154,399**	**8,221,024**	**21,080,642**
Total	**11,158,621**	**3,961,555**	**15,120,176**	**82,446**	**3,898,980**	**6,491,702**	**10,473,128**	**25,593,304**

[1] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

[2] AED 82Mn represents the total irrevocable commitment out of the AED 2.6Bn other commitments

[3] This figure includes trade finance and acceptances and excludes the revocable other commitments

31 December 2020

In AED'000	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
FC	885,614	446,983	1,332,597	-	1,476,547	1,328,101	2,804,648	4,137,245
AED	11,488,016	383,499	11,871,515	284,623	23,926	5,685,719	5,994,268	17,865,783
Total	12,373,630	830,482	13,204,112	284,623	1,500,473	7,013,820	8,798,916	22,003,028

[1] Excluding CDs from CBUAE.

[2] AED 285Mn represents the total irrevocable commitment out of the AED 1.96Bn other commitments

ii. Gross Credit Exposure by Geography type:

31 December 2021

In AED'000

Geographic distribution	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures[3]	Total Non-Funded	Total
UAE	11,134,926	3,028,808	14,163,734	82,446	1,664,292	5,890,977	7,637,715	21,801,449
GCC excluding UAE	23,695	709,702	733,397	-	2,064,700	38,912	2,103,612	2,837,009
Arab League (excluding GCC)	-	184,191	184,191	-	169,988	19,425	189,413	373,604
Asia	-	38,854	38,854	-	-	398,491	398,491	437,345
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	56,038	56,038	56,038
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	87,853	87,853	87,853
Australia	-	-	-	-	-	6	6	6
Others	-	-	-	-	-	-	-	-
Total	11,158,621	3,961,555	15,120,176	82,446	3,898,980	6,491,702	10,473,128	25,593,304

[1] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

[2] AED 82Mn represents the total irrevocable commitment out of the AED 2.6Bn other commitments

[3] This figure includes trade finance and acceptances and excludes the revocable other commitments

ii. Gross Credit Exposure by Geography type (continued):

31 December 2020

In AED'000

Geographic distribution	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
UAE	12,315,972	537,726	12,853,698	284,623	719,860	6,382,755	7,387,238	20,240,936
GCC excluding UAE	45,722	133,925	179,647	-	775,213	39,732	814,945	994,592
Arab League (excluding GCC)	-	-	-	-	-	9,989	9,989	9,989
Asia	-	127,173	127,173	-	-	314,712	314,712	441,885
Africa	-	-	-	-	-	23,024	23,024	23,024
North America	-	21,105	21,105	-	-	65,402	65,402	86,507
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	11,936	-	11,936	-	5,400	178,200	183,600	195,536
Australia	-	10,553	10,553	-	-	6	6	10,559
Others	-	-	-	-	-	-	-	-
Total	12,373,630	830,482	13,204,112	284,623	1,500,473	7,013,820	8,798,916	22,003,028

[1] Excluding CDs from CBUAE

[2] AED 285Mn represents the total irrevocable commitment out of the AED 1.96Bn other commitments

iii. Gross Credit Exposure by Industry type:

31 December 2021

Industry Segment In AED'000	**Loans**	**Debt Securities[1]**	**Total funded**	**Other Commitments[2]**	**OTC Derivatives**	**Other Off-Balance sheet exposures[3]**	**Total Non-Funded**	**Total**
Crude Oil, Gas, Mining & Quarrying	**22,711**	**128,538**	**151,249**	**-**	**-**	**104,188**	**104,188**	**255,437**
Manufacturing	**1,477,828**	**-**	**1,477,828**	**52,302**	**300,000**	**654,453**	**1,006,755**	**2,484,583**
Electricity & Water	**347,613**	**-**	**347,613**	**-**	**-**	**246,153**	**246,153**	**593,766**
Construction	**1,530,164**	**-**	**1,530,164**	**-**	**60,000**	**3,432,822**	**3,492,822**	**5,022,986**
Real Estate	**1,310,324**		**1,310,324**	**10,400**	**-**	**4,535**	**14,935**	**1,325,259**
Trade	**1,979,388**	**-**	**1,979,388**	**5,743**	**66,503**	**1,001,417**	**1,073,663**	**3,053,051**
Transport, Storage, Communication	**511,298**	**-**	**511,298**	**-**	**-**	**66,985**	**66,985**	**578,283**
Financial Institutions	**9,449**	**989,384**	**998,833**	**-**	**3,472,477**	**552,702**	**4,025,179**	**5,024,012**
Services	**1,524,833**	**-**	**1,524,833**	**14,001**	**-**	**428,447**	**442,448**	**1,967,281**
Government	**806,650**	**2,843,633**	**3,650,283**	**-**	**-**	**-**	**-**	**3,650,283**
Retail/Consumer banking	**1,638,363**	**-**	**1,638,363**	**-**	**-**	**-**	**-**	**1,638,363**
All Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**11,158,621**	**3,961,555**	**15,120,176**	**82,446**	**3,898,980**	**6,491,702**	**10,473,128**	**25,593,304**

[1] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

[2]AED 82Mn represents the total irrevocable commitment out of the AED 2.6Bn other commitments

[3] This figure includes trade finance and acceptances and excludes the revocable other commitments

31 December 2020

Industry Segment In AED'000	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Crude Oil, Gas, Mining & Quarrying	22,256	-	22,256	-	-	83,005	83,005	105,261
Manufacturing	1,912,918	-	1,912,918	13,181	-	788,790	801,971	2,714,889
Electricity & Water	407,485	-	407,485	-	-	290,361	290,361	697,846
Construction	1,904,650	-	1,904,650	936	-	3,779,189	3,780,125	5,684,775
Real Estate	1,787,324		1,787,324	32,817	-	5,124	37,941	1,825,265
Trade	2,450,150	-	2,450,150	180,599	30,163	742,421	953,183	3,403,333
Transport, Storage, Communication	578,969	-	578,969	-	-	85,223	85,223	664,192
Financial Institutions	79,030	812,158	891,188	-	1,470,310	562,642	2,032,952	2,924,140
Services	1,169,033	-	1,169,033	57,090	-	677,065	734,155	1,903,188
Government	500,000	18,324	518,324	-	-	-	-	518,324
Retail/Consumer banking	1,561,815	-	1,561,815	-	-	-	-	1,561,815
All Others	-	-	-	-	-	-	-	-
Total	12,373,630	830,482	13,204,112	284,623	1,500,473	7,013,820	8,798,916	22,003,028

[1] Excluding CDs from CBUAE.

[2]AED 285Mn represents the total irrevocable commitment out of the AED 1.96Bn other commitments.

Gross Credit Exposure by residual contractual maturity:

31 December 2021

In AED'000

Residual Contractual Maturity	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures[3]	Total Non-Funded	Total
Less than 3 months	**5,407,038**	**540,000**	**5,947,038**	**-**	**998,653**	**4,355,530**	**5,354,183**	**11,301,221**
3 months to one year	**1,451,092**	**2,425,883**	**3,876,975**	**82,446**	**1,237,457**	**1,116,064**	**2,435,967**	**6,312,942**
One to five years	**2,788,528**	**867,134**	**3,655,662**	**-**	**915,970**	**1,006,957**	**1,922,927**	**5,578,589**
Over five years	**1,511,963**	**128,538**	**1,640,501**	**-**	**746,900**	**13,151**	**760,051**	**2,400,552**
Total	**11,158,621**	**3,961,555**	**15,120,176**	**82,446**	**3,898,980**	**6,491,702**	**10,473,128**	**25,593,304**

[1] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

[2] AED 82Mn represents the total irrevocable commitment out of the AED 2.6Bn other commitments

[3] This figure includes trade finance and acceptances and excludes the revocable other commitments

31 December 2020

In AED'000

Residual Contractual Maturity	Loans	Debt Securities[1]	Total funded	Other Commitments[2]	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Less than 3 months	6,169,471	311,810	6,481,281	8,723	1,264,171	523,854	1,796,748	8,278,029
3 months to one year	1,515,187	394,634	1,909,821	69,766	63,675	1,133,686	1,267,127	3,176,948
One to five years	3,891,258	124,038	4,015,296	206,134	172,627	5,356,280	5,735,041	9,750,337
Over five years	797,714	-	797,714	-	-	-	-	797,714
Total	12,373,630	830,482	13,204,112	284,623	1,500,473	7,013,820	8,798,916	22,003,028

[1] Excluding CDs from CBUAE.

[2] AED 285Mn represents the total irrevocable commitment out of the AED 1.96Bn other commitments.

iii. Impaired loans by industry type:

31 December 2021

In AED'000				[A]			[B]		[C]			[D]	[E]=A-B-C-D
Industry Segment	Current^	Overdue^			Total Loans	Provision				Adjustment		Interest in Suspense	Net Overdue Assets
		Less than 90 days	90 days and above	Total		General* [Current]	General* [Overdue < 90 days]	Total General*	Specific**	Write Offs***	Write Backs***		
Crude Oil, Gas, Mining & Quarrying	9,718	-	12,993	12,993	22,711	167	-	167	8,879	-	83	4,114	-
Manufacturing	1,226,961	15,168	235,699	250,867	1,477,828	4,446	3,690	8,136	160,244	67,890	22,101	27,250	59,683
Electricity & Water	347,480	133	-	133	347,613	2,585	133	2,718	-	-	-	-	-
Construction	878,203	3,025	648,936	651,961	1,530,164	4,325	360	4,685	543,128	16,650	2,107	40,455	68,018
Real estate	1,307,170	3,154	-	3,154	1,310,324	1,821	162	1,983	-	13,993	3,490	-	2,992
Trade	1,637,760	42,041	299,587	341,628	1,979,388	3,643	13,259	16,902	223,038	40,249	3,073	69,182	36,149
Transport, Storage, Communication	325,048	2,436	183,814	186,250	511,298	1,655	1,003	2,658	150,329	4,364	-	33,486	1,432
Financial Institutions	9,449	-	-	-	9,449	-	-	-	-	-	-	-	-
General Services	993,315	8,992	522,526	531,518	1,524,833	2,653	473	3,126	474,001	-	14,021	48,521	8,523
Government	806,650	-	-	-	806,650	-	-	-	-	-	-	-	-
Retail/Consumer banking	1,390,237	132,541	115,585	248,126	1,638,363	6,512	5,818	12,330	79,137	34,032	6,641	32,952	130,219
All Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	8,931,991	207,490	2,019,140	2,226,630	11,158,621	27,807	24,898	52,705	1,638,756	177,178	51,516	255,960	307,016

*** General provisions represent Stage 1 and Stage 2 Expected Credit Loss ('ECL') segregated for current and less than 90 days overdue.**

**** Specific provisions represent Stage 3 Expected Credit Loss ('ECL') (i.e. 90 days and above)**

***** Write-offs and write-backs include both provisions and interest in suspense amounts.**

^ Gross of interest in suspense

v. Impaired loans by industry type (continued):

31 December 2020

In AED'000

				[A]			[B]		[C]			[D]	[E]=A-B-C-D
Industry Segment	Current^	Overdue^			Total Loans	Provision				Adjustment		Interest in Suspense	Net Overdue Assets
		Less than 90 days	90 days and above	Total		General* [Current]	General* [Overdue < 90 days]	Total General*	Specific**	Write Offs***	Write Backs***		
Crude Oil, Gas, Mining & Quarrying	10,162	-	12,094	12,094	22,256	-	-	-	8,962	-	44	3,132	-
Manufacturing	1,704,137	38,514	170,267	208,781	1,912,918	91,577.00	3,950	95,527	140,047	-	7,207	30,221	34,563
Electricity & Water	403,517	-	3,968	3,968	407,485	-	-	-	3,456	-	-	512	-
Construction	1,337,757	14,340	552,553	566,893	1,904,650	3,808.00	8,960	12,768	277,875	530	29	31,572	248,486
Real estate	1,759,914	1,512	25,898	27,410	1,787,324	5,336.00	-	5,336	13,886	-	-	2,058	11,466
Trade	2,122,661	17,162	310,327	327,489	2,450,150	12,261.00	6,107	18,368	234,501	-	1,108	63,833	23,048
Transport, Storage, Communication	397,072	1,822	180,075	181,897	578,969	2,555	464	3,019	150,877	-	42,432	29,197	1,359
Financial Institutions	79,030	-	-	-	79,030	117	-	117	-	-	-	-	-
General Services	662,783	1,412	504,838	506,250	1,169,033	4,466	209	4,675	250,115	-	37	18,053	237,873
Government	500,000	-	-	-	500,000	254	-	254	-	-	-	-	-
Retail/Consumer banking	1,298,225	133,046	130,544	263,590	1,561,815	8,981	2,927	11,908	92,368	167	4,267	35,876	132,419
All Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	10,275,258	207,808	1,890,564	2,098,372	12,373,630	129,355	22,617	151,972	1,172,087	697	55,124	214,454	689,214

* General provisions represent Stage 1 and Stage 2 Expected Credit Loss ('ECL') segregated for current and less than 90 days overdue.
** Specific provisions represent Stage 3 Expected Credit Loss ('ECL') (i.e. 90 days and above)
*** Write-offs and write-backs include both provisions and interest in suspense amounts.
^ Gross of interest in suspense

vi. Impaired loans by Geography:

The below table illustrates the impaired loans by geography:

31 December 2021

In AED'000

Geographic distribution	Current^	Overdue			Total Loans	Provision				Adjustment		IIS	Net Overdue Assets
		Less than 90 days	90 days and above	Total		General* [Current]	General* [Overdue < 90 days]	Total General*	Specific**	Write Offs***	Write Backs ***		
UAE	8,908,296	207,490	2,019,140	2,226,630	11,134,926	27,727	24,898	52,705	1,638,756	177,178	51,516	255,960	307,016
GCC excluding UAE	23,695	-	-	-	23,695	80	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	8,931,991	207,490	2,019,140	2,226,630	11,158,621	27,807	24,898	52,705	1,638,756	177,178	51,516	255,960	307,016

*** General provisions represent Stage 1 and Stage 2 Expected Credit Loss ('ECL') segregated for current and less than 90 days overdue.**

**** Specific provisions represent Stage 3 Expected Credit Loss ('ECL') (i.e. 90 days and above)**

***** Write-offs and write-backs include both provisions and interest in suspense amounts.**

^ Gross of interest in suspense.

vi. Impaired loans by Geography (continued):

The below table illustrates the impaired loans by geography:

31 December 2020

In AED'000

Geographic distribution	Current ^	Overdue ^			Total Loans	Provision				Adjustment		Interest in Suspense	Net Overdue Assets
		Less than 90 days	90 days and above	Total		General* [Current]	General* [Overdue < 90 days]	Total General*	Specific**	Write Offs***	Write Backs***		
UAE	10,217,600	207,808	1,890,564	2,098,372	12,315,972	129,355	22,617	151,972	1,172,087	697	55,124	214,454	689,214
GCC excluding UAE	45,722	-	-	-	45,722	-	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	11,936	-	-	-	11,936	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	10,275,258	207,808	1,890,564	2,098,372	12,373,630	129,355	22,617	151,972	1,172,087	697	55,124	214,454	689,214

* General provisions represent Stage 1 and Stage 2 Expected Credit Loss ('ECL') segregated for current and less than 90 days overdue.
** Specific provisions represent Stage 3 Expected Credit Loss ('ECL') (i.e. 90 days and above)
*** Write-offs and write-backs include both provisions and interest in suspense amounts.
^ Gross of interest in suspense.

vii. Reconciliation of changes in provision for impaired loans:

Refer to note 11 (g) and (h) to the consolidated financial statement for the year ended 31st December 2021 & 2020 under Loans & Advances, Net for the movement of the allowance in impairment for more details.

		2021	2020
Description		**AED'000**	AED'000
Opening balance of provision for impaired loans		**1,324,059**	825,720
Charge for the year			
Add:	Specific provision	**558,026**	493,152
Add:	General Provision	**16,900**	59,864
Less:	Write-off of impaired loans	**(114,827)**	(139)
Less:	Write-off of impaired loans to income statement	**-**	-
Less:	Recovery of loan loss provision (Specific)	**(49,777)**	(14,293)
Less:	Recovery of previously written off to income statement	**-**	-
Less:	Write-back of provision for loans (General provision)	**(42,920)**	(40,245)
Less:	Adjustment of loan loss provision	**-**	-
Closing balances of provision for impaired loans		**1,691,461**	1,324,059

6.4 Credit risk mitigation techniques - overview

- Overview of net exposure after CRM:

31 December 2021

Quantitative disclosure		Exposure	Risk Weighted Assets
In AED'000			
	Gross exposure prior to Credit Risk Mitigation	**28,771,297**	**13,388,577**
Less	**Exposure covered by on-balance sheet netting**	**-**	**-**
Less	**exposure covered by eligible financial collateral**	**1,036,205**	**964,100**
Less	**Exposure covered by guarantees**	**4,365**	**3,492**
Less	**Exposure covered by Credit Derivative**	**-**	**-**
Net exposure after Credit Risk Mitigation		**27,730,727**	**12,420,985**

31 December 2020

Quantitative disclosure		Exposure	Risk Weighted Assets
In AED'000			
	Gross exposure prior to Credit Risk Mitigation	29,551,700	15,562,858
Less	Exposure covered by on-balance sheet netting	-	-
Less	exposure covered by eligible financial collateral	1,040,944	970,035
Less	Exposure covered by guarantees	28,372	22,698
Less	Exposure covered by Credit Derivative	-	-
Net exposure after Credit Risk Mitigation		28,482,384	14,570,126

- Below is an illustration of CRM distribution by collateral type:

31 December 2021

	In AED'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans[1]	9,348,535	1,805,209	740,021	4,877	4,364	-	-
2	Debt securities[2]	3,961,555	-	-	-	-	-	-
3	**Total**	**13,310,090**	**1,805,209**	**740,021**	**4,877**	**4,364**	**-**	**-**
4	Of which defaulted	2,015,558	3,584	1,179	-	-	-	-

[1] This figure is net of interest received in advance

[2] This figure includes financial assets at amortized cost (including M-Bills from CBUAE)

6.5 Qualitative disclosures on banks' use of external credit ratings under the SA for credit risk

i. Gross credit exposure as per Standardized Approach:

As per Basel & CBUAE guidelines, Arab Bank UAE (hereinafter referred to as "AB UAE")is using the rating as per the ECAI from the major three rating agencies i.e. Fitch, Moody's, S&P for their risk weighted assets working. As per the CBUAE guidelines ones using the multiple assessment "if there are three assessments with different risk weights, the assessment corresponding to the two lowest risk weight should be referred to the higher of those two risk weight will be applied."

The below schedule illustrates the credit risk profile of Exposures Not Subject to deduction by counterparty classifications, rated/ unrated:

31 December 2021

In AED'000

Assets	Exposure not subject to deduction				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
CLAIMS ON SOVEREIGNS	5,632,044	-	5,632,044	5,632,044	477,306
CLAIMS ON PUBLIC SECTOR ENTERPRISES (PSEs) including (GRE)	100,012	414,204	514,216	514,216	236,818
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-
CLAIMS ON BANKS	3,006,682	336,171	3,342,853	3,342,853	1,097,959
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES	201,039	13,039,191	13,240,230	13,240,230	7,361,236
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	581,300	-	581,300	581,300	367,691
CLAIMS SECURED BY RESIDENTIAL PROPERTY	942,673	-	942,673	942,673	449,966
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	1,612,235	-	1,612,235	1,612,235	1,611,916
PAST DUE LOANS	288,804	-	288,804	288,804	287,625
HIGHER-RISK CATEGORIES	-	-	-	-	-
OTHER ASSETS	527,862	-	527,862	527,862	530,468
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-
Total	**12,892,651**	**13,789,566**	**26,682,217**	**26,682,217**	**12,420,985**

The below schedule illustrates the credit risk profile of Exposures Subject to deduction by counterparty classifications, rated/ unrated:

In AED'000

Assets	Exposure subject to deduction				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
CLAIMS ON SOVEREIGNS	-	-	-	-	-
CLAIMS ON PUBLIC SECTOR ENTERPRISES (PSEs) including (GRE)	-	-	-	-	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-
CLAIMS ON BANKS	-	-	-	-	-
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES	-	-	-	-	-
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	-	-	-	-	-
CLAIMS SECURED BY RESIDENTIAL PROPERTY	-	-	-	-	-
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	-	-	-	-	-
PAST DUE LOANS	-	-	-	-	-
HIGHER-RISK CATEGORIES	-	-	-	-	-
OTHER ASSETS	**194,184**	-	**194,184**	**194,184**	**485,460**
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-
Total	**194,184**	-	**194,184**	**194,184**	**485,460**

i. Gross credit exposure as per Standardized Approach (continued):

The below schedule illustrates the Credit risk profile of gross credit exposure by counterparty classifications, rated/ unrated:

31 December 2020

In AED'000

Assets	Exposure not subject to deduction				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
CLAIMS ON SOVEREIGNS	3,821,670	-	3,821,670	3,821,670	-
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	-	-	-	-	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-
CLAIMS ON BANKS	4,262,238	321,747	4,583,985	4,583,985	1,325,193
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	-	15,068,785	15,068,785	15,068,785	9,428,100
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	608,563	-	608,563	608,563	379,334
CLAIMS SECURED BY RESIDENTIAL PROPERTY	824,234	-	824,234	824,234	348,925
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	1,899,349	-	1,899,349	1,899,349	1,897,529
PAST DUE LOANS	713,946	-	713,946	713,946	667,529
HIGHER-RISK CATEGORIES	-	-	-	-	-
OTHER ASSETS	644,451	-	644,451	644,451	584,153
SECURITISATION EXPOSURES	-	-	-	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-
Total	12,774,451	15,390,532	28,164,983	28,164,983	14,630,763

ii. Recognition of External Credit Assessment Institutions (ECAI)

The standardised approach requires banks to use risk assessments prepared by ECAIs to determine the risk weightings applied to rated counterparties. As advised by CBUAE; Moody's Investor Service (Moody's), Standard and Poor's rating agency (S&P) and Fitch Ratings (Fitch) have been used for ratings purpose.

The Group in line with CBUAE guidelines follows below rating matrix in determining the risk weights.

S & P	Fitch	Moody's
AAA to AA-	AAA to AA-	Aaa to Aa3
A+ to A-	A+ to A-	A1 to A3
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3
BB+ to BB-	BB+ to BB-	Ba1 to Ba3
B+ to B-	B+ to B-	B1 to B3
Below B-	Below B-	Below B
Unrated	Unrated	Unrated

If there is only one rating, that rating is used to determine the risk weight of the exposure. If there are two ratings that map to different risk weights, the higher risk weight is applied.

If there are three ratings with different risk weights, the ratings corresponding to the two lowest risk weights is referred to. If these give rise to the same risk weight, that risk weight is applied. If different, the higher risk weight is applied.

ECAIs risk assessments are used within the Group as part of the determination of risk weightings for the following classes of exposure:

- Sovereigns
- Public Sector Enterprises
- Banks
- Corporates

All other exposure classes are assigned risk weightings as pre scribed in the CBUAE standards.

AB-UAE's financial assets by external ratings (excluding derivatives) as at 31 Dec 2021:

	31 December 2021						
	Cash balances with Central Banks and due from banks	**Loans and advances to customers**	**Fair value through profit or loss**	**Fair value through OCI**	**Financial assets at amortised cost**	**Guarantees, letters of credit and unused credit facilities**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Stage 1							
AAA to AA-	2,334,446	81,649	-	-	2,527,110	7,876	4,951,081
A+ to A-	747,610	-	-	-	906,148	407,631	2,061,389
BBB+ to B-	534,278	815,864	-	-	528,297	103,555	1,981,994
Below B-	-	-	-	-	-	-	-
Unrated	353,003	7,345,115	-	2,641	-	8,313,542	16,014,301
	3,969,337	**8,242,628**	**-**	**2,641**	**3,961,555**	**8,832,604**	**25,008,765**
Stage 2							
AAA to AA-	-	-	-	-	-	-	**-**
A+ to A-	-	-	-	-	-	-	**-**
BBB+ to B-	-	-	-	-	-	-	**-**
Below B-	-	-	-	-	-	-	**-**
Unrated	-	896,853	-	-	-	60,444	**957,297**
	-	**896,853**	**-**	**-**	**-**	**60,444**	**957,297**
Past due but not impaired							
Individually impaired							
Stage 3							
AAA to AA-	-	-	-	-	-	-	**-**
A+ to A-	-	-	-	-	-	-	**-**
BBB+ to B-	-	-	-	-	-	-	**-**
Below B-	-	-	-	-	-	-	**-**
Unrated	-	2,019,140	-	-	-	164,558	**2,183,698**
	-	**2,019,140**	**-**	**-**	**-**	**164,558**	**2,183,698**
Gross	**3,969,337**	**11,158,621**	**-**	**2,641**	**3,961,555**	**9,057,606**	**28,149,760**
ECL's							
Stage 1	295	25,971	-	-	2,956	3,001	**29,222**
Stage 2	-	26,734	-	-	-	110	**26,844**
Stage 3	-	1,638,756	-	-	-	181	**1,638,937**
	295	**1,691,461**	**-**	**-**	**2,956**	**3,292**	**1,695,003**
Net	**3,969,042**	**9,467,160**	**-**	**2,641**	**3,958,599**	**9,054,314**	**26,454,757**

6.6 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2021

	In AED'000	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereigns and their central banks	**5,632,044**	**0**	**5,632,044**	**0**	**477,306**	**8%**
2	Public Sector Entities	**488,547**	**25,669**	**488,547**	**13,281**	**236,818**	**46%**
3	Multilateral development banks	**0**	**0**	**0**	**0**	**0**	**0%**
4	Banks	**2,790,152**	**552,701**	**2,790,152**	**372,618**	**1,097,959**	**33%**
5	Securities firms	**0**	**0**	**0**	**0**	**0**	**0%**
6	Corporates	**4,933,636**	**8,306,594**	**5,284,500**	**3,091,815**	**7,361,236**	**56%**
7	Regulatory retail portfolios	**580,105**	**1,195**	**580,105**	**1,183**	**367,691**	**63%**
8	Secured by residential property	**942,673**	**0**	**942,673**	**0**	**449,966**	**48%**
9	Secured by commercial real estate	**1,605,346**	**6,889**	**1,605,346**	**6,570**	**1,611,916**	**100%**
10	Equity Investment in Funds (EIF)	**0**	**0**	**0**	**0**	**0**	**0%**
11	Past-due loans	**2,019,140**	**164,558**	**125,425**	**163,379**	**287,625**	**13%**
12	Higher-risk categories	**0**	**0**	**0**	**0**	**0**	**0%**
13	Other assets	**722,048**	**0**	**722,045**	**0**	**530,468**	**73%**
14	**Total**	**19,713,691**	**9,057,606**	**18,170,837**	**3,648,846**	**12,420,985**	**43%**

6.7 Standardised approach - exposures by asset classes and risk weights:

31 December 2021

In AED'000

	Asset classes \ Risk Weights	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	5,095,568	73,962	-	-	-	462,514	-	-	**5,632,044**
2	Public Sector Entities	-	100,012	-	370,000	-	31,816	-	-	**501,828**
3	Multilateral development banks	-	-	-	-	-	-	-	-	**-**
4	Banks	-	1,633,510	-	1,516,007	-	13,253	-	-	**3,162,770**
5	Securities firms	-	-	-	-	-	-	-	-	**-**
6	Corporates	828,264	4,365	-	110,175	-	6,578,608	-	854,903	**8,376,315**
7	Regulatory retail portfolios	94,667	-	-	-	475,718	10,903	-	-	**581,288**
8	Secured by residential property	-	-	758,011	-	-	184,662	-	-	**942,673**
9	Secured by commercial real estate	-	-	-	-	-	1,611,916	-	-	**1,611,916**
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	**-**
11	Past-due loans	1,179	-	-	-	-	287,625	-	-	**288,804**
12	Higher-risk categories	-	-	-	-	-	-	-	-	**-**
13	Other assets	435,861	16,832	-	-	-	97,521	-	171,831	**722,045**
14	**Total**	**6,455,539**	**1,828,681**	**758,011**	**1,996,182**	**475,718**	**9,278,818**	**-**	**1,026,734**	**21,819,683**

7. Counterparty Risk

7.1 Qualitative disclosure related to counterparty credit risk:

Treasury is permitted to enter into trades with counterparties with approved limits. These limits are reviewed annually as part of the country credit review process where the Head of Treasury is able to propose increases or reductions to existing limits and the potential inclusion of new counterparties. These are reviewed by the Credit Department and submitted to HO for approval.

Any adverse event affecting the credit standing of any names in the approved counterparty list will be advised immediately in a note to ALCO and HO for appropriate action. Treasury will act accordingly upon any notice received.

AB UAE's objectives and policies on managing the risks that arise in connection with derivatives are included in note 2.3 and note 26 of the annual financial statements.

AB UAE uses the Mark to Market approach for the calculation of counterparty credit risk on its derivative population.

The gross notional amounts represent the amounts of all outstanding contracts at year-end. It is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts of the derivatives provide a basis for comparison with instruments recognised on the balance sheet, but does not indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate AB UAE's exposure to credit or price risks.

Derivatives are measured at their fair value, which is calculated as the present value of future expected net contracted cash flows at market related rates as of the balance sheet date.

AB UAE enters into the following main types of derivative contracts:

Interest Rate Swaps

These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest over a set period based on notional principal amounts. AB UAE enters into interest rate swaps, exchanging fixed rates for floating rates of interest based on notional amounts.

Currency Forward Contracts

Forward foreign exchange contracts are OTC agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specified rate applied against the underlying asset or financial instrument, at a specified date.

Derivative financial instruments held or issued for trading purposes

AB UAE may take limited short term positions within the prescribed market risk limits approved by the Board. Also included under the classification are any derivatives entered into for risk management purposes that do not meet the IFRS9 hedge accounting criteria.

Derivative financial instruments held or issued for hedging purposes

As part of its asset and liability management, AB UAE uses derivatives for hedging purposes in order to reduce its exposure to market risk. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions.

The accounting treatment, explained in note 2.3 hedge accounting of the annual financial statements, depending on the nature of the item hedged and compliance with IFRS9 hedge accounting criteria

7.2 Analysis of counterparty credit risk (CCR) exposure by approach:

31 December 2021

	In AED'000	**Replacement cost**	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1	SA-CCR (for derivatives)	29,602	3,477		1.4	46,311	38,262
2	[redacted]			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	[redacted]					-	-
6	**Total**						**38,262**

7.3 Standardised approach - CCR exposures by regulatory portfolio and risk weights:

31 December 2021

In AED'000

	Asset classes / Risk Weights	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
1	Sovereigns and their central banks	-	-	-	-	-	-	-	**-**
2	Public Sector Entities	-	-	-	-	-	-	-	**-**
3	Multilateral development banks	-	-	-	-	-	-	-	**-**
4	Banks	-	4,159	9,443	-	27,185	-	-	**40,787**
5	Securities firms	-	-	-	-	-	-	-	**-**
6	Corporates	-	-	-	-	5,524	-	-	**5,524**
7	Regulatory retail portfolios	-	-	-	-	-	-	-	**-**
8	Secured by residential property	-	-	-	-	-	-	-	**-**
9	Secured by commercial real estate	-	-	-	-	-	-	-	**-**
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	**-**
11	Past-due loans	-	-	-	-	-	-	-	**-**
12	Higher-risk categories	-	-	-	-	-	-	-	**-**
13	Other assets	-	-	-	-	-	-	-	**-**
14	**Total**	**-**	**4,159**	**9,443**	**-**	**32,709**	**-**	**-**	**46,311**

7.4 Composition of collateral for CCR exposure:

In AED'000	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

7.5 Credit derivative exposures:

AB UAE does not have any credit derivative exposures.

7.6 Exposures to central counterparties:

		31-Dec-2021	
		EAD (post-CRM) AED'000	RWA AED'000
1	**Exposures to QCCPs (total)**		-
2	Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	-	-
3	(i) OTC derivatives	-	-
4	(ii) Exchange-traded derivatives	-	-
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Pre-funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total**		**38,262**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:	-	-
13	(i) OTC derivatives	46,311	38,262
14	(ii) Exchange-traded derivatives	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Pre-funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

8. Market Risk

8.1 General qualitative disclosure requirements related to market risk

Historically the bank has managed its market risk across its Trading and Banking Books on a consolidated basis as a more conservative management approach. Given the size of the trading portfolio, market risk remains very small. Through the Transfer Pricing system market risk is transferred from CIB and Consumer Banking to Treasury where it can be centrally managed.

Furthermore, the treasury system includes a risk measurement system (Fusion Risk) which provides all necessary ALCO reports, stress testing analysis for market risk scenarios.

Market Risk Measurement

There are several tools used to measure market risk across AB UAE:

1. **Present Value One Basis Point (PV01):** The interest rate gaps are used to assess the risk to economic value as a result of one basis point interest rates upward parallel shift.
2. **Net Interest Income 100 Basis Point (NII 100):** The interest rates gaps are used to assess the net interest income at risk for the first and second years as a result of changes in interest rates. The current approach used is a standard parallel upward shift of 100 basis points across each yield curve.
3. **Foreign Currency Net Open Position:** The net open position for each currency, including gold and silver is calculated as the mismatches in assets and liabilities that are denominated in currencies other than the functional currency.
4. **Value at Risk**: The Value at Risk estimates the maximum loss that may be experienced by the bank over a one-day holding period with 99% confidence level using the Historical Simulation approach with 500 days of data. Also, the bank assesses the expected shortfall.
5. **Stress Testing**: The Stress Testing framework assesses the impact of possible future market risk stresses on its profitability and capital adequacy. The stress testing methodology consists of a blend of standard and hypothetical shocks and covers exposures to most material risk factors for AB UAE.

Market Risk Monitoring

Middle Office reports the IRR and FX risk positions to local management on a daily basis and to Global Treasury and Group Risk Management on a regular basis using the standard reporting templates, which highlights the exposures held by the branch. The Treasury System enables immediate notification of breaches as well as automated preparation of market and liquidity risk reports including stress tests. Furthermore, Market risk is centrally controlled and monitored by Global Treasury and Group Risk Management with the aim to identify trends, concentrations and other significant issues at the branch and Group level.

Market Risk Management

The branch's IRR and FX limits are applied to the consolidated positions arising in the banking and trading books and consists of the following limit types:

1. Total PV01 (absolute and net) Warning level / limit
2. PV01 Currency Sub-limits (maximum permissible exposure per currency),
3. PV01 Time Band and Bucket Sub-limit,
4. Permitted products,
5. Total Overnight FX Open Position Limits,
6. Total Intraday FX Open Position Limits,
7. FX Stop Loss Limits,
8. Permitted Currencies.

Market Risk Mitigation

- Treasury may use any combination of permitted products to ensure that the trading limits set out above are not exceeded. In practice, Treasury may hedge any position which if left un-hedged would result in a limit excess.
- The key risk mitigants for FX risk are achieved by:

1. Identifying the sources of foreign exchange risk in the bank's portfolio.
2. Analysing the size, complexity and components of each type of foreign exchange risk position.
3. Ensuring that appropriate levels of procedures, controls, and monitoring techniques are implemented and properly administered.
4. Implementing an effective system to identify and forecast foreign exchange positions.
5. Using appropriate hedging activities or other market techniques in managing foreign exchange risk.
6. Ensuring that limits are conservative and in line with business requirements and regulatory guidelines if any.
7. Limiting the permissible currencies that countries can hold overnight.

Role of Senior Management

Detailed reports on market risk are made available to senior management who receive the market and liquidity risk reports and are notified immediately of any breach of the limits. The key responsibilities of the Local ALCO (Country Level) are:

1. Manage and ensure compliance with the established policies, procedures and guidelines in terms of:
   - Liquidity and funding requirements.
   - Market Risk of the country's position.
2. Assess the Country's current balance sheet composition and devise its future developments in line with High ALCO decisions.
3. Review the impact of changes in business strategies and plans on ALM goals and requirements in line with High ALCO decisions and communicate the targets to line functions.
4. Review proposals for new products to be offered by the bank specifically on their impact on the balance sheet and ALM targets/goals as and when needed.

Role of Head Office

The key responsibilities of the High ALCO (Head Office Level) are:

- Develop, monitor, and review the ALM strategy, liquidity management strategy, and the bank's market risk management strategy.
- Review the liquidity risk and market risk positions of the bank
- Develop and monitor the liquidity and market risk limits of the bank.
- Assess the market environment and adjust ALM strategy, liquidity management strategy, and market risk management strategy as required.

8.2 Market risk under the standardised approach (SA)

		31-Dec-2021	31-Dec-2020
		RWA	RWA
		AED'000	AED'000
1	General Interest rate risk (General and Specific)	-	-
2	Equity risk (General and Specific)	-	-
3	Foreign exchange risk	10,456	5,306
4	Commodity risk	-	-
	Options		
5	Simplified approach	1,679	-
6	Delta-plus method	-	-
7	[redacted]		
8	Securitisation	-	-
9	**Total**	**12,135**	**5,306**

9. Interest Rate risk in Banking Book (IRRBB):

9.1 Qualitative disclosure:

Most of the bank’s exposure to interest rate risk resides in the banking book, as there is minimal trading exposure. Interest rate risk in the Banking Book is recognised and managed within the market risk management (Please refer to section Market risk monitoring).

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability, cash flow or the fair value of financial instrument. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instrument that mature or re price in a given period. The Board of Directors has established acceptable level of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The bank manages interest rate risk by matching the re pricing of assets and liabilities through risk management strategies and monitors the position on a daily basis to ensure they are maintained within establishment limits. Adherences to those are monitored by ALCO.

9.2 Quantitative information on IRRBB

Interest Rate risk is also assessed by measuring the impact of defined movement in interest yield curve on bank net interest income. The following impact on the net interest income and regulatory capital for the year of an immediate and permanent movement in interest yield curves as at:

31 December 2021

In reporting currency (AED’000)	ΔEVE		ΔNII	
Period	**2021**	**2020**	**2021**	**2020**
Parallel up	13,416	38,474	148,296	155,840
Parallel down	(12,525)	(34,457)	(148,296)	(155,840)
Steepener	(21,265)	(34,918)		
Flattener	8,513	38,329		
Short rate up	16,906	37,861		
Short rate down	(22,726)	(33,907)		
Maximum	(22,726)	(34,918)		
Period	**2021**		**2020**	
Tier 1 capital	1,524,614		1,888,740	

Sr.	Description	Assumption
1	Average repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket
2	Longest repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket

10. Prudential valuation adjustments (PVAs):

Equity position in Banking Book

At initial recognition, the Branches can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings

1. Quantitative details of equity position:

Type (In AED'000)	**2021**		2020	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	-	**2,641**	-	2,648
Collective investment scheme	-	**-**	-	-
Any other investment	-	**-**	-	-
Total	**-**	**2,641**	-	2,648

2. Realised, unrealised and latent revaluation gains (loses) during the year

Gains (losses)	2021	2020
	AED'000	AED'000
Realised gains (losses) from sale and liquidation	-	-
Unrealised gains (losses) recognized in the balance sheet but not through P&L	878	885
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or P&L	-	-
Total	**878**	885

3. Items in (2) above included in Tier 1/2 capital

Tier Capital	2021	2020
	AED'000	AED'000
Amount included in Tier 1 capital	316	319
Amount included in Tier 1 capital	-	-
Total	**316**	319

4. Capital requirement by equity grouping

Grouping	2021	2020
	AED'000	AED'000
Strategic investment	-	-
Available for sale	2,641	2,648
Held for trading	-	-
Total capital requirement	**277**	278

5. Equity Investments (Quoted / Unquoted) - Including private equity investments

In AED'000	2021		2020	
Particulars	Banking Book	Trading Book	Banking Book	Trading Book
Quoted	-	-	-	-
Unquoted	2,641	-	2,648	-
Total	**2,641**	**-**	2,648	-

6. A breakdown of the constituent elements of the bank's PVA:

31 December 2021

	In AED'000	**Equity**	**Interest rates**	**FX**	**Credit**	**Commodities**	**Total**	**Of which: In the trading book**	**Of which: In the banking book**
1	Closeout uncertainty, of which:	-	-	-	-	-	-	-	-
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Closeout cost*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	-	-	-
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	**878**	-	-	-	-	-	-	**878**
12	**Total adjustment**	**878**	-	-	-	-	-	-	**878**

Prudential valuation adjustments are only performed for our equity investments through OCI and all other instruments are marked-to-market. The fair value of those instruments are systematically determined as they are integrated with external market maker models.

11. Operational Risk:

While Operational Risk is defined in line with the Basel Committee as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events excluding strategic and reputational risk, the bank has established separate frameworks to address both Strategic and Reputational risks independently, as well as Fraud and Outsourcing risks. These frameworks are aligned with the Enterprise Risk Management (ERM) program and based on a comprehensive Risk and Control Self-Assessment methodology. These risks are defined as follows:

- **Strategic Risk:** “Strategic risk is the risk of current or prospective impact on a Bank’s earnings, capital, reputation, or standing; arising from changes in the environment of which the Bank operates in and from adverse strategic decisions, improper implementation of strategic decisions, or lack of responsiveness to industry, economic or technological changes”.
- **Reputational Risk**: “The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank’s ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitization market”.
- **Fraud Risk:** "Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.”
- **Outsourcing Risk**: “Outsourcing refers to the bank’s use of a third party (either an affiliated entity within the Arab bank Group or an entity that is external to the group) to perform activities on a continuing basis that would normally be undertaken by the bank, now or in the future”.
- The Enterprise Risk Management - Operational Risk Management Frameworks outline the roles, responsibilities and methodologies for the identification, measurement, management and monitoring of operational risks across the bank. The following are the main tools currently being implemented:
    - A Risk and Control Self-Assessments (RCSA) plan has been developed covering bank’s key products/processes. The RCSA involves the following:
        - The identification and scoring of risks in terms of impact and likelihood.
        - The assessment of existing control effectiveness.
        - The development of mitigation actions by the risk owners.
    - A set of Key Risk Indicators has been established for the business units / functional areas of the bank. Data related to these indicators are being reported by related LOB / function on a regular basis for monitoring and to ensure that proper mitigation actions have been taken.
    - Incidents related to Operational Risks are reported to Risk Management by related functions, these incidents are categorized according to Basel Event Types and mapped to related Line of Business/Function. Investigation and root cause analysis are carried out to prevent recurrence of such incidents.

- A customized risk profile based on risks reported through operational incidents, RCSAs, KRIs, Audit Reports, Customer Complaints Reports, or any other source.

- The Operational Risk Management (ORM) within Group Risk Management provides governance support.
- Risk awareness and training are key components of the Risk Management process. The Bank promotes a culture of risk awareness across Bank staff at all levels, to enable them to manage risks imbedded within their day-to-day activities.
- Arab Bank is currently using Accelerate GRC solution which supports the implementation of the ERM Frameworks systematically.

Operational Risk Measurement

- The bank strongly believes that an integrated approach for the operational risk management is necessary. Therefore, external and internal risk factors are considered together with their impact on the business objectives.
- The Bank's Risk Universe is used to identify potential risks inherent within the product / process under review. This will create a structured way to identify risks and also provide common language for the management of risks by all LOBs / Functions across the Bank.
- For each risk, identified risk score is determined by stakeholders based on the risk impact and Likelihood.
- Incident reporting (including near misses) enables the analysis of root causes and mapping to Basel Loss Event categories and business lines.
- Conducting operational risk training to AB-UAE staff on an induction and ongoing basis, through risk workshops and briefings.
- Top operational risks and incidents are discussed through the Country Management Committee meetings on periodic basis to ensure that mitigating actions are implemented.

Operational Risk Monitoring

- The reporting process is critical to ensure that control over the management of risks is maintained and that issues are escalated where necessary. Central to this the Country Business and Control Units are responsible for the following:
  - Regular risk monitoring and providing regular reports of identified risks to Country and Business Line management and Group Risk Management.
  - The follow up of agreed management actions arising from risk monitoring on a regular basis to ensure that all have been implemented in a timely manner.
  - Escalation of risk and control issues to appropriate levels of management.
- There are no thresholds for Operational Risk incidents reporting whether considered a loss or a near miss. The rationale for this is that even small operational risk incidents may indicate the absence / failure of key controls that may allow even bigger losses to occur. The operational risk events are reported once occurred and escalated to senior management as required.

- Risks are continuously monitored by the Risk Owners. This can be achieved using various tools such as:
  - Risk & Control and Self-Assessment (RCSA).
  - Internal / External Audit reports
  - Key Risk Indicators.
  - Key Performance Indicators.
- Any material changes in risk exposure resulting from the monitoring activities should be reported to the appropriate level of management.
- The bank has developed a structure for collecting and reporting Key Risk Indicators which increases awareness of operational risk issues, as well as further supports the RCSA and Incident Reporting.

Operational Risk Management

- Management ensures that the various risks are reviewed on a regular basis and appropriate countermeasures are implemented.
- The Line of Business / Function is responsible for the identification, measurement, management and monitoring of risk, in line with the Enterprise Risk Management (ERM) frameworks of the Bank.
- Governance is through the Country Management Committee, which meets on a monthly basis to discuss current operational risk issues, incidents and agree on mitigating actions.
- The Country Risk Management ensures implementation of the operational risk management frameworks and policies (which incorporates the requirements of Basel and Capital Requirements Directive) and is an enabler to support operational risk management in the LOBs / Functions.

Operational Risk Mitigation

- There are essential elements that are consistently being applied to mitigate risk within the bank as follows:
- Risk Response: The objective of risk response strategy is to reduce residual risk to an acceptable tolerance by treating each risk. One or more of the following risk response options can be adopted:
- Reduction / Mitigation: Action is taken to reduce the risk impact, likelihood, or both. This action may include additional controls, process automation, or any changes on day-to-day business or operations.
- Sharing or transferring: Action is taken to reduce the risk impact, by transferring / sharing the potential liability resulting from a certain risk occurrence. Such technique may include the purchase of insurance policies, or outsourcing of activities.
- Avoidance: Action is taken to stop or exit the activities for which risks are identified. Such activities may include branch shut down, stopping certain products or services …etc. The decision of avoiding risks is usually taken when the cost of managing the risk is not justifiable in comparison with the overall financial and / or non-financial benefits from those activities.
- Acceptance : Risks are generally accepted with no further treatment in cases where:

- A satisfactory (but may not be optimum) solution is in place.
- The most cost-effective solution is adopted.
- The current setup provides the best achievable result.
- The Risk score is an absolute minimum.

In addition to the specific controls that are embedded in the various processes, business insurance policies are in place covering the following:

1. Directors & Officers Liability
2. Worldwide Bankers Policy
3. Professional Indemnity
4. Electronic and Computer Crime
5. Commercial Combined (property and contents)
6. Computer Insurance Scheme
7. Cyber Crime Insurance

Role of Senior Management

- Implement the ERM Frameworks as the basis of any risk assessment requirement for Products, Activities, Processes and Systems and as necessary for projects.
- Senior Management ensures that risks potentially impacting AB- UAE are identified and appropriately mitigated according to AB-UAE risk appetite.
- The various Operational Risk issues are discussed and addressed in the Country Management Committee and ownership of mitigating actions is assigned to related LOB / Function, this ensures that actions which involve various departments are well coordinated.
- Ensure recommendations, issues or outstanding actions from risk monitoring, and reports are addressed.
- Policies and procedures are reviewed to ensure that the appropriate controls have been built into the process design. In particular, the Maker/Checker role as well as segregation of duties.
- Investigation is carried out in specific cases to determine reasons behind operational incidents, and whether there were any lapses in controls or compliance issues.
- Senior Management within the Business and Support Units is responsible for the adequacy of design, effective operation and ongoing maintenance and control of processes, which are necessary to achieve their business objectives, as well as:
  - Ensuring clear roles and responsibilities for the management of risk are defined throughout the business unit.
  - The adoption of a formal risk management methodology.
  - Identifying, assessing and mitigating risks to acceptable tolerance levels.
  - The maintenance of adequate on-going risk assessment.
  - Ensuring compliance with mandatory requirements.

Role of Head Office

- Bank’s Operational Risk Frameworks and methodologies are developed, maintained and monitored to ensure sound implementation.
- Operational risk exposures are monitored and reported in line with Bank’s risk appetite.
- The bank's policy ensures that all risk events are reported and logged into the risk event database. Each case is documented and tracked through resolution.
- Audit reports are analysed to determine any weaknesses in controls. This is achieved via close cooperation with Internal Audit on the review and analysis of specific cases.

Information Security Management

Group Risk Management at Head Office, working together with the Information Technology Group has rolled out several initiatives to enhance the information Security of the bank. These initiatives are to back the bank’s Information Security Policies and Procedures and include:

1. Regular Penetration testing
2. Vulnerability Management
3. Web-based training.
4. Outsourced Monitoring Security Services.
5. Implementation of Technical controls
6. Anti-phishing
7. DDOS (Denial of Service) Protection.
8. Security and Event Monitoring.
9. File Integrity Monitoring.
10. Along with several other initiatives such as encryption, Client Backup of critical data and the implementation of a policy compliance tool.

Business Continuity Management

The Operational Risk Manager at AB UAE coordination with AB Group Risk Management is managing Business Continuity that includes implementing an integrated approach to crisis management and business continuity planning. The bank uses a centralized database for maintaining and updating the Business Contingency plans of all major departments at Head Office and countries. The Business Continuity Management Framework is according to Basel Committee requirements and industry standards covering:

- Business Continuity Plans
- Pandemic threats (e.g. COVID 19, SARS, Bird Flu, H1N1)*
- Damage Assessment Plan
- Crisis Management Plans

- Incident Management Plans
- Evacuation Plans with regular testing
- Dedicated Business Alternate Site and IT Disaster Recovery Site

In response to COVID-19, Arab Bank has been working very closely with local regulators to ensure safe and sound contingency plans in light of global efforts to combat the COVID-19 pandemic. Arab Bank adopted a response plan composed of multi-dimensional efforts across all functions and at all levels within the organization. The plan incorporated a flexible approach that allows scaling up and scaling down the efforts and modes of operation depending on the level of severity and regulatory directives. Our contingency plans have already been activated and with the main objective of ensuring business continuity in line with local regulations as well as the safety of our employees and customers. These plans involve:

1. Measures to ensure health, safety and wellbeing of employees and customers.
   - Sanitization procedures
   - Seasonal Influenza vaccination
   - Virtual meetings across all banks
   - Covid-19 PCR tests
   - Implementation of Visitors and Travel guidelines to regulate these processes during the Pandemic situation.
2. Clear and timely communication to employees, customers and stakeholders.
3. Taking precautionary measures to avoid virus contamination across critical functions and ensuring continuity of business through
   - Staff segregation in split site/location strategy
   - working from home through secure and monitored remote access
   - Health & Safety Committee to ensure compliance to all pandemic precautionary measures
4. Total curfew sleepover plan was set for some critical teams (work permits, sleeping bags, transportation, food and beverage, medical aids, HR allowance)

Insurance Risk Management

AB-UAE is not engaged in the business of issuing Insurance contracts and hence does not recognise Insurance Risk. Processes exist to ensure that should this change, appropriate consideration will be given to the risk and its incorporation into the capital assessment process.

12.1 Remuneration policy

The remuneration policy for Arab Bank is formed through the HR committee at Arab Bank Head Office which is delegated by the Board's committee of Nomination & Remuneration to review, approve and oversee the HR policies related to Talent Acquisition, Remuneration and performance management.

The policy comprises of multiple pillars including but not limited to Market Surveys, Salary Pay Ranges and Grading Structure, Job Evaluation all done by our external consultant Korn Ferry.

The Remuneration policy is tailored in each region to be aligned with the market practices and subject to compliance with the Labor Laws in relevant operating jurisdictions of the Bank.

The policy is covering employees of the Bank as determined by the Remuneration Committee from time-to-time. Moreover, the Remuneration Committee would apply risk based compensation arrangements for approved persons and material risk takers who have the most significant impact on the risk profile of the Bank (implemented in HO and some regional branches as per country regulatory directives).

The design and structure of the policy is built on information collected which include salaries, allowances, benefits and performance incentives paid in the market. It is analyzed to provide competitive pay, benefits and performance incentives schemes that commensurate with affordability, competition, inflation and sound risk management.

The following are key features and objectives of our remuneration policy which include:

- Remuneration must be sufficient enough to attract, retain and motivate persons of the quality needed to successfully run the Bank.
- Incentive decisions should be consistent with an assessment of the region's financial condition and future prospects.
- Mix of fixed and variable remuneration should be reflective of the role played by employees and their contribution to the growth of the Bank.
- Remuneration must be adjusted for all types of risk to discourage imprudent and excessive risk taking.

Arab Bank, in its performance management system deploys a significant emphasis and weights to the "How" elements that refer to control and regulatory objectives that govern the achievement of business objectives; adherence to risk standards, customer satisfaction, regulatory compliance, and code of Conduct.

The Nomination & Remuneration Committee review every year the Remuneration policy and endorse it after ensuring its relevancy.

Staff whose work is monitored by risk and control management teams do not participate in nor influence the objective setting and evaluation of such risk and control management teams or their corresponding incentives criteria, to ensure their independent control authority and warrant a performance management environment that is free of any hierarchical influence, excessive authority or conflict of interest. Towards the same purpose, staff in risk and control do not participate in, or influence, neither the objectives setting and evaluation of risk-taking staff nor their corresponding incentives criteria.

12.2 Remuneration awarded during the financial year

	Remuneration Amount AED'000		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	**Number of employees**	**13**	**-**
2		**Total fixed remuneration (3 + 5 + 7)**	**1,019**	**-**
3		*Of which: cash-based*	*1,019*	-
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**	**13**	**-**
10		**Total variable remuneration (11 + 13 + 15)**	**2,651**	**-**
11		*Of which: cash-based*	*2,651*	-
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)**		**3,670**	**-**

12.3 Special payments

This section is not applicable for AB-UAE branches.

12.4 Deferred remuneration

This section is not applicable for AB-UAE branches.