البنك العربي
ARAB BANK

RISK MANAGEMENT & PILLAR III DISCLOSURES
DECEMBER 2019

Contents

1. Information on Subsidiaries and Significant Investment:

Not Applicable to Arab Bank – UAE branches

2. Consolidated Capital Structure

Consolidate Capital Structure under Basel III as on 31st December - *AED'000*		
Details	**2019**	2018
Capital Base	**2,643,457**	2,585,177
1. Common Equity Tier 1 (CET1) Capital		
1.1) Share Capital	**620,704**	620,704
1.2) Share premium account	**-**	-
1.2) Eligible reserves	**333,655**	333,352
1.2) Retained Earnings/(-) Loss	**1,207,624**	1,094,858
1.2) Eligible amount of minority interest	**-**	-
1.2) Capital Shortfall, if any	**-**	-
CET1 capital before the regulatory adjustments and threshold deductions	**2,161,983**	2,048,914
Less: Regulatory deductions	**3,994**	2,964
Less: Threshold deductions	**-**	-
CET1 capital after the regulatory adjustments and threshold deductions	**2,157,989**	**2,045,950**
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)	280,737	337,136
1.2) Other Tier 2 Capital (including General Provision, etc.)	204,731	202,092
Total T2 Capital	**485,468**	539,228
Total T2 Capital after transitional arrangement (T2)	**485,468**	539,228

3. Capital Adequacy

a. Qualitative Disclosure:

Arab Bank – UAE Branches is using the Standardized Approach for completing its Basel 3 reporting requirements.

OVERVIEW

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.

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).

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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 sectoral 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 sectoral 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 minimise 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 2017, 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 clearly defined work standards for comprehensive strategic planning. The Board of Directors, together with the Bank’s management, periodically analyses the impact of the Bank’s major operations on its strategy, including the internal and external working conditions, the implications of competition, customer requirements, changes in laws and information technology as well as the Bank's existing systems.

Achievement of the Bank's clearly-defined objectives depends on a basic principle; its ability to fully leverage its widespread network 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 the Group'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. This ensures the Bank is able to quickly react to developing situations in managing its longer term strategy.

b. Quantitative disclosure:

31 December 2019

Capital Requirement	RWA	Capital Charge	Capital Ratio (%)
1. Credit Risk - Standardized Approach	16,378,473	1,719,740	10.500%
2. Market Risk - Standarized Approach	142,690	14,982	10.500%
3. Operational Risk - Basic Indicator Approach	1,123,858	118,005	10.500%
Total Capital Requirements		1,852,727	
Capital Ratio			
a) Total for Top consolidated group			14.98%
a) Tier 1 ratio only for top consolidated group			12.23%
a) CET1 ratio only for top consolidated group			12.23%

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 2019.

31 December 2018

Capital Requirement	RWA	Capital Charge	Capital Ratio (%)
1. Credit Risk - Standardized Approach	15,612,699	1,639,333	10.500%
2. Market Risk - Standarized Approach	10,727	1,126	10.500%
3. Operational Risk - Basic Indicator Approach	1,080,901	113,495	10.500%
Total Capital Requirements		1,753,954	
Capital Ratio			
a) Total for Top consolidated group			15.48%
a) Tier 1 ratio only for top consolidated group			12.24%
a) CET1 ratio only for top consolidated group			12.24%

4. 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.

5. Quantitative Disclosures

a. Gross Credit Exposure by Currency type:

31 December 2019

	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
FC	939,892	1,596,105	**2,535,997**	-	76,768	1,602,761	**1,679,529**	**4,215,526**
AED	11,825,296	383,501	**12,208,797**	426,564	2,620,754	6,242,886	**9,290,204**	**21,499,001**
Total	**12,765,188**	**1,979,606**	**14,744,794**	**426,564**	**2,697,522**	**7,845,647**	**10,969,733**	**25,714,527**

***AED 427Mn represents the total irrevocable commitment out of the AED 2.56Bn other commitments**

31 December 2018

	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
FC	1,488,639	1,592,357	3,080,996	-	1,743,230	1,663,546	3,406,776	6,487,772
AED	10,667,338	-	10,667,338	1,041,576	1,467,830	5,913,478	8,422,884	19,090,222
Total	12,155,977	1,592,357	13,748,334	1,041,576	3,211,059	7,577,024	11,829,659	25,577,993

***AED 1.041Mn represents the total irrevocable commitment out of AED 3.39Bn**

b. Gross Credit Exposure by Geography type:

31 December 2019

Geographic distribution	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
UAE	12,633,089	1,135,956	**13,769,045**	426,564	1,806,287	7,241,718	**9,474,569**	**23,243,614**
GCC excluding UAE	67,758	145,162	**212,920**	-	853,238	41,500	**894,738**	**1,107,658**
Arab League (excluding GCC)	-	-	**-**	-	-	40,329	**40,329**	**40,329**
Asia	-	320,855	**320,855**	-	-	251,143	**251,143**	**571,998**
Africa	-	-	**-**	-	-	-	**-**	**-**
North America	-	105,979	**105,979**	-	-	66,201	**66,201**	**172,180**
South America	-	-	**-**	-	-	-	**-**	**-**
Caribbean	-	-	**-**	-	-	-	**-**	**-**
Europe	64,341	196,387	**260,728**	-	37,997	204,750	**242,747**	**503,475**
Australia	-	75,267	**75,267**	-	-	6	**6**	**75,273**
Others	-	-	**-**	-	-	-	**-**	**-**
Total	**12,765,188**	**1,979,606**	**14,744,794**	**426,564**	**2,697,522**	**7,845,647**	**10,969,733**	**25,714,527**

***AED 427Mn represents the total irrevocable commitment out of the AED 2.56Bn other commitments**

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

31 December 2018

Geographic distribution	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
UAE	11,961,426	642,934	12,604,360	1,041,576	-	7,577,024	8,618,600	21,222,960
GCC excluding UAE	194,551	108,356	302,907	-	3,211,059	-	3,211,059	3,513,966
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	121,532	121,532	-	-	-	-	121,532
Africa	-	-	-	-	-	-	-	-
North America	-	174,730	174,730	-	-	-	-	174,730
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	454,245	454,245	-	-	-	-	454,245
Australia	-	90,560	90,560	-	-	-	-	90,560
Others	-	-	-	-	-	-	-	-
Total	12,155,977	1,592,357	13,748,334	1,041,576	3,211,059	7,577,024	11,829,659	25,577,993

***AED 1.041Mn represents the total irrevocable commitment out of AED 3.39Bn**

c. Gross Credit Exposure by Industry type:

31 December 2019

Industry Segment	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Agriculture, Fishing, & related activities	-	-	**-**	-	-	-	**-**	**-**
Crude Oil, Gas, Mining & Quarrying	235,741	-	**235,741**	30,346	-	314,364	**344,710**	**580,451**
Manufacturing	1,890,769	-	**1,890,769**	57,533	41,353	796,050	**894,936**	**2,785,705**
Electricity & Water	431,918	-	**431,918**	30,000	-	381,153	**411,153**	**843,071**
Construction	2,116,953	-	**2,116,953**	116,987	-	4,476,156	**4,593,143**	**6,710,096**
Real Estate	1,937,904		**1,937,904**	-	-	4,546	**4,546**	**1,942,450**
Trade	2,690,532	-	**2,690,532**	82,298	26,815	1,291,807	**1,400,920**	**4,091,452**
Transport, Storage, Communication	597,895	-	**597,895**	109,400	-	123,025	**232,425**	**830,320**
Financial Institutions	-	1,924,420	**1,924,420**	-	2,629,354	-	**2,629,354**	**4,553,774**
Services	1,308,448	-	**1,308,448**	-	-	458,546	**458,546**	**1,766,994**
Government	-	55,186	**55,186**	-	-	-	**-**	**55,186**
Retail/Consumer banking	1,555,028	-	**1,555,028**	-	-	-	**-**	**1,555,028**
All Others	-	-	**-**	-		-	**-**	**-**
Total	**12,765,188**	**1,979,606**	**14,744,794**	**426,564**	**2,697,522**	**7,845,647**	**10,969,733**	**25,714,527**

***AED 427Mn represents the total irrevocable commitment out of the AED 2.56Bn other commitments**

c. Gross Credit Exposure by Industry type (continued):

31 December 2018

Industry Segment	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Agriculture, Fishing, & related activities	-	-	**-**		-	-	**-**	**-**
Crude Oil, Gas, Mining & Quarrying	253,753	-	**253,753**	13,415	-	328,222	**341,637**	**595,390**
Manufacturing	2,184,359	-	**2,184,359**	20,756	-	920,802	**941,558**	**3,125,917**
Electricity & Water	164,605	-	**164,605**	-	-	339,832	**339,832**	**504,437**
Construction	2,034,835	-	**2,034,835**	299,165	-	4,396,794	**4,695,959**	**6,730,794**
Real Estate	1,964,132		**1,964,132**	-	-	-	**-**	**1,964,132**
Trade	2,297,348	-	**2,297,348**	514,244	17,759	1,051,299	**1,583,302**	**3,880,650**
Transport, Storage, Communication	545,889	-	**545,889**	-	-	98,662	**98,662**	**644,551**
Financial Institutions	-	1,592,357	**1,592,357**	-	3,193,301	-	**3,193,301**	**4,785,658**
Services	1,314,768	-	**1,314,768**	193,996	-	441,413	**635,409**	**1,950,177**
Government	-	-	**-**	-	-	-	**-**	**-**
Retail/Consumer banking	1,396,288	-	**1,396,288**	-	-	-	**-**	**1,396,288**
All Others	-	-	**-**	-	-	-	**-**	**-**
Total	**12,155,977**	**1,592,357**	**13,748,334**	**1,041,576**	**3,211,060**	**7,577,024**	**11,829,660**	**25,577,994**

***AED 1.041Mn represents the total irrevocable commitment out of AED 3.39Bn**

d. Gross Credit Exposure by residual contractual maturity:

31 December 2019

Residual Contractual Maturity	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Less than 3 months	2,559,634	812,436	**3,372,070**	177,132	1,765,939	4,220,291	**6,163,362**	**9,535,432**
3 months to one year	4,427,451	764,118	**5,191,569**	218,000	677,598	2,579,841	**3,475,439**	**8,667,008**
One to five years	5,073,325	403,052	**5,476,377**	31,432	253,985	1,036,201	**1,321,618**	**6,797,995**
Over five years	704,778	-	**704,778**	-	-	9,314	**9,314**	**714,092**
Total	**12,765,188**	**1,979,606**	**14,744,794**	**426,564**	**2,697,522**	**7,845,647**	**10,969,733**	**25,714,527**

***AED 427Mn represents the total irrevocable commitment out of the AED 2.56Bn other commitments**

31 December 2018

Residual Contractual Maturity	Loans	Debt Securities	Total funded	Commitments*	OTC Derivatives	Other Off-Balance sheet exposures	Total Non-Funded	Total
Less than 3 months	2,615,069	318,794	2,933,863	251,012	2,623,538	212,013	3,086,563	6,020,425
3 months to one year	4,465,679	959,439	5,425,118	183,530	220,443	1,577,373	1,981,346	7,406,464
One to five years	4,441,844	314,125	4,755,969	607,034	-	4,225,822	4,832,856	9,588,825
Over five years	633,385	-	633,385	-	367,079	1,561,816	1,928,895	2,562,280
Total	12,155,977	1,592,357	13,748,334	1,041,576	3,211,059	7,577,024	11,829,659	25,577,994

***AED 1.041Mn represents the total irrevocable commitment out of AED 3.39Bn**

e. Impaired loans by industry type:

31 December 2019

				[A]			[B]		[C]			[D]	[E]=A-B-C-D
Industry Segment	**Current^**	**Overdue^**			**Total Loans**	**Provision**				**Adjustment**		**Interest in Suspense**	**Total Impaired Assets**
		Less than 90 days	**90 days and above**	**Total**		**General* [Current]**	**General* [Overdue < 90 days]**	**Total General***	**Specific****	**Write Offs*****	**Write Backs*****		
Agriculture, Fishing, & related activities	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Crude Oil, Gas, Mining & Quarrying	224,470	-	11,271	**11,271**	**235,741**	-	-	**-**	**9,006**	-	-	2,265	**-**
Manufacturing	1,723,142	63,706	103,921	**167,627**	**1,890,769**	67,147.00	4,454	**71,601**	**88,222**	3,863	745	20,342	**54,609**
Electricity & Water	428,132	-	3,786	**3,786**	**431,918**	-	-	**-**	**3,456**	-	-	330	**-**
Construction	1,901,590	49,968	165,395	**215,363**	**2,116,953**	6,192.00	1,410	**7,602**	**118,932**	-	5,314	17,164	**77,857**
Real estate	1,906,860	6,477	24,567	**31,044**	**1,937,904**	2,446.00	647	**3,093**	**10,081**	-	-	728	**19,588**
Trade	2,362,444	36,742	291,346	**328,088**	**2,690,532**	6,871.00	1,442	**8,313**	**202,196**	1,394	1,003	44,312	**80,138**
Transport, Storage, Communication	384,121	41,612	172,162	**213,774**	**597,895**	24,581	59	**24,640**	**152,519**	-	606	60,434	**762**
Financial Institutions	-	-	-	**-**	**-**	3	-	**3**	**-**	-	-	-	**-**
General Services	1,276,771	16,667	15,010	**31,677**	**1,308,448**	42,838	824	**43,664**	**11,039**	-	75	2,255	**17,559**
Government	-	-	-	**-**	**-**	24	-	**24**	**-**	-	-	-	**-**
Retail/Consumer banking	1,315,047	143,987	95,994	**239,981**	**1,555,028**	11,587	-	**11,587**	**59,828**	61,191	8,769	25,705	**154,448**
All Others	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Total	**11,522,577**	**359,159**	**883,452**	**1,242,611**	**12,765,188**	**161,689**	**8,836**	**170,527**	**655,279**	**66,448**	**16,512**	**173,535**	**404,961**

*** 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

e. Impaired loans by industry type (continued):

31 December 2018

Industry Segment	Current^	Overdue^		[A]	Total Loans	Provisions	[B]	Adjustment		[C]	[D]=A-B-C
		Less than 90 days	90 days and above	Total		Total General*	Specific**	Write Offs***	Write Backs***	Interest in Suspense	Total Impaired Assets
Agriculture, Fishing, & related activities	-	-	-	**-**	**-**	-	-	-	-	-	**-**
Crude Oil, Gas, Mining & Quarrying	244,301	1,499	7,953	**9,452**	**253,753**	-	6,392	-	286	1,559	**1,501**
Manufacturing	2,075,353	24,340	84,666	**109,006**	**2,184,359**	-	73,132	-	3,850	13,530	**22,344**
Electricity & Water	161,011	-	3,594	**3,594**	**164,605**	-	3,456	-	379	138	**-**
Construction	1,894,013	45,672	95,150	**140,822**	**2,034,835**	-	80,394	-	12,493	9,800	**50,628**
Real estate	1,958,673	5,459	-	**5,459**	**1,964,132**	-	-	15	3,918	-	**5,459**
Trade	1,951,219	137,862	208,267	**346,129**	**2,297,348**	-	174,001	-	9,289	28,196	**143,932**
Transport, Storage, Communication	469,038	50,045	26,806	**76,851**	**545,889**	-	23,802	-	-	44,663	**8,386**
Financial Institutions	-	-	-	**-**	**-**	-	-	-	10,696	-	**-**
General Services	1,299,437	4,926	10,405	**15,331**	**1,314,768**	-	9,083	-	-	1,321	**4,927**
Government	-	-	-	**-**	**-**	-	-	13	9,618	-	**-**
Retail/Consumer banking	1,142,260	115,406	138,622	**254,028**	**1,396,288**	-	72,488	-	-	55,555	**125,985**
All Others	-	-	-	**-**	**-**	-	-	-		-	**-**
Total	**11,195,305**	**385,209**	**575,463**	**960,672**	**12,155,977**	**170,779**	**442,748**	**28**	**50,529**	**154,762**	**363,162**

*** General provisions represent Stage 1 and Stage 2 Expected Credit Loss ('ECL').**

**** 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.

f. Impaired loans by Geography:

The below table illustrates the impaired loans by geography:

31 December 2019

				[A]			[B]		[C]			[D]	[E]=A-B-C-D
Geographic distribution	**Current ^**	**Overdue ^**			**Total Loans**	**Provision**				**Adjustment**		**Interest in Suspense**	**Total**
		Less than 90 days	**90 days and above**	**Total**		**General* [Current]**	**General* [Overdue < 90 days]**	**Total General***	**Specific****	**Write Offs*****	**Write Backs*****		
UAE	11,390,478	359,159	883,452	**1,242,611**	**12,633,089**	161,689	8,836	**170,527**	**655,279**	66,448	16,512	173,535	**404,961**
GCC excluding UAE	67,758	-	-	**-**	**67,758**	-	-	**-**	**-**	-	-	-	**-**
Arab League (excluding GCC)	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Asia	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Africa	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
North America	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
South America	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Caribbean	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Europe	64,341	-	-	**-**	**64,341**	-	-	**-**	**-**	-	-	-	**-**
Australia	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Others	-	-	-	**-**	**-**	-	-	**-**	**-**	-	-	-	**-**
Total	**11,522,577**	**359,159**	**883,452**	**1,242,611**	**12,765,188**	**161,689**	**8,836**	**170,527**	**655,279**	**66,448**	**16,512**	**173,535**	**404,961**

*** 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.

f. Impaired loans by Geography (continued):

The below table illustrates the impaired loans by geography:

31 December 2018

Geographic distribution	Current^	Overdue^		[A]	Total Loans	[B]		Adjustment		[C]	[D]=A-B-C
		Less than 90 days	90 days and above	Total		Total General*	Specific**	Write Offs***	Write Backs***	IIS	Total
UAE	11,000,755	385,209	575,463	**960,672**	**11,961,427**	**170,779**	**442,748**	**28**	**50,529**	154,762	**363,162**
GCC excluding UAE	194,550	-	-	**-**	**194,550**	**-**	**-**	-	-	-	**-**
Arab League (excluding GCC)	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Asia	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Africa	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
North America	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
South America	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Caribbean	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Europe	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Australia	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Others	-	-	-	**-**	**-**	**-**	**-**	-	-	-	**-**
Total	**11,195,305**	**385,209**	**575,463**	**960,672**	**12,155,977**	**170,779**	**442,748**	**28**	**50,529**	**154,762**	**363,162**

g. 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 2019 & 2018 under Loans & Advances, Net for the movement of the allowance in impairment for more details.

		2019	2018
Description		**AED'000**	**AED'000**
Opening balance of provision for impaired loans		**613,527**	**414,448**
Charge for the year			
Add:	Specific provision	179,240	156,772
Add:	General Provision	113,361	92,838
Less:	Write-off of impaired loans	(24,547)	(3)
Less:	Write-off of impaired loans to income statement	-	
Less:	Recovery of loan loss provision (Specific)	(15,343)	(8,137)
Less:	Recovery of previously written off to income statement	-	
Less:	Write-back of provision for loans (General provision)	(41,853)	(42,391)
Less:	Adjustment of loan loss provision	1,335	-
Closing balances of provision for impaired loans		**825,720**	**613,527**

6. Gross credit exposure as per Standardized Approach:

As per Basel & CBUAE guidelines, Arab Bank 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."

31 December 2019

ASSET CLASSES	ON & OFF BALANCE SHEET	CREDIT RISK MITIGATION (CRM)		ON & OFF BALANCE SHEET	RISK WEIGHTED ASSETS
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	GROSS OUTSTANDING	EXPOSURE BEFORE CRM	CRM	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)	
CLAIMS ON SOVEREIGNS	2,519,506	2,519,506	-	2,519,506	-
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	3,802	3,802	-	3,802	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-
CLAIMS ON BANKS	4,372,209	4,372,209	-	4,157,207	1,456,046
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	16,199,643	16,154,221	1,630,503	12,800,719	11,250,816
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	660,907	660,445	63,061	660,428	448,457
CLAIMS SECURED BY RESIDENTIAL PROPERTY	799,873	799,873	-	799,873	347,818
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	2,128,146	2,128,146	-	2,127,826	2,127,826
PAST DUE LOANS	972,154	189,224	1,716	148,129	146,413
HIGHER-RISK CATEGORIES	-	-	-	-	-
OTHER ASSETS	828,169	828,169	-	828,169	601,100
SECURITISATION EXPOSURES	-	-	-	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-
TOTAL CLAIMS	**28,484,409**	**27,655,595**	**1,695,280**	**24,045,658**	**16,378,474**

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

31 December 2018

ASSET CLASSES	ON & OFF BALANCE SHEET	CREDIT RISK MITIGATION (CRM)		ON & OFF BALANCE SHEET	RISK WEIGHTED ASSETS
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	GROSS OUTSTANDING	EXPOSURE BEFORE CRM	CRM	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)	
CLAIMS ON SOVEREIGNS	2,586,500	2,586,500	0	2,586,500	0
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	6,992	6,992	0	6,992	0
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	0	0	0	0	0
CLAIMS ON BANKS	3,671,749	3,671,749	0	3,483,134	1,159,128
CLAIMS ON SECURITIES FIRMS	0	0	0	0	0
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	16,577,429	16,531,258	1,728,516	12,673,361	10,995,413
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	609,835	609,822	35,565	609,642	443,272
CLAIMS SECURED BY RESIDENTIAL PROPERTY	650,300	650,300	0	650,300	306,746
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	2,236,624	2,236,624	0	2,235,032	2,235,032
PAST DUE LOANS	575,465	24,135	0	24,135	24,956
HIGHER-RISK CATEGORIES	0	0	0	0	0
OTHER ASSETS	720,911	720,911	0	720,911	448,153
SECURITISATION EXPOSURES	0	0	0	0	0
CREDIT DERIVATIVES (Banks Selling protection)	0	0	0	0	0
TOTAL CLAIMS	27,635,805	27,038,291	1,764,081	22,990,006	15,612,699

6. 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 2019

Assets	Gross Credit Exposure				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
CLAIMS ON SOVEREIGNS	2,519,506	-	**2,519,506**	2,519,506	-
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	3,802	-	**3,802**	3,802	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	**-**	-	-
CLAIMS ON BANKS	4,002,802	369,407	**4,372,209**	4,372,209	1,456,046
CLAIMS ON SECURITIES FIRMS	-	-	**-**	-	-
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	-	16,199,643	**16,199,643**	16,199,643	11,296,238
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	660,907	-	**660,907**	660,907	448,804
CLAIMS SECURED BY RESIDENTIAL PROPERTY	799,873	-	**799,873**	799,873	347,818
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	2,128,146	-	**2,128,146**	2,128,146	2,127,826
PAST DUE LOANS	972,154	-	**972,154**	972,154	929,343
HIGHER-RISK CATEGORIES	-	-	**-**	-	-
OTHER ASSETS	828,169	-	**828,169**	828,169	601,100
SECURITISATION EXPOSURES	-	-	**-**	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	**-**	-	-
Total	**11,915,359**	**16,569,050**	**28,484,409**	**28,484,409**	**17,207,172**

6. 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 2018

Assets	Gross Credit Exposure				
	Rated	**Unrated**	**Total**	**Post CRM**	**RWA Post CRM**
CLAIMS ON SOVEREIGNS	2,586,500	-	2,586,500	2,586,500	-
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	6,992	-	6,992	6,992	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-
CLAIMS ON BANKS	3,309,202	362,547	3,671,749	3,671,749	1,159,128
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	48,477	16,528,952	16,577,429	16,577,429	11,041,584
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	609,835	-	609,835	609,835	443,281
CLAIMS SECURED BY RESIDENTIAL PROPERTY	650,300	-	650,300	650,300	306,746
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	2,236,624	-	2,236,624	2,236,624	2,235,032
PAST DUE LOANS	575,465	-	575,465	575,465	577,040
HIGHER-RISK CATEGORIES	-	-	-	-	-
OTHER ASSETS	720,911	-	720,911	720,911	448,153
SECURITISATION EXPOSURES	-	-	-	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-
Total	10,744,306	16,891,499	27,635,805	27,635,805	16,210,964

7. Credit Risk Mitigation:

a. Qualitative disclosure:

Refer to note 33 (a) to the consolidated financial statement for the year ended 31st December 2019 under Risk Management.

b. Quantitative disclosure:

31 December 2019

Quantitative disclosure		Exposure	Risk Weighted Assets
	Gross exposure prior to Credit Risk Mitigation	28,484,409	17,981,224
Less	Exposure covered by on-balance sheet netting	-	-
Less	exposure covered by eligible financial collateral	1,646,752	1,563,928
Less	Exposure covered by guarantees	48,528	38,822
Less	Exposure covered by Credit Derivative	-	-
Net exposure after Credit Risk Mitigation		**26,789,129**	**16,378,474**

31 December 2018

Quantitative disclosure		Exposure	Risk Weighted Assets
	Gross exposure prior to Credit Risk Mitigation	27,635,805	17,278,540
Less	Exposure covered by on-balance sheet netting	-	-
Less	exposure covered by eligible financial collateral	1,739,063	1,645,826
Less	Exposure covered by guarantees	25,018	20,015
Less	Exposure covered by Credit Derivative	-	-
Net exposure after Credit Risk Mitigation		**25,871,724**	**15,612,699**

8. Total capital requirement for Market Risk under Standardized approach:

Market Risk	*2019 AED'000*	*2018 AED'000*
Interest Rate Risk	132,651	-
Equity position risk	-	-
Foreign exchange risk	10,039	10,727
Commodity risk	-	
Total Capital Requirement	**14,982**	**1,126**

9. Equity position in Banking book:

a. Qualitative disclosure:

Differentiation between holding on which capital gain are expected and those taken under other objectives including relationship and strategic reason:

Not applicable

Discussion of important policies covering the valuation and accounting of equity in the Banking books. This includes the accounting techniques and valuation methodologies used, including key assumption and practices affecting valuation as well as significant changes in these practices.

For details on the accounting policies and valuation methodology, please refer to Note 2.3 “fair value measurement” to the consolidated financial statement under significant accounting policies section.

9. Equity position in Banking book (continued):

b. Quantitative disclosure:

1. Quantitative details of equity position:

Type	Current Year		Previous Year	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	-	2,606	-	1,763
Collective investment scheme	-	-	-	-
Any other investment	-	-	-	-
Total	**-**	**2,606**	**-**	**1,763**

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

Gains (losses)	**Current Year**	Previous Year
Realised gains (losses) from sale and liquidation	-	-
Unrealised gains (losses) recognized in the balance sheet but not through P&L	843	-
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or P&L	-	-
Total	**843**	**-**

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

Tier Capital	**Current Year**	Previous Year
Amount included in Tier 1 capital	303	-
Amount included in Tier 1 capital	-	-
Total	**303**	-

9. Equity position in Banking book (continued):

b. Quantitative disclosure (continued):

4. Capital requirement by equity grouping

Grouping	Current Year	Previous Year
Strategic investment	-	-
Available for sale	2,606	1,763
Held for trading	-	-
Total capital requirement	274	185

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

31 December 2019

Particulars	Banking Book	Trading Book
Quoted	-	-
Unquoted	2,606	-
Total	**2,606**	**-**

31 December 2018

Particulars	Banking Book	Trading Book
Quoted	-	-
Unquoted	1,763	-
Total	**1,763**	**-**

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

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.

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 2019

Shift Yield Curves	Net Interest Income	Regulatory CAR
+ 200 Basis Points	AED 36.280 Mn	15.19%
- 200 Basis Points	AED (36.280)Mn	14.78%

31 December 2018

Shift Yield Curves	Net Interest Income	Regulatory CAR
+ 200 Basis Points	AED 11.360 Mn	15.50%
- 200 Basis Points	AED (11.360)Mn	15.36%