البنك العربي المتحد
UNITED ARAB BANK

2022 ANNUAL REPORT

www.uab.ae

His Highness
Sheikh Mohammed bin Zayed Al Nahyan

President of the United Arab Emirates
and Ruler of Abu Dhabi

His Highness
Sheikh Mohammed bin Rashid Al Maktoum

Vice-President of the United Arab Emirates
and Ruler of Dubai

His Highness
Dr. Sheikh Sultan bin Mohammed Al Qasimi

Supreme Council Member and Ruler of Sharjah

HEAD OFFICE
UAB TOWER

Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Telephone: +971 6 507 5222

DUBAI AREA

Deira Branch
Al Salemiyah Tower
Baniyas Street, Deira
P.O. Box 4579
Tel No. +971 4 272 2852

ABU DHABI

Khalifa Street Branch
Sheikh Faisal bin Sultan Al Qassimi Building GIBCA,
Khalifa Street
P.O. Box 3562
Tel No. +971 2 613 0209 & +971 2 613 0267

AL QUOZ BRANCH

Reem Building, Ground floor
Al Quoz First Area,
Sheikh Zayed Road
P.O. Box 392066
Tel No. +971 4 309 2602

AL AIN BRANCH

Sheikh Faisal bin Sultan
Al Qassimi Building
Sheikh Zayed 1st Street
P.O. Box 16077
Tel No. +971 3 705 2111

RAK NAKHEEL BRANCH

Health Building
Al Muntasir Street
Al Nakheel
P.O. Box 615
Tel No. +971 7 205 9222

Content

Vision

United Arab Bank will be the trusted partner and the UAE bank of choice for our customers, shareholders, and employees, leading the way to greater financial prosperity while remaining committed to the highest integrity standards.

Mission

United Arab Bank is committed to build sustainable long-term partnerships with our key stakeholders, offering a superior customer experience, creating shareholder value, and adopting an innovative banking approach while remaining loyal to our nation's heritage and contributing to the overall development of the UAE.

Our Customers: Committed to consistently deliver a superior customer experience and adopt an innovative banking approach, sharing in the success of our customers.

Our People: Committed to help our people grow within a high performance culture that attracts, develops, and rewards talent and contribution.

Our Community: Committed to contribute to our community and to make a difference.

Our Shareholders: Committed to create consistent long-term shareholder value and ensure sustainable growth.

Our Regulators: Committed to apply the highest standards of corporate governance and work ethics.

Values

Integrity in conducting our business and managing stakeholder relationships.

Customer Focus in orienting our activities to achieve optimum customer satisfaction.

Competence to deliver enhanced levels of performance.

Consistency in maintaining the commitments and standards that we set.

Courteousness as the primary benchmark for our behavior and conduct.

Message from the Chairman

"The UAE's economy continued its recovery, with the increase in oil revenues and the gradual recovery of non-oil sectors, which strengthened the country's position as one of the fastest economies in restoring pre-Covid-19 levels in the world."

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to submit this annual report and the audited financial statements of the United Arab Bank for the fiscal year ending December 31, 2022.

In 2022, the United Arab Bank achieved solid performance and good results, as it recorded AED 155 million net profits compared to AED 70 million in 2021, reflecting a year-on-year increase of 120%. The growth in net profit is the result of improved operating performance and lower credit provisions, as well as cost management and a prudent risk management approach.

The Board of Directors and the executive management team continued to focus on developing the bank's core business and revenues through transactions and banking services for companies, institutions, individuals and financial markets, while moving towards a more flexible operating model supported by digital solutions and capabilities.

In 2022, we continued to support our customers strongly and support growth in the UAE's economy, with great recovery and return to the pre-pandemic era. As we are witnessing a remarkable improvement in the business sector with strong focus on customer service, the management would continue to support and assist its executive team in developing customer-centric policies to further improving the bank's business and achieving their ambitious targets.

In 2022, the UAE's economy continued its recovery, with the increase in oil revenues and the gradual recovery of non-oil sectors, which strengthened the country's position as one of the fastest economies in restoring pre-Covid-19 levels in the world. The last year also witnessed launching a series of initiatives, as all restrictions and precautionary measures related to the Covid-19 in the UAE were removed and a new system for entry and residence visas was adopted.

In addition, the UAE's strategy for the digital economy has been adopted to double the percentage of the digital economy's contribution to the State's GDP. The government initiatives included the adoption of a new housing policy and the approval on the budget for Sheikh Zayed Programme housing loan. The real estate sector also witnessed a great recovery.

The banking sector in the UAE continued to support the economic development process in an effective manner by mobilising the necessary financial resources and providing them with the necessary funding to advance the national economy and create the required investments in this regard.

According to estimates by the Central Bank of the UAE, the country's GDP is expected to grow at a rate of 6.5% in 2022, with non-oil GDP growing by 4.3%.

The Central Bank of the UAE, in accordance with the vision of the wise leadership and the directives of His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of the Presidential Court, Chairman of the Board of Directors of the Central Bank of the UAE, succeeded in maintaining a stable and effective banking and financial system by providing effective central banking services as part of its commitment to promote the economic and financial stability and growth in the UAE.

We are pleased with the 2022 financial results achieved by the bank, as it is moving forward according to a comprehensive and well-drafted strategy that promotes growth and comes in line with shareholders' expectations. We look confidently to the future and supported by the strong economic situation in the UAE, as we continue to work on developing our business model and activities in line with our sustainable growth strategy. Our commitment to the principles of governance and the adoption of a prudent policy in risk management constitutes the basic structure for achieving the success that we aspire to in the long term. We are confident that through the efforts and cooperation between the board committees, the management team and the employees, we will continue to achieve our goals and take the bank to higher levels in the coming years.

I extend my sincere thanks to my fellow members of the Board of Directors, the executive management team and all the employees and workers of the bank for their dedicated efforts and active contribution to the success we have achieved during the past year. I would also like to thank all of our generous shareholders and valued customers for their continuous support and trust in us, as their commitment and loyalty played a major role in our progress on all front. I would also like to thank the Central Bank of the UAE and all the regulatory and supervisory bodies, to which the bank is subject, for their continuous support to us.

In conclusion, and on behalf of the Board of Directors, we extend our sincere thanks and great gratitude to The President, His Highness Sheikh Mohamed bin Zayed Al Nahyan, for his leadership, vision and support. We also would like to express our sincere thanks to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai and His Highness Sheikh Dr. Sultan bin Mohammed Al Qasimi, Supreme Council Member and Ruler of Sharjah for their support and guidance.

God is the Arbiter of success.

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi
Chairman of the Board of Directors

Message from the Chief Executive Officer

The growth in the Bank's net profit indicates a strong performance in all aspects of the bank's businesses and proves that we are on track to achieve our strategic and financial objectives. Our focus will remain on the delivery of an enhanced customer experience and continued investment in digitalization programs.

Dear Shareholders,

We are proud of the strong set of results achieved by UAB in 2022. The Bank recorded a net profit of AED 155 million, compared to a net profit of AED 70 million in 2021 representing an increase of 120%. The growth in net profit is a result of improved operating performance and lower expected credit losses, coupled with disciplined cost control.

UAB's financial performance was aided by a significant progress within the 'core' businesses recording 11% growth in its total operating income whereas Operating Profit improved by 21% in 2022 as compared to 2021. Provision charges have significantly reduced by 31% in 2022 as compared to 2021 and are expected to improve with new portfolio underwritings in high-quality assets. The Bank maintained adequate levels of capital with a capital adequacy ratio of 14.5% and a CET1 ratio of 13.4%, both of which remain well above the regulatory requirements currently applicable.

The growth in the Bank's net profit indicates a strong performance in all aspects of the bank's businesses and proves that we are on track to achieve our strategic and financial objectives. Our focus will remain on the delivery of an enhanced customer experience and continued investment in digitalization programs.

Our customers remain at the heart of our business strategy, and we will continue in 2023 to invest in developing the bank's digital platforms to increase competitiveness and create a more efficient, resilient and seamless service at a pace that suits our customers' expectations. We will launch a series of innovative banking initiatives built around customers and offer an entirely unique experience that is simple, efficient, smart and safe. We aim to continue automating and digitizing internal processes to improve processing costs and customer experience.

We will pursue our ambitious vision relentlessly and accelerate the pace of investments in our sustainable growth strategy whilst upholding the highest standards of compliance and internal controls commensurate with the dynamic regulatory framework and cyber security requirements.

Innovation and digital transformation continued to be an important component within UAB's business strategy. During 2022, the bank's investments included a set of digitalization initiatives that enhanced our focus on exceptional customer service.

In 2022, UAB strengthened its Management Team with a number of key appointments to take the Bank to the next level. This includes implementing both strategic and operational initiatives that will make us more efficient, while better positioning us for future growth.

Despite the continued challenges posed by an uncertain international environment and global inflation, our outlook for 2023 is cautiously optimistic. We are confident in our ability to deliver sustainable shareholder returns, building on the significant progress we made over the past year and the positive business environment. We are well positioned to capitalize on key opportunities as we put our customers first, continue to invest in developing the bank's digital platforms and to meet compliance and regulatory standards.

Moreover, we are committed to investing in our human resources, especially UAE nationals. Our employees are encouraged to achieve their aspirations and empowered to perform their functions and hone their talents to create talented cadres capable of performance and innovation.

On behalf of the executive management team, I would like to take this opportunity to thank our Chairman, Vice Chairman, and members of the Board. Their stewardship and guidance represent an essential pillar to the ongoing success of UAB.

The Bank would also like to express its appreciation and gratitude to the Governor and staff of the Central Bank and the Government of the UAE for their endless support and direction for both UAB and the UAE banking sector.

Our success relies on the loyalty of our customers, and I personally thank them for their ongoing trust and constant backing. We will continue to deliver innovative offerings that meet the desires of our customers and reflect our commitment to the UAE community, whilst in parallel maximizing value for our shareholders and wider stakeholders.

Finally, I would like to take this opportunity to express my gratitude to our employees for their hard work and dedication. We look forward to a fruitful year ahead and further growth and prosperity for all.

Yours sincerely,

Shirish Bhide
Chief Executive Officer

Board of Directors

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi

Chairman, Non-Executive

First elected to the Board: 1975
Re-elected to the Board: in 2021 for a term of 3 years

Founder of United Arab Bank, H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank.

Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

H.E. served in the UAE Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi graduated from the Jordanian Officer Cadet School and Mons Officer Cadet School in UK.

External Board Appointments:

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

Mr. Omar Hussain Alfardan

Vice Chairman, Non-Executive

First elected to the Board: 2007
Re-elected to the Board: in 2021 for a term of 3 years

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank (P.S.Q.C.), the largest corporate shareholder of United Arab Bank.

Mr. Alfardan holds a Bachelor's Degree in Business Administration and a Master's Degree in Finance from Webster University in Geneva, Switzerland.

External Board Appointments:

- Managing Director – The Commercial Bank (P.S.Q.C.)
- Chairman of the Board - Alternatif Bank in Turkey

External Board Appointments:

- President & CEO of Alfardan Group and its subsidiaries in Qatar and Oman
- Managing Director of Marsa Arabia
- Advisory Board Member of Qatar Financial Centre Authority
- Board Member of Qatar Red Crescent Society
- Member of the Board of Trustees of Hamad bin Khalifa University
- Member of Qatari Businessmen Association and founding member of the Qatar Hotels Association

H.E. Sheikh Abdullah bin Ali bin Jabor Al Thani

Director, Non-Executive

First elected to the Board: 2008
Re-elected to the Board: in 2021 for a term of 3 years

Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 as a representative of The Commercial Bank (P.S.Q.C.), the largest corporate shareholder of UAB. He was re-appointed in 2011 and 2015 by the Annual General Assembly.

Sheikh Abdullah holds a BA in Social Science from Qatar University

External Board Appointments:

- Chairman of the Board – The Commercial Bank (P.S.Q.C.)
- Vice Chairman of the Board – National Bank of Oman (S.A.O.G)

External Board Appointments:

- Owner of Vista Trading Company
- Partner Abdullah bin Ali and Partners for Real Estate Investments
- Partner Alaham Company
- Partner Smart Light and Control Company
- Partner in Integrated Intelligence Services Company
- Partner in Falcon Petrol Station
- Partner in Shaza Hotel
- Partner in The Diabetes Hospital

H.E. Sheikh Mohammed bin Faisal Al Qassimi

Director, Non-Executive

First elected to the Board: 2011
Re-elected to the Board: in 2021 for a term of 3 years

H.E. Sheikh Mohammed bin Faisal Al Qassimi is the founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, real estate, private equity and Equity investment.

H.E. Sheikh Mohammed bin Faisal Al Qassimi holds key directorships and senior positions at various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC and Faisal Holding Co LLC. H.E. Sheikh Mohammed is a member of CMA and the Society of Technical Analysts of UK.

H.E. Sheikh Mohammed bin Faisal Al Qassimi graduated from Webster University in Business Administration and Accounting.

External Board Appointments:

- Faisal Holding LLC & a number of its Board Committees.
- Grand Stores LLC.
- Italian Chamber of Commerce in the UAE & the GCC.
- Member of Certified Management Accountant - CMA.
- Member of Society of Technical Analysts of the United Kingdom.

Mr. Ahmed Mohamad Bakheet Khalfan

Director, Non-Executive

First elected to the Board: 1995
Re-elected to the Board: in 2021 for a term of 3 years

Mr. Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the UAE including ALICO, Gulf Glass, and Takaful Re.

Mr. Khalfan graduated with a Bachelor of Science in Economics with honor from the North Eastern University, Boston.

Ms. Najla Ahmed Al Midfa

Director, Independent

First elected to the Board: 2012
Re-elected to the Board: in 2021 for a term of 3 years

Ms. Najla Ahmed Al Midfa is the Chief Executive Officer of the Sharjah Entrepreneurship Center (Sheraa), a government supported entity launched in 2016, with a mandate to build the entrepreneurial ecosystem in Sharjah, and support entrepreneurs as they build and grow innovative startups that will contribute positively to the region's economy.

Sheraa also hosts the annual Sharjah Entrepreneurship Festival (SEF), which has attracted over 18,000 attendees from around the world. Prior to Sheraa, Ms. Najla held a senior position at Khalifa Fund for Enterprise Development, focused on SME financing, and was a consultant at McKinsey and Company's New York office, primarily serving clients across the financial institutions sector. Her previous professional experience also includes roles within PricewaterhouseCoopers and Shell.

Ms. Najla is a member of the Board of Directors at United Arab Bank, Emirates Development Bank, and Dana Gas. She was previously on the board of the Emirates Schools Establishment.

Ms. Najla is Vice-Chairperson of Young Arab Leaders, and a board member of Endeavor UAE. She is a fellow of the Aspen Institute's Middle East Leadership Initiative, as well as an Eisenhower Global Fellow.

She holds an MBA from Stanford University.

External Board Appointments:

- Board member of the United Arab Bank (part of the Board Audit Committee).
- Vice Chairman of Young Arab Leaders.
- Board member of Endeavor UAE.

Mr. Joseph Abraham

Director, Non-Executive

First elected to the Board: 2017
Re-elected to the Board: in 2021 for a term of 3 years

Mr. Abraham has extensive banking experience across both developed and emerging markets. Before joining Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations.

External Board / Group CEO Appointments:

- Vice Chairman of the Board – Alternatif Bank in Turkey
- Director - National Bank of Oman (S.A.O.G)
- Group Chief Executive Officer – The Commercial Bank (P.S.Q.C.)

Mr. Fahad AbdulRahman Badar

Director, Non-Executive

First elected to the Board: 2016
Re-elected to the Board: in 2021 for a term of 3 years

Mr. Fahad Badar is a member of the Bank's Board of Directors and joined in July 2016. Mr. Badar's career at The Commercial Bank (P.S.Q.C.) spans over 22 years. Prior to his current role as Executive General Manager, International Banking, Mr. Badar held a number of key roles in the International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, United Kingdom and a Bachelors of Arts degree in Banking & Finance from the University of Wales.

External Board Appointments:

- Board Member – National Bank of Oman (S.A.O.G)
- Executive General Manager, International Banking – The Commercial Bank (P.S.Q.C.)

Mr. Abdul Wahab Al-Halabi

Director, Independent

First elected to the Board: 2021
Resigned – in March 2022

Mr. Abdul Wahab Al-Halabi is a Board Member at Global SWF, Union Properties and a Senior Advisor and Member of the Board, Middle East at Houlihan Lokey as well as a Partner at Decker & Halabi. He is a Chairman and Independent Director at DXB Entertainments and Chief Investment Officer of Equitativa Group, a diversified financial services group that is involved in asset management, wealth management and private equity.

Mr Al-Halabi has more than 20 years' experience in the real estate sector, with expertise in financial restructuring, crisis and debt management, credit enhancements and joint ventures. Previously he was the Group Chief Investment Officer of Meraas Holding, a partner at KPMG and has acted as Chief Executive Officer of Dubai Properties, a member of Dubai Holding.

Mr. Al-Halabi holds a Bachelor of Science in Economics from London School of Economics and an Executive MBA from École des Ponts ParisTech. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of Chartered Institute for Securities & Investments (CISI) and Entrepreneurs Organization UAE.

External Board Appointments:

- Chairman and Independent Director – DXB Entertainment
- Board Member - Global SWF
- Senior Advisor & Member of the Board, Middle East - Houlihan Lokey
- Board Member - Union Properties
- Director – AbFab Limited
- Director – TPL Properties Limited

Executive Management

Mohamed El Desouky
Head of Islamic Banking

Narayanan Santhanam
Chief Credit Officer

Emre Yalcin
Head of Retail Banking

Zsombor Brommer
Chief Compliance Officer

Abdul Haleem Sheikh
Chief Financial Officer

Nael Mourad
Head of Wholesale Banking

Bhaskar Sen
Chief Risk Officer

Ayman Al Qudsi
Chief Information Officer

Hind Al Attar
Chief Human Capital Officer

Shirish Bhide
Chief Executive Officer

Carla Ajaka
Head of Financial Markets

Biju Nair
Chief Audit Executive

Abdullah AlTaee
Chief Operating Officer

Shari'ah Committee Report

Islamic Banking - United Arab Bank Internal Shari'ah Supervision Committee

In The Name of Allah, The Most Beneficent, The Most Merciful.

To the Shareholders of United Arab Bank,
peace and blessings upon all of you

Pursuant to the requirements stipulated in the relevant laws, regulations and standards (Regulatory Requirements), the Internal Shari'ah Supervision Committee of UAB (ISSC) presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the UAB) for the financial year ending on 31 December 2022:

1. Responsibility of ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

a. undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (Institution's Activities) and issue Shari'ah resolutions in this regard, and

b. to determine Shari'ah parameters necessary for the Institution's Activities, and the Institution compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority (HSA) to ascertain compliance of the Institution with Islamic Shari'ah.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception.

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari'ah supervision of the Institution's Activities through review of those Activities, and monitoring through division or internal audit, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening four meetings during the year.

b. Providing fatwas, opinions and resolutions on matters presented to the ISSC.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Supervision Islamic Banking Department and Audit, of the Institution's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

e. Providing direction to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by division of section of the internal audit.

f. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

g. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning compliance of the Institution with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

4. Independence of ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that most of the Institution's Islamic Activities are in compliance with Islamic Shari'ah. The ISSC formed its opinion, based on the Audit report.

1. The bank was executing and using the approved forms and agreements in most of its transactions except some transactions as mentioned in the audit report.

2. Most of operational activities are in line with ISSC approval; except some of operational activities that were not as per the Audit report.

3. All of the Bank's Islamic Investments are approved by ISSC.

4. Mudarabah profit distribution was approved by ISSC.

5. No Zakat obligations on the Islamic Banking Department since all Islamic Assets are being financed by Islamic Depositors and there is no contribution from United Arab Bank shareholders.

We ask God, the Most High, the Almighty, to achieve righteousness for all.

Dr. Moosa Tarek Khoory	**Dr. Aziz bin Farhan Al-Anzi**	**Dr. Ahmed bin Abdulaziz Al Haddad**
Executive Member of the Fatwa Authority	Member of the Fatwa Committee	Chairman of the Fatwa Authority

Corporate Governance

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

UAB's Corporate Governance Framework

The Governance framework ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors, the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. In addition, it aids cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements continuously looking to adopt industry best practices.

Transparency and Disclosure

As part of our efforts to continuously enhance disclosures and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including media, press releases and other various avenues.

In addition, a dedicated Investor Relations section is available on the Bank's website (www.uab.ae) through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.

Board of Directors

Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank.

The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite.

Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times in addition, the Board has agreed on the Terms of Reference of the Board of Directors and all Board Committees, which set out their respective process, duties and responsibilities.

Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest Corporate Governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Act honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observe confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Act in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclose any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attend regularly and participating effectively in Board meetings and general meetings of the shareholders.

Board Composition and Nomination

The Board is composed of 9 non-executive board members. The members were re-elected at the Annual General Assembly in April 2021. Members are eligible for re-election.

4 members represent The Commercial Bank, being the major shareholder, 1 member represent the founders of the Bank with the remaining representing the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge, diversity and financial awareness to carry out its oversight responsibilities. All Board members are in regular attendance of the meetings.

Director Name	Shares held As at Dec 31 2022	Total sale transactions	Total purchase transactions
H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi	229,515,634	229,515,634	-
Mr. Omar Hussain Alfardan	-	-	-
H.E. Sheikh Abdullah bin Ali bin Jabor Al Thani	-	-	-
H.E. Sheikh Mohammed bin Faisal Al Qassimi	1,621,533	-	-
Mr. Ahmed Mohamad Bakheet Khalfan	-	-	-
Ms. Najla Al Midfa	-	-	-
Mr. Fahad Badar	-	-	-
Mr. Abdul Wahab Al-Halabi	-	-	-
Mr. Joseph Abraham	-	-	-

Board of Directors' Remuneration

- The Board of Directors were paid a total of AED 1,010,000 as an allowance for attending the Board committees in 2021.
- The Board of Directors will be paid remuneration of AED 6 Million subject to AGM approval.
- The Board of Directors will be paid a total of AED 790,000 as an allowance for attending the Board committees in 2022 subject to AGM approval and as per the following details:

Board Member	Committee	Amount (AED)	Attendance
HE Sheikh Faisal bin Sultan bin Salem Al Qassimi	BOD	0	100%
Mr. Omar Hussain Alfardan	GRC	40,000	100%
HE Sheikh Abdullah bin Ali bin Jabor Al Thani	BRC	70,000	100%
HE Sheikh Mohammed bin Faisal Al Qassimi	GRC -BCC	130,000	100%
Mr. Ahmed Mohamad Bakheet Khalfan	GRC-BCC-BRC	190,000	100%
Ms. Najla Al Midfa	BAC-GRC	80,000	100%
Mr. Fahad Badar	BCC-BRC	140,000	100%
Mr. Abdul Wahab Al-Halabi	BAC-BRC	30,000	100%
Mr. Joseph Abraham	GRC-BAC-BCC	110,000	100%

Board Activities in 2022

The Board of Directors met 6 times in 2022 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2022 Board Meetings Calendar

01st February 2022	Board of Directors meeting to approve Q4 2021 financial results conducted and to agree on General Assembly agenda on 14th April 2022 , in addition to other items on the agenda.
02nd March 2022	Board meeting to discuss and approve other items on the agenda.
28th April 2022	Board meeting to discuss and approve other items on the agenda.
03rd June 2022	Board meeting to approve Q2 2022 financial results in addition to other items on the agenda.
09th November 2022	Board meeting to approve Q3 2022 financial results in addition to other items on the agenda.
13th December 2022	Board of Directors meeting to discuss and approve other items on the agenda.

Board Member	BOD	GRC	BAC	BCC	BRC
HE Sheikh Faisal bin Sultan bin Salem Al Qassimi	C				
Mr. Omar Hussain Alfardan	VC	C			
HE Sheikh Abdullah bin Ali bin Jabor Al Thani	M				C
HE Sheikh Mohammed bin Faisal Al Qassimi	M	M		C	
Mr. Ahmed Mohamad Bakheet Khalfan	M	M		M	M
Ms. Najla Al Midfa	M	M	C		
Mr. Fahad Badar	M			M	M
Mr. Joseph Abraham	M	M	M		
Number of Meetings in 2022	6	4	4	9	4

C: Chairman
VC: Vice Chairman
M: Member
BOD: Board of Directors
GRC: Board Governance & Remuneration Committee
BAC: Board Audit Committee
BCC: Board Credit Committee
BRC: Board Risk Committee

Summary of Board Meeting by Circulation Resolutions in 2022

Board Meeting Date	Resolution
July 19th 2022	Approving the Financial Statements for the period ended 30th June 2022

Board Committees

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

Board Governance & Remuneration Committee (GRC)

The GRC acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles.

The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

GRC shall provide recommendations to the Board for new Board and Senior Management members. GRC will also provide support and directions to the Board in terms of strategic and budgetary initiatives, plans and decisions. GRC meets at least four times a year. The committee held Four meetings in 2022.

Committee Members

- Mr. Omar Al Fardan - Chairman
- Sh. Mohammed bin Faisal Al Qassimi - Member
- Mr. Ahmed Khalfan - Member
- Mr. Joseph Abraham - Member
- Miss Najla Al Midfa - Member

Board Credit Committee (BCC)

The BCC provides leadership for the Bank within a framework of prudent and effective controls which enables robust credit control.

The BCC is responsible for evaluating and granting counterparty credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations. BCC meets on an ad-hoc basis. The committee held Nine meetings in 2022.

Committee Members

- Sh. Mohammed bin Faisal Al Qassimi - Chairman
- Mr. Ahmed Khalfan - Member
- Mr. Fahad Abdulrahman Badar - Member
- Mr. Joseph Abraham – Member - until April 2021

Board Credit Committee (BCC)

The BCC provides leadership for the Bank within a framework of prudent and effective controls which enables robust credit control.

The BCC is responsible for evaluating and granting counterparty credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations. BCC meets on an ad-hoc basis. The committee held Nine meetings in 2022.

Committee Members

- Sh. Mohammed bin Faisal Al Qassimi - Chairman
- Mr. Ahmed Khalfan - Member
- Mr. Fahad Abdulrahman Badar - Member
- Mr. Joseph Abraham – Member-until April 2021

Board Audit Committee (BAC)

BAC is responsible for managing the financial reporting, compliance and internal audit reviews of the Bank and, in doing so, may exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

The internal audit function has a direct reporting line to the BAC.

BAC meets at least Four times a year, the committee held four meetings in 2022.

Committee Members

- Miss Najla Al Midfa - Chairman
- Mr. Joseph Abraham - Member
- Mr. Abdul Wahab Al-Halabi - Member (Resigned – March 2022)

Board Risk Committee (BRC)

The BRC monitors and manages all aspects of enterprise risk management including, but not restricted to, credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, financial risk.

Moreover, the BRC reviews and approves the policies on all risk issues and maintains oversight of all Bank risks through reports received from the General Management Risk Committee. BRC meets at least Four times a year. The committee held four meetings in 2022.

Committee Members

- Sh. Abdullah bin Jabor Al Thani - Chairman
- Mr. Fahad Abdulrahman Badar - Member
- Mr. Ahmad Khalfan - Member

Joint Risk and Audit Committee (BRC- BAC)

The joint committee meets at least twice a year. as it was created due to CBUAE requirements of having an effective communication channel between both committees. The committee held two meetings in 2022.

Committee Members

- Sh. Abdullah bin Jabor Al Thani – Chairman BRC
- Mr. Fahad Abdulrahman Badar - Member
- Mr. Ahmad Khalfan - Member
- Mr. AbdulWahab Al Halabi – Member(Resigned –March 2022)
- Miss Najla Al Midfa - Chairman BAC
- Mr. Joseph Abraham - Member

Related Party Transactions During 2022

UAB consistently disclose the related party transactions in the financial statements and are audited by external auditors. The management reviews the related party transactions and when the deals are conducted.

The Bank discloses the transactions and dealings with the related parties according to the relevant accounting standards and are verified by our external auditors through their quarterly reviews and audits. Related party disclosures for the year 2022 are available in the financial statements.

Senior Management and their Compensation

Position	DOJ	Total
Chief Executive Officer	01/06/2022	15.24 Mn
Chief Financial Officer	19/01/2022	
Chief Compliance Officer	05/09/2022	
Head of Wholesale Banking	01/08/2022	
Chief Risk Officer	10/08/2022	
Chief Human Capital Officer	27/06/2022	
Chief Audit Executive	17/08/2022	
Head of Retail Banking	04/10/2022	
Chief Credit Officer	12/12/2022	
Chief Operating Officer	29/12/2022	
Chief Information Officer	09/05/2018	
Head of Financial Markets	30/08/2020	
Head of Islamic Banking	02/05/2018	
Administrative Assistant to the CEO	10/07/1982	
Head of Legal	10/03/2019	

Management Committees

The Board has approved the Terms of Reference of all Management Committees. The Bank has six (6) Management Committees that report regularly to the Board, or the relevant Board committee as follows:

Management Committee (MANCOM)

The Executive Management Committee is responsible for recommending the Bank's strategy and monitoring its performance. It will exercise general control over UAB and manage the Bank's business to ensure compliance with regulatory and legal requirements, and internal policies - MANCOM meets on a weekly basis.

Risk Committee (RC)

The General Management Risk Committee is the highest approving authority at the management level on all aspects of enterprise risk management including, but not restricted to: credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, financial risks, corporate governance, and audit matters of the Bank (and any subsidiaries and affiliates in which it has strategic investments).

The RC provides recommendations on all risks and investment policies and portfolio issues to the BRC, and to other Board Committees as appropriate – RC meets on a monthly basis.

Asset and Liability Committee (ALCO)

ALCO is the decision-making body related to balance sheet structure, funding, pricing, hedging, investment, and setting limits related to the overall ALM function of the Bank; and the has the mandate for recommending for approval or itself approving various functions/transactions mention under the responsibilities - ALCO meets at least six times a year.

Credit Committee (CC)

CC is the highest management level authority on all counterparty risk exposures, credit product programmes and underwriting exposures on syndications and securities transactions – CC meets on a weekly basis.

Business Technology Steering Committee (BTSC)

Provide an outline for role performed by Information Technology and Operation Units regarding Banks' projects, IT related initiatives, plans, related Budgets and Expenditures and Service Operation status. The OTC will provide assistance to the Senior Management in fulfilling its responsibility to the shareholders, and provide timely updates about the respective related activities - OTC meets up to 6 times a year.

Wholesale Banking Top Team (WBT)

The WBT is the top management team of Corporate and Institutional banking (to be redefined as wholesale banking) making key decisions on the day-to-day working of the wholesale banking team, under the leadership of the CEO and Head of Wholesale Banking – WBT meets on a weekly basis.

Legal Meetings

The objective of this Terms of Reference is to provide an outline updates/status of the legal cases against the bank and the provisions required for the same - Legal Meetings take place every quarter.

Special Assets Committee (SAC)

The Special Assets Committee is the highest management level authority on Corporate and SME provisions. The authority of the SAC is derived from the Board - SAC meets on a monthly basis.

Retail Banking Top Team (RBT)

Concerned with making key decisions on the day-to-day working of the Retail Banking team, under the leadership of the CEO - RBT meets on a weekly basis.

Client Experience Forum (CEF)

The purpose of the Terms of Reference of the Client Experience Forum is to provide an outline of the role performed by the Client Experience Forum (CEF) of United Arab Bank (UAB). The CEF will provide assistance to the Senior Management in fulfilling its responsibility to the shareholders, and others relating to the Bank's compliance with legal and regulatory requirements and the achievement of the Bank's desired customer experience levels – CEF meets on a monthly basis.

External Auditors

External Auditors Details	
Name of audit firm for the period (January 1, 2022 – December 31, 2022)	Ernst & Young
Audit Partner	Ben Wareing
Number of years served as an external auditor for the bank	4
Total fees for auditing the financial statements of 2022	**AED 901,530** consists of: • Q1 2022 - 144,690/- • Q2 2022 - 144,690/- • Q3 2022 - 144,690/- • YE 2022 - 467,460/-
Fees and costs of services other than auditing and reviewing the financial statements for 2022	**AED 72,345** for: • Arabic translation of YE Financial statements - 33,390/- • Annual BRF review as per the Central Bank of the UAE regulations • – 38,955/-
Any other audit services	• Nil

** All fees are inclusive of VAT, Technology fees and OPE*

Internal control Structure

Introduction

United Arab Bank (UAB) recognizes the importance of effective risk management in achieving its strategic goals and maintaining its stability and resilience. Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including strategic, capital, credit, market & liquidity, operational, fraud, information technology and information security, reputation risks, etc., and processes from origination and assessment of risks to ongoing monitoring, control, review, maintenance and reporting of risks. It also covers roles and responsibilities of Board and Management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

UAB's Risk Management Strategy includes our comprehensive Enterprise-wide Risk and Compliance Risk Frameworks, which are fully aligned with our Bank's Vision to drive consistent value for all stakeholders. The key strategic imperatives that drive Bank's vision include the following:

- **Sound Fundamentals and Strong Risk Bearing Capacity:** Maintaining strong financial and operational fundamentals serves as a foundation for effective risk management and supports risk bearing capacity.
- **Strategic Alignment and Enduring Partnership with Business Lines:** A risk management approach that is strategically aligned with business goals ensures a close partnership between risk management and business units to effectively manage risks.
- **Efficient Deployment of Capital, Liquidity and Provisioning:** Efficient deployment of capital, liquidity, and provisioning supports sustainable growth and minimizes risks.
- **Comprehensive and Integrated Corporate & Risk Governance Framework:** A robust corporate and risk governance framework ensures effective risk management, independent oversight, and accountability.
- **Resilient Risk Infrastructure and Strong Risk Culture:** A strong risk infrastructure and culture promotes transparency, accountability, and a proactive approach to risk management.

UAB places a strong emphasis on the following key imperatives to ensure sound risk management practices:

1. Strong Governance

UAB has a strong governance framework in place to ensure that its risk management framework is effective and that risks are managed in a controlled and transparent manner. This includes committees at Board and Management levels, clear policies and procedures, regular reporting and monitoring, and independent oversight from internal and external stakeholders.

- **Board Committees**

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Group Remuneration Committee

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

(e) Joint Board Audit and Board Risk Committee

Joint Meeting between the Board Audit Committee (BAC) and the Board Risk Committee (BRC) is held regularly in accordance with the Central Bank of the UAE (CBUAE) guidelines to ensure effective coordination and collaboration between the two committees in managing risks. This joint meeting enhances the overall risk management framework by providing a platform for robust discussions and effective decision-making in matters relating to risk management.

- **Management Committees**

The Board level committees are further supplemented by key management committees to ensure comprehensive risk management and governance. These committees include:

(a) Management Committee

The Management Committee provides overall strategic direction for the organization, including the management of risk, by reviewing and approving the organization's risk appetite, risk tolerance, and risk management framework, and providing overall oversight of the risk management process.

(b) Credit Committee

The Credit Committee is responsible for reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing ongoing monitoring of credit risk.

(c) Asset Liability Committee

The Asset and Liability Committee (ALCO) is instrumental in the management of the organization's interest rate and liquidity risk. It makes recommendations to ensure an adequate level of liquidity while operating within a robust risk control framework. This enables effective management of these risks.

(d) Risk Committee

The Risk Committee supports the Board and Management in fulfilling their responsibilities related to risk management. It evaluates the effectiveness of the internal control system for managing bank-wide risks, ensures compliance with legal and regulatory requirements, and reviews the performance of the risk function. The Committee provides impartial oversight of the risk management framework and processes, and regularly reports on risk management activities to the Board and Management.

(e) Business Technology Steering Committee

The Business Technology Steering Committee provides oversight of the organization's technology-related risks, including information security and technology resilience.

(f) Customer Experience Committee

The Customer Experience Committee ensures that the organization's customer facing activities are aligned with its risk appetite and that the risks associated with customer interactions are effectively managed.

2. Risk Appetite Framework

UAB has established a risk appetite framework to ensure that its risk-taking activities are aligned with its strategic goals and risk tolerance. The framework includes clear definitions of the Bank's risk appetite and limits for various types of risks, as well as regular monitoring and reporting to ensure that these limits are not exceeded.

3. Sustainability

UAB is committed to incorporating sustainability considerations into its risk management framework, including environmental, social, and governance (ESG) risks. The Bank has established processes for assessing and managing ESG risks, and regularly monitors its exposure to these risks.

4. Three Lines of Defence

UAB's risk management framework is built on three lines of defence, which work together to ensure that risks are effectively identified, assessed, monitored, and controlled:

- The first line of defence is the business unit, which is responsible for identifying, assessing, and managing risks in its day-to-day activities.
- The second line of defence is the risk management function, which provides oversight and support to the business units in managing risks.
- The third line of defence is the internal audit function, which independently assesses the effectiveness of the Bank's risk management framework and provides recommendations for improvement.

As part of the three lines of defence, the Board and Management committees are further supplemented by functions who are responsible for day-to-day monitoring of risks:

(a) Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safeguarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Credit Department

The Credit Department is responsible for spearheading overall credit strategy of the bank, reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing assistance in ongoing monitoring of credit risk.

(c) Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(d) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

From 2019 till 2022, the Central Bank of the UAE has issued a number of standards and regulations on the various elements of overall Risk Management, Consumer Protection Regulation, Anti-Money Laundering, Capital Adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

5. Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyses and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.
For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, Risk Committee and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

6. Risk Mitigation

UAB has implemented a comprehensive risk mitigation framework that aims to minimize the impact of potential risks on its operations, financial performance, and reputation. This includes identifying and evaluating risk, implementing risk mitigation strategies, and regularly monitoring the effectiveness of these strategies.

The Bank actively uses collateral to reduce its credit risks. Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

7. Robust Business Continuity Framework

Our well-structured Business Continuity Framework and Policy, along with our comprehensive Crisis Management Framework and supplementary emergency plans and incident response protocols, provide a strong foundation of organizational resilience against major disruptions or unexpected events, such as the recent COVID-19 pandemic. These frameworks and procedures are subjected to regular testing, with a minimum frequency of annual assessments, to guarantee their effectiveness and readiness in such scenarios.

Compliance

The United Arab Bank welcomed the Central Bank of the UAE's direction and continuous support, introducing new regulations to enhance the banking industry's governance and oversight standards, responsible lending practices, information and transparency, access to services, complaints handling, and public awareness, maintaining safe and sound AML/CFT and regulatory compliance controls. The Bank is committed to full compliance with these regulations, in line with our long-standing approach to fair treatment of customers and transparency, protect the integrity of the market.

We, at the United Arab Bank are fully cognizant of the regulatory risk implications associated with non-adherence to the local and applicable global laws and regulations, which may result in enforcement actions, sanctions, fines and losses. It may be associated with damage to the Bank's reputation also as a result of its failure to comply with the applicable laws and regulations or prescribed practices.

The Compliance function at United Arab Bank provides assurance to the Executive Management and the Board that we do the right thing and fully met both the letter and spirit of the laws and regulations. Compliance is also responsible that the risk of the Bank being used to facilitate financial crime is being assessed and effectively mitigated.

Compliance, as an independent second line of defense function, helps protect the Bank by establishing a control environment that mitigates key risks. Specifically, Compliance provides regulatory guidance and operates a risk-based program designed to prevent, detect, and address violations of applicable laws, rules, regulations, policies, and procedures. One of the key responsibilities of the Compliance function is to provide consultative and advisory support. Compliance also enable oversight to the Senior Management towards effectively mitigating and managing the compliance risks faced by the Bank.

Independence of the Compliance function is ensured at all times, along with unrestricted access to all necessary data, information and systems across the Bank. The Chief Compliance officer has direct access to the Board. Compliance also maintains an efficient oversight and reporting structure that enables prompt escalation, follow-up and resolution of issues.

With significant continuing regulatory changes and developments, the criticality of the Compliance function and the need for an effective Compliance framework within a financial institution is unprecedented. The vulnerability of financial institutions has increased manifold with extra-territorial enforcement of overseas regulatory bodies creating a more complex environment. Consequently, the need for senior management of banks to fully understand and effectively mitigate evolving Compliance Risks is of paramount importance. United Arab Bank remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis our banking activities and services.

The Board and the Senior Management continuously promote and uphold a strong Compliance culture across the Bank while setting the desired "Tone from the Top". As a result, we continue to undertake required endeavors to maintain an environment that is conducive towards employee empowerment and transparency in relation to effective risk management across the entire Bank. UAB's approach is centered on the foundation that our employees understand their duties, take full responsibility and accountability for compliance with all regulations to protect our customers and our reputation.

UAB benefited from a comprehensive baseline review by the Central Bank of the UAE that assessed the Bank's policies, processes and procedures. Under the guidance of the Board, the Bank took the opportunity of this benchmarking exercise to further strengthen its governance model, specific controls and to ensure implementation of operational best practice. The Management is committed to address observations and recommendation of the independent Internal Audit function too.

In 2022, the Bank has undertaken initiatives and improvements both in the Regulatory and Financial Crime Compliance function, which include strengthening the relevant teams, amendments in policies and procedures, strengthening the governance and oversight.

At an industry level, United Arab Bank continues to play an active role with regards to collaboration with the UAE Banks Federation (UBF) as a member bank and membership of important advisory committees of the UBF, working on important initiatives, proposals and priorities.

Details of Violations in 2022

The Bank is committed to address any regulatory observations and findings on a priority basis, this includes implementation and strengthening of relevant controls as it relates to tax compliance matters.

UAB follows a process in the Operational Risk Policy that is approved by the Board Risk Committee (BRC). All investigations are carried out by the Risk Management team to identify the root cause of the issue and where appropriate, proposed changes to standard and control processes are made to prevent any future occurrences.

Details of the Contributions for the Community in 2022

UAB has made social contributions of AED 186,295 in projects directed to foster culture, arts, youth empowerment, and for people with disabilities.

Share Price Information & Shareholding Details

UAB's share price in the Market at the end of each month during the year 2022

Date	UAB Mid	UAB Delta	ADX	ADX Delta
12/31/2022	0.85	1.10%	10,211	-3.23%
11/30/2022	0.839	18.90%	10,552	1.35%
10/31/2022	0.65	-3.00%	10,412	6.78%
09/30/2022	0.68	-2.00%	9,751	-1.25%
08/31/2022	0.70	2.00%	9,875	2.18%
07/31/2022	0.68	2.70%	9,663	3.08%
06/30/2022	0.653	0.00%	9,375	-6.76%
05/31/2022	0.653	0.10%	10,055	-0.26%
04/30/2022	0.652	2.20%	10,081	1.33%
03/31/2022	0.63	2.40%	9,949	6.75%
02/28/2022	0.606	-6.70%	9,319	7.07%
01/31/2022	0.673	-	8,704	-

UAB's shareholding distribution by Citizenship as at 31 December 2022

Shares Category	Company	Individual	Grand Total
UAE	445,089,595	701,025,665	1,146,115,260
GCC	904,753,747	1,451	904,755,198
Foreign	1,075,166	10,605,025	11,680,191
Grand Total	**1,350,918,508**	**711,632,141**	**2,062,550,649**

Investor Name Arabic	Investor Name English	Quantity	%
البنك التجاري ش .م.ع.ق	The Commercial Bank P.S.Q.C.	825,020,255	40.00%
ماسقلا مسال نطالس لصيخ فيشلا	Sheikh Faisal bin Sultan Al Qassimi	229,515,634	11.13%
ركشه الوثبه الوطنيه للتأي م	Al Wathba National Insurance Co	127,691,164	6.19%
ذ.م.م(تارامثتد للا سجاملا هكشر)	Al Majed Investment Company (WLL)	112,907,477	5.47%
يي هم داللهبع دجاملا هعمج	Jumaa Al Majed Abdullah Muhairi	109,546,618	5.31%
ماسقلا مسال نطالس رقص نطالخ سيشلا	Sheikh Sultan Saqer Sultan Salem Al Qassimi	107,192,034	5.20%

Row Labels	Count	Sum of Quantity	%
5,000,001 & More	29	1,969,041,937	95.47%
500,000 to 5,000,000	48	83,432,145	4.05%
50,000 to 500,000	45	8,644,499	0.42%
50,001 to 500,000	1	54,096	0.00%
Less than 50,000	102	1,377,972	0.07%
Grand Total	**225**	**2,062,550,649**	**100.00%**

Our well-structured Business Continuity Framework and Policy, along with our comprehensive Crisis Management Framework and supplementary emergency plans and incident response protocols, provide a strong foundation of organizational resilience against major disruptions or unexpected events, such as the recent COVID-19 pandemic. These frameworks and procedures are subjected to regular testing, with a minimum frequency of annual assessments, to guarantee their effectiveness and readiness in such scenarios.

Performance Evaluation of Management Committees: The Corporate Governance reviews on an annual basis the performance of all Management Committees against their terms of reference and reports accordingly to the Board.

UAB has a dedicated Investor Relations section on its corporate website which makes available the following information for all existing and potential investors:

- Material disclosures
- Interim and annual financial reports
- Presentations, management discussion and analysis reports
- Updated credit ratings
- Sustainability reports

Contact details
Mr. Wael Alashqar
Head of Investor Relations
Direct telephone: +971-6-5075238
Mobile number: +971-54- 9943959
Email: ir@uab.ae
Website: https://www.uab.ae/Investor-Relations/

Statement of Special Resolutions Presented in 2022 AGM and the Related Action Points

There were no special resolutions passed in the AGM dated 14th April 2022, only regular resolutions as per the agenda.

Company Secretariat Details

Name: Ms. Sereen Makahleh
Date of Joining: 03 Jan 2016

Details of Major Events and Disclosures in 2022

- Appointment of the new Chief Executive Officer
- Unclaimed Dividends by Shareholders from Previous Years

Details of Transactions Conducted with Related Parties in 2022 of 5% or More of the Bank Capital

No transactions have been conducted in 2021.

Emiratisation

Year	Ratio
2020	20.17%
2021	18.73%
2022	23.3%

Details of Projects and Initiatives in 2022

Technology continues to be the key enabler, improving digital experience for customers remains a strategic priority for UAB. The 2022 theme was around four key driver categories namely – Customer, Efficiency, Revenue, Security and Regulatory.

Project Name	Description
New Retail Online Banking	A revamped Retail online banking portal having Intuitive screens, easy and flexible navigation, consistent look and feel with Mobile Banking, Comprehensive dashboard with the option of UAEPASS login access was launched for UAB retail customers.
PCI Certification	UAB retained its status as PCI DSS (Payment Card Industry – Data Security Standards) compliant after rigorous security audits.
CRM Application	A new CRM 'Customer Relationship Management' solution was launched with the objective of tracking and managing leads, improve sales and provide superior customer experience.
New Utility Bill Payment System	Our existing Utility Bill Payment System was replaced to a more robust, API driven and stable system enhancing overall customer experience and providing future ability to integrate with newer technologies.
Host to Host Solution for Wholesale Banking Customers	A new Host to Host Solution was added to our service portfolio for our corporate customers to facilitate Bulk Processing of payment and registration files generated from the customer's ERP system.
CCM Phase Fixed Deposit Advices	Interactive Smart Statement is one place to see all transaction details across the customer's retail banking portfolio. Easy to navigate, user friendly and send directly to the customer's registered email address.
3D Secure, Fraud Module and Enable Debit Card for Online Transactions	3D secure which is a protocol designed to be additional security layer for online card transactions was rolled out post which our debit cards were enabled for eCommerce transactions.
SBS Technology Upgrade	Our existing teller system was migrated from obsolete technology to the latest Microsoft.Net technologies with additional functionalities. The change will allow the new teller solution integrate in the future with CRM and the Queuing system for a better customer experience.
Annual Disaster Recovery Failover Test	A full site DR test was conducted successfully demonstrating UAB's capabilities to continue serving its customers without disruption during adverse unforeseen events.
Compliance to National Electronic Security Authority (NESA)	NESA (National Electronic Security Authority) has produced a set of security standards and guidance for critical sectors including banks. UAB was found to be 97% compliant with NESA regulations and this is a significant achievement compared to other local banks in the region.
IT CPR Central Bank Mandates	The Consumer Protection Regulation (CPR) issued by the Central Bank stipulates the standards that must be adhered to (Customer Protection Standards) while handling customer data. UAB has successfully achieved compliance to these mandatory IT related standards issued by the regulator.

Chairman of the Board	Audit Committee Chairman	Board Governance & Renumeration Committee Chairman
Date: 15/02/2023	Date:	Date:

Shareholders Profile

Meeting of the Shareholders

UAB Shareholders meet at least once a year during the Annual General Assembly (AGA), the supreme governance body of the Bank. The Articles of Association provides the statutory framework for the calling and the conduct of the AGA.

The AGA is held during the first four months of the year, to:

- Consider and approve the Report of the Board of Directors on the Bank's activities and financial position for the year ended 31 December 2022.
- Consider and approve the Auditor's Report on the Bank's financial position for the year ended 31 December 2022.
- Consider and approve the Bank's Balance Sheet and Profit and Loss Account for the year ended 31 December 2022.
- Consider and approve the Board of Director's recommendation to not distribute dividends, whether in cash or bonus shares.
- Consider and approve the Board of Director's recommendation to not distribute any remuneration to the Board of Directors for 2022.
- Discharge the members of the Board of Directors for the year ended 31 December 2022 or to dismiss them and file a liability lawsuit against them, as the case may be.
- Discharge the Bank's auditors for the year ended 31 December 2022 or dismiss them and file a liability lawsuit against them, as the case may be.
- Appoint the Bank's auditors for the year ending 31 December 2022 and determine their fees.
- Authorize the Bank's elected Board members to participate in business in competition with the Bank as per Article (152) of the Commercial Companies Law No. 2 of 2015.
- To approve the members of the Internal Sharia supervisory Board.
- Consider and approve the Annual Report of the Internal Sharia Supervisory Board

Shareholders may pass a special resolution on items other than those falling under the remit of the AGA, as stipulated under the Articles of Association of the Bank.

The AGA took place ones in 2022 on 14th April 2022.

Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31, 2022:

Commercial Bank	**40.00%**
Sheikh Faisal bin Sultan Al Qassimi	**11.13%**
Al Wathba National Insurance Company	**8.62%**
Al Majed Investment Company (WLL)	**5.47%**
Jumaa Al Majed Abdullah Muhairi	**5.31%**
Sheikh Sultan Saqer Sultan Salem Al Qassimi	**5.20%**

Shareholders by Nationality as at December 31, 2022:

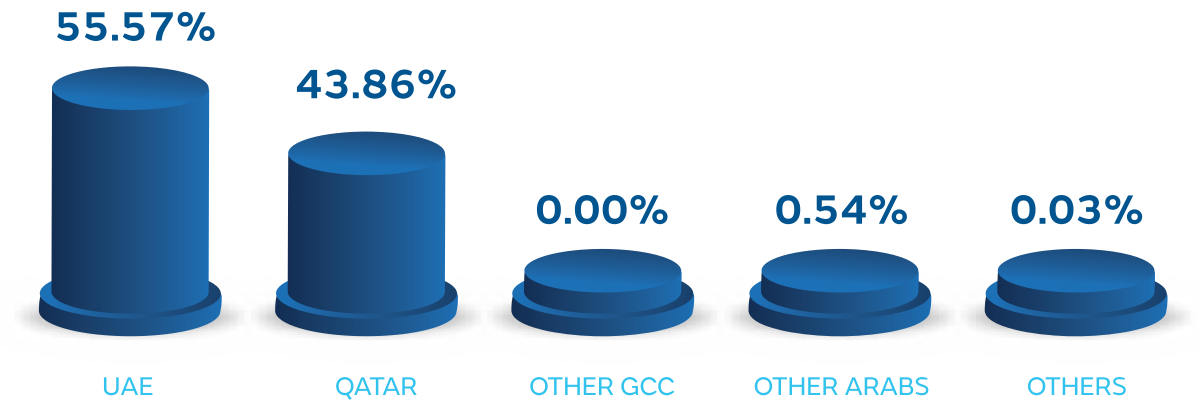
UAE	**55.57%**
QATAR	**43.86%**
OTHER GCC	**0.00%**
OTHER ARABS	**0.54%**
OTHERS	**0.03%**

Shareholders by Investor Type as at December 31, 2022:

INDIVIDUALS	**34.50%**
CORPORATIONS	**65.50%**

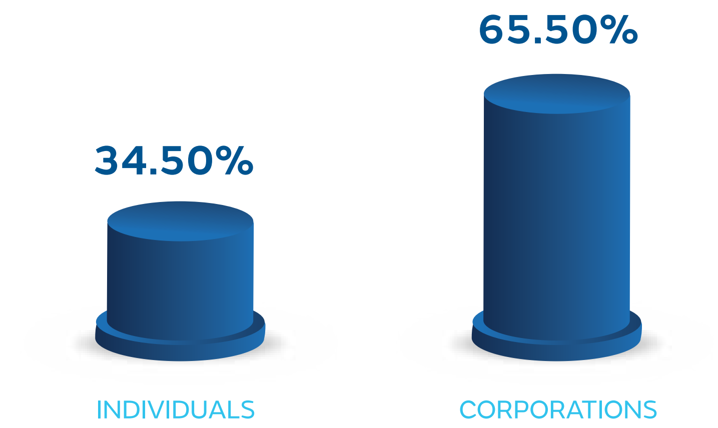
Shareholders Breakdown by Nationalities

as at December 31, 2022



Shareholders Breakdown by Economical Entities

as at December 31, 2022



Risk Management

United Arab Bank (UAB) recognizes the importance of effective risk management in achieving its strategic goals and maintaining its stability and resilience. Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including strategic, capital, credit, market & liquidity, operational, fraud, information technology and information security, reputation risks, etc., and processes from origination and assessment of risks to ongoing monitoring, control, review, maintenance and reporting of risks. It also covers roles and responsibilities of Board and Management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

UAB's Risk Management Strategy includes our comprehensive Enterprise-wide Risk and Compliance Risk Frameworks, which are fully aligned with our Bank's Vision to drive consistent value for all stakeholders. The key strategic imperatives that drive Bank's vision include the following:

Sound Fundamentals and Strong Risk Bearing Capacity: Maintaining strong financial and operational fundamentals serves as a foundation for effective risk management and supports risk bearing capacity.

Strategic Alignment and Enduring Partnership with Business Lines: A risk management approach that is strategically aligned with business goals ensures a close partnership between risk management and business units to effectively manage risks.

Efficient Deployment of Capital, Liquidity and Provisioning: Efficient deployment of capital, liquidity, and provisioning supports sustainable growth and minimizes risks.

Comprehensive and Integrated Corporate & Risk Governance Framework: A robust corporate and risk governance framework ensures effective risk management, independent oversight, and accountability.

Resilient Risk Infrastructure and Strong Risk Culture: A strong risk infrastructure and culture promotes transparency, accountability, and a proactive approach to risk management.

2022 marked as a year of strong recovery and transformation for UAB. In line with UAE banking sector, all key CLQ (Capital, Liquidity & Quality) related metrics demonstrated resilience. The Balance Sheet has been significantly strengthened with a focus on quality assets which resulted significant reduction in provisions compared to the previous year. These results provide further evidence that the Bank is well positioned to set sail on its growth journey.

UAB places a strong emphasis on the following key imperatives to ensure sound risk management practices:

1. Strong Governance

UAB has a strong governance framework in place to ensure that its risk management framework is effective and that risks are managed in a controlled and transparent manner. This includes committees at Board and Management levels, clear policies and procedures, regular reporting and monitoring, and independent oversight from internal and external stakeholders.

2. Risk Appetite Framework

UAB has established a risk appetite framework to ensure that its risk-taking activities are aligned with its strategic goals and risk tolerance. The framework includes clear definitions of the Bank's risk appetite and limits for various types of risks, as well as regular monitoring and reporting to ensure that these limits are not exceeded.

3. Sustainability

UAB is committed to incorporating sustainability considerations into its risk management framework, including environmental, social, and governance (ESG) risks. The Bank has established processes for assessing and managing ESG risks, and regularly monitors its exposure to these risks.

4. Three Lines of Defence

UAB's risk management framework is built on three lines of defence, which work together to ensure that risks are effectively identified, assessed, monitored, and controlled:

- The first line of defence is the business unit, which is responsible for identifying, assessing, and managing risks in its day-to-day activities.
- The second line of defence is the risk management function, which provides oversight and support to the business units in managing risks.
- The third line of defence is the internal audit function, which independently assesses the effectiveness of the Bank's risk management framework and provides recommendations for improvement.

As part of the three lines of defence, the Board and Management committees are further supplemented by functions who are responsible for day-to-day monitoring of risks:

(a) Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safeguarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Credit Department

The Credit Department is responsible for spearheading overall credit strategy of the bank, reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing assistance in ongoing monitoring of credit risk.

(c) Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(d) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

From 2019 till 2022, the Central Bank of the UAE has issued a number of standards and regulations on the various elements of overall Risk Management, Consumer Protection Regulation, Anti-Money Laundering, Capital adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

5. Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, Risk Committee and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

6. Risk Mitigation

UAB has implemented a comprehensive risk mitigation framework that aims to minimize the impact of potential risks on its operations, financial performance, and reputation. This includes identifying and evaluating risk, implementing risk mitigation strategies, and regularly monitoring the effectiveness of these strategies.

The Bank actively uses collateral to reduce its credit risks. Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

7. Robust Business Continuity Framework

Our well-structured Business Continuity Framework and Policy, along with our comprehensive Crisis Management Framework and supplementary emergency plans and incident response protocols, provide a strong foundation of organizational resilience against major disruptions or unexpected events, such as the recent COVID-19 pandemic. These frameworks and procedures are subjected to regular testing, with a minimum frequency of annual assessments, to guarantee their effectiveness and readiness in such scenarios.

Compliance

The United Arab Bank welcomed the Central Bank of the UAE's direction and continuous support, introducing new regulations to enhance the banking industry's governance and oversight standards, responsible lending practices, information and transparency, access to services, complaints handling, and public awareness, maintaining safe and sound AML/CFT and regulatory compliance controls. The Bank is committed to full compliance with these regulations, in line with our long-standing approach to fair treatment of customers and transparency, protect the integrity of the market.

We, at the United Arab Bank are fully cognizant of the regulatory risk implications associated with non-adherence to the local and applicable global laws and regulations, which may result in enforcement actions, sanctions, fines and losses. It may be associated with damage to the Bank's reputation also as a result of its failure to comply with the applicable laws and regulations or prescribed practices.

The Compliance function at United Arab Bank provides assurance to the Executive Management and the Board that we do the right thing and fully met both the letter and spirit of the laws and regulations. Compliance is also responsible that the risk of the Bank being used to facilitate financial crime is being assessed and effectively mitigated.

Compliance, as an independent second line of defense function, helps protect the bank by establishing a control environment that mitigates key risks. Specifically, Compliance provides regulatory guidance and operates a risk-based program designed to prevent, detect, and address violations of applicable laws, rules, regulations, policies, and procedures. One of the key responsibilities of the Compliance function is to provide consultative and advisory support. Compliance also enable oversight to the Senior Management towards effectively mitigating and managing the compliance risks faced by the Bank.

Independence of the Compliance function is ensured at all times, along with unrestricted access to all necessary data, information and systems across the Bank. The Chief Compliance Officer has direct access to the Board. Compliance also maintains an efficient oversight and reporting structure that enables prompt escalation, follow up and resolution of issues.

With significant continuing regulatory changes and developments, the criticality of the Compliance function and the need for an effective Compliance framework within a financial institution is unprecedented. The vulnerability of financial institutions has increased manifold with extra-territorial enforcement of overseas regulatory bodies creating a more complex environment. Consequently, the need for senior management of banks to fully understand and effectively mitigate evolving Compliance risks is of paramount importance. United Arab Bank remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis our banking activities and services.

The Board and the Senior Management continuously promote and uphold a strong Compliance culture across the Bank while setting the desired "Tone from the Top". As a result, we continue to undertake required endeavors to maintain an environment that is conducive towards employee empowerment and transparency in relation to effective risk management across the entire Bank. UAB's approach is centered on the foundation that our employees understand their duties, take full responsibility and accountability for compliance with all regulations to protect our customers and our reputation.

UAB benefited from a comprehensive baseline review by the Central Bank of the UAE that assessed the Bank's policies, processes and procedures. Under the guidance of the Board, the Bank took the opportunity of this benchmarking exercise to further strengthen its governance model, specific controls and to ensure implementation of operational best practice. The Management is committed to address observations and recommendation of the independent Internal Audit function too.

In 2022, the Bank has undertaken initiatives and improvements both in the Regulatory and Financial Crime Compliance function, which include strengthening the relevant teams, amendments in policies and procedures, strengthening the governance and oversight.

At an industry level, United Arab Bank continues to play an active role with regards to collaboration with the UAE Banks Federation (UBF) as a member bank and membership of important advisory committees of the UBF, working on important initiatives, proposals and priorities.

The Bank is committed to address any regulatory observations and findings on a priority basis, this includes implementation and strengthening of relevant controls as it relates to tax compliance matters.

UAB follows a process in the Operational Risk Policy that is approved by the Board Risk Committee (BRC). All investigations are carried out by the Risk Management team to identify the root-cause of the issue and where appropriate, proposed changes to standard and control processes are made to prevent any future occurrences.

Legal

The Legal team provides legal support to the Bank's departments and senior management, with its key objective is to give advice and guidance on various legal issues. The Legal team acts as the Bank's legal counsel and has the following priorities:

- Advise the Bank's stakeholders on effective solutions for current and anticipated material concerning legal and regulatory issues.
- Ensure major corporate actions, transactions and projects are managed in an efficient manner and are in line with applicable laws and regulations, in order to minimize the Bank's legal and regulatory risks.
- Draft, review and update the standard documentation, templates and relevant general terms and conditions of Bank's products.
- Initiate new legal cases and follow up on the cases filed by or against the Bank before competent courts.
- Review all contracts and agreements in which the Bank is or will become party to.

Internal Audit

Internal Audit Department (IAD) in an independent function in the Bank and represents Third Line of Defense whose primary objective is to assist the Board of Directors and Executive Management to protect the assets, reputation and sustainability of the Bank.

To ensure independence, the Chief Audit Executive reports to the Chairman of the Board Audit Committee and is accountable for setting and reinforcing IAD's strategic direction, while ensuring that IAD has the necessary independence and authority, to exercise judgement, express opinions and make recommendations. Therefore, IAD continues to be free from interference by any element in the Bank, including in matters of audit selection, scope, procedures, frequency, timing or report content.

Internal Audit activities are governed by Board approved Internal Audit Charter that sets out the mandate, approach, authority and responsibility of IAD within the Bank. The Charter is compiled by taking into consideration the Internal Audit Guidelines, Regulations and Standards issued by the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Central Bank of the United Arab Emirates (CBUAE).

The scope of IAD activities covers, but is not restricted to, inspections of evidence to provide independent assessments on the adequacy and effectiveness of risk management, control and governance processes within the Bank. In order to achieve this, a methodological risk assessment of the Bank and its activities is conducted at least once every year to formulate the annual Audit Plan. The organizational risks are reviewed on a periodic basis to ensure that the audit plan continues to address key risks on a timely basis. Audits are executed in accordance with the Plan to form an opinion on the overall control environment. There is no aspect of the organisation which IAD is restricted from looking at as it delivers on its mandate.

Internal Audit uses data analytics tools to assess the control effectiveness as part of its audits. In addition, audit methodologies like Agile Auditing and Continuous Auditing are adapted in order to bring efficiency and effectiveness to the audit deliverables.

Internal Audit function is staffed with a team of auditors who collectively possess the required skills to audit all areas of the Bank.

Director's Report

On behalf of the Board of Directors of United Arab Bank (UAB), I am pleased to present to the shareholders of the Bank our Annual Report for the year ended 31 December 2022.

UAB posted a Net Profit of AED 155 million for the year ended 2022, as compared to a net profit of AED 70 million in 2021 representing an increase of 120%. The growth in net profit is a result of improved operating performance and lower expected credit losses, coupled with disciplined cost control as the successful execution of the Bank's Transformation Strategy paved the way for a return to sustainable profitability.

The Bank maintained adequate levels of capital with a capital adequacy ratio of 14.5% and a CET1 ratio of 13.3%, both of which remain well above the regulatory requirements currently applicable. The Bank's NPL ratio improved from 11.6% in FY 2021 to 8.2% in FY 2022.

The Board and the Management Team continues to focus on strengthening the Bank's revenues with new portfolio underwriting in higher quality assets and thereby improvising its profitability across Wholesale Banking, Retail Banking and Financial Markets businesses whilst moving towards a more agile operating model incorporating digital solutions and capabilities, thereby positioning itself as the partner of choice among all its chosen client segments.

The Board of Directors recommend the following appropriations for the year ended 31 December 2022:

	2022 AED'000	2021 AED'000
Opening balance in Accumulated Losses at 1 January	**(610,587)**	**(667,257)**
Profit for the year	154,721	70,191
Transfers from revaluation reserve	-	517
Balance available for appropriation	**(455,866)**	**(596,549)**
Transfer to Special Reserve	(15,472)	(7,019)
Transfer to Statutory Reserve	(15,472)	(7,019)
Director's Remuneration	(6,000)	-
Closing balance in Accumulated Losses at 31 December	**(492,810)**	**(610,587)**

The financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Bank as of, and for, the periods presented in the accompanied financial statements for the year ended 31 December 2022.

On behalf of the Board of Directors whose unwavering commitment and guidance remain invaluable, my sincere appreciation goes to our valued customers and shareholders for their patronage, the top management and the employees for their commitment and dedication, and to the Central Bank of the UAE for regulating and supporting the UAE banking sector.

In conclusion, we wish to express our appreciation to the President of the United Arab Emirates, His Highness Sheikh Mohammed bin Zayed Al Nahyan for his leadership, vision and support. We also wish to thank His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai and Deputy Supreme Commander of the UAE Armed Forces and His Highness Sheikh Dr. Sultan bin Mohammed Al Qassimi, Ruler of Sharjah for their support and guidance.

Sheikh Faisal bin Sultan bin Salem Al Qassimi
Chairman
9 February 2023

Pages

Report on the audit of the financial statements

Opinion

We have audited the financial statements of United Arab Bank PJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards (IESBA Code) together with ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
(a) Expected Credit Losses (ECL) for Loans and Advances and Islamic Financing Receivables *Refer note 7 of the financial statements.* Loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models (ECL Models) as stipulated by International Financial Reporting Standard No. 9: Financial Instruments (IFRS 9). Management first assesses whether the credit risk of Loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.	We obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Bank's internal rating model, the Bank's credit impairment provision policy and the ECL modelling methodology, including its - Review and approval of classification of loans and advances and Islamic financing receivables facilities. - Management's monitoring of: i. staging and ECL for loans and advances and Islamic financing receivables. ii. identification of loans displaying indicators of impairment (including days past due) under stage 3. iii. macroeconomic variables and forecast iv. performance of ECL models - The review and approval of management overlays and the governance process around such overlays. - The independent model validation function.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
(a) Expected Credit Losses (ECL) for Loans and Advances and Islamic Financing Receivables (continued) *Refer note 7 of the financial statements. (continued)* Management has also applied significant level of judgement in areas noted above in determining the impact of economic crisis on the allowances for credit losses by considering the following: 1. Forward looking information, including variables used in macroeconomic scenarios and their associated weightings, and 2. Stress in specific sectors and industries We considered ECL for Loans and Advances and Islamic Financing Receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of Loans and Advances and Islamic Financing Receivables into stages 1, 2 or 3; assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc., and overlays to reflect current or future external factors. These judgments have a material impact on the financial statements of the Bank.	We performed the following audit procedures: - We tested the compliance of the Bank's ECL methodologies and assumptions with the requirements of IFRS 9. - For a sample of exposures, including those in industries severely impacted by economic crisis, we performed procedures to assess whether significant increases in credit risk (SICR) has been correctly identified. - We tested and assessed reasonableness of management's selection of forward looking macro-economic variables, scenarios and weights assigned to these scenarios, including an evaluation of changes made to these variables, scenarios and weights. - We assessed appropriateness of the modelling methodologies applied in the ECL model of the Bank. - For a sample of exposures, we examined key data inputs into the ECL models. - We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. - We assessed appropriateness of disclosures in the financial statements against the requirements of IFRS.

Other information

Management is responsible for the other information. Other information consists of the information included in the Bank's 2022 Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of the UAE Federal Decree Law No. (32) of 2021, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Decree Law No. (32) of 2021, we report that:

- the Bank has maintained proper books of account;

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;

- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Decree Law No. (32) of 2021;

- the financial information included in the Directors' report is consistent with the books of account and records of the Bank;

- investments in shares and stocks during the year ended 31 December 2022 are disclosed in note 8 to the financial statements;

- note 23 reflects material related party transactions and the terms under which they were conducted;

- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2022, any of the applicable provisions of the UAE Federal Decree Law No. (32) of 2021 or of its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2022; and

- note 31 reflects the social contributions made during the year.

Further, as required by the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

For Ernst & Young

Anthony O'Sullivan
Partner
Registration Number: 687

14 February 2023

Sharjah, United Arab Emirates

Statement of Financial Position

As at 31 December

	Notes	2022 AED'000	2021 AED'000
Assets			
Cash and balances with UAE Central Bank	5	**1,207,589**	2,009,565
Due from banks	6	**302,837**	378,735
Loans and advances and Islamic financing receivables	7	**7,604,300**	8,213,350
Investments and Islamic instruments	8	**3,887,476**	3,530,217
Property, equipment and capital work-in-progress	9	**295,696**	303,271
Other assets	10	**782,589**	744,904
Total assets		**14,080,487**	15,180,042
Liabilities and shareholders' equity			
Liabilities			
Due to banks	11	**3,272,443**	2,410,988
Customers' deposits and Islamic customer deposits	12	**8,568,587**	10,406,425
Other liabilities	13	**740,121**	850,737
Total liabilities		**12,581,151**	13,668,150
Shareholders' equity			
Share capital	14		2,062,550
Special reserve	14	**22,491**	7,019
Statutory reserve	14	**51,415**	35,943
General reserve	14	**9,311**	9,311
Cumulative changes in fair values		**(153,621)**	7,656
Accumulated losses			(610,587)
Net shareholders' equity		**1,499,336**	1,511,892
Total liabilities and shareholders' equity		**14,080,487**	15,180,042

The financial statements were approved by the Board of Directors on 09 February 2023 and signed on its behalf by:

Sheikh Faisal bin Sultan bin Salem Al Qassimi
Chairman

Shirish Bhide
Chief Executive Officer

Statement of Income

Year ended 31 December

	Notes	2022 AED'000	2021 AED'000
Interest income and profit from Islamic instruments		**522,667**	416,962
Income from Islamic financing receivables		**61,817**	61,153
Total interest income and income from Islamic financing products	15	**584,484**	478,115
Interest expense		**(216,232)**	(152,456)
Distribution to depositors – Islamic products		**(46,685)**	(47,849)
Total interest expense and distribution to depositors	16	**(262,917)**	(200,305)
Net interest income and income from Islamic products net of distribution to depositors		**321,567**	277,810
Net fees and commission income	17	**47,077**	47,063
Foreign exchange income	18	**19,328**	18,822
Other operating income	19	**112,815**	105,938
Total operating income		**500,787**	449,633
Employee benefit expenses		**(146,165)**	(140,552)
Depreciation		**(23,324)**	(24,901)
Other operating expenses	20	**(82,315)**	(78,262)
Total operating expenses		**(251,804)**	(243,715)
Profit before impairment losses		**248,983**	205,918
Net impairment losses	21	**(94,262)**	(135,727)
Net Profit for the year		**154,721**	70,191
Earnings per share (basic and diluted in AED)	22	**0.08**	0.03

Statement of Comprehensive Income

Year ended 31 December

	2022 AED'000	2021 AED'000
Net Profit for the year	**154,721**	70,191
Other comprehensive Income		
Fair value through other comprehensive income (FVOCI):		
Net change in fair value during the year	**(324,506)**	(79,500)
Net change in allowance for expected credit losses	**5,988**	3,485
Reclassified to the income statement on fair value hedges	**157,241**	63,173
Other comprehensive loss for the year	**(161,277)**	(12,842)
Total comprehensive (loss) / income for the year	**(6,556)**	57,349

Statement of Cash Flows

Year ended 31 December

	Notes	2022 AED'000	2021 AED'000
Operating activities			
Net Profit for the year		**154,721**	70,191
Adjustments for:			
Depreciation		**23,324**	24,901
Loss on write off of property, equipment and capital work-in-progress	9	**-**	2,589
Gain on sale of property and equipment and insurance proceeds		**-**	(21,845)
Gain on sale of assets acquired in settlement of debt	10	**(48,018)**	(5,945)
Impairment on properties	9	**2,000**	-
Impairment on assets acquired in settlement of debt	10	**2,286**	10,191
Net credit impairment losses	21	**89,976**	125,536
Amortisation of premium paid on investments		**8,894**	14,011
Net fair value gain on disposal of investments and Islamic instruments		**221**	(39,906)
Operating profit before changes in operating assets and liabilities		**233,404**	179,723
Changes in operating assets and liabilities:			
Loans and advances		**497,979**	655,608
Balances with UAE Central bank maturing after three months		**9,179**	18,878
Cash margin held by counterparty banks against borrowings and derivative transactions	6	**119,778**	101,409
Other assets	10	**(145,364)**	(245,007)
Due to banks maturing after three months		**(71,794)**	1,305,962
Customers' deposits	12	**(1,837,838)**	(840,410)
Other liabilities	13	**64,214**	64,382
Net cash (used in) / from operating activities		**(1,130,442)**	1,240,545
Investing activities			
Purchase of property, equipment and capital work-in-progress	9	**(12,862)**	(12,671)
Proceeds from insurance claims and disposal of property and equipment		**-**	26,441
Purchase of investments		**(934,860)**	(1,336,944)
Proceeds from redemption / sale of investments		**247,472**	992,706
Proceeds from sale of assets acquired in settlement of debt		**148,525**	14,107
Other movement for transfer from fixed assets WIP		**-**	10,000
Net cash used in investing activities		**(551,725)**	(306,361)
Financing activities			
Financing activities		**-**	-
Net cash used in financing activities		**-**	-
Net change in cash and cash equivalents		**(1,682,167)**	934,184
Cash and cash equivalents at 1 January		**1,680,891**	746,707
Cash and cash equivalents at 31 December		**(1,276)**	1,680,891

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

	2022	2021
Cash and balances with the UAE Central Bank	**949,924**	1,742,722
Due from banks	**302,837**	258,957
Due to banks	**(1,254,037)**	(320,788)
	(1,276)	1,680,891

Statement of Changes in Equity

Year ended 31 December

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Cumulative changes in fair values AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2021	2,062,550	-	28,924	9,311	517	20,498	(667,257)	1,454,543
Net Profit for the year	-	-	-	-	-	-	70,191	70,191
Comprehensive loss for the year	-	-	-	-	-	(12,842)	-	(12,842)
Total comprehensive income/ (loss) for the year	-	-	-	-	-	(12,842)	70,191	57,349
Loss on sale of fixed asset transferred to retained earnings	-	-	-	-	(511)	-	511	-
Depreciation transfer for land and buildings	-	-	-	-	(6)	-	6	-
Transfer to Special reserve (Note 14)	-	7,019	-	-	-	-	(7,019)	-
Transfer to Statutory reserve (Note 14)	-	-	7,019	-	-	-	(7,019)	-
At 31 December 2021	**2,062,550**	**7,019**	**35,943**	**9,311**	**-**	**7,656**	**(610,587)**	**1,511,892**
Net Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**154,721**	**154,721**
Comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(161,277)**	**-**	**(161,277)**
Total comprehensive income/ (loss) for the year	**-**	**-**	**-**	**-**	**-**	**(161,277)**	**154,721**	**(6,556)**
Director's remuneration (Note 23)	**-**	**-**	**-**	**-**	**-**	**-**	**(6,000)**	**(6,000)**
Transfer to Special reserve (Note 14)	**-**	**15,472**	**-**	**-**	**-**	**-**	**(15,472)**	**-**
Transfer to Statutory reserve (Note 14)	**-**	**-**	**15,472**	**-**	**-**	**-**	**(15,472)**	**-**
At 31 December 2022	**2,062,550**	**22,491**	**51,415**	**9,311**	**-**	**(153,621)**	**(492,810)**	**1,499,336**

1. Incorporation and activities

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

2. Basis of preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates. Along with these financial statements, the Bank has presented Basel III Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE. The adoption of Basel III Pillar 3 guidelines has impacted the type and amount of disclosures made in these financial statements, but has no impact on the reported profits or financial position of the Bank. In accordance with the requirements of Basel III, the Bank has provided full comparative information.

3. Significant accounting policies

3.1 New and revised International Financial Reporting Standards

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2022

i. Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of Property, Plant and Equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

ii. IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Bank as there were no modifications of the Bank's financial instruments during the period.

3. Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.2 Standards, amendments and interpretations that are not yet effective for the Bank's accounting period beginning on 1 January 2022

i. Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

ii. Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently reviewing its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the Bank's financial year beginning on 01 January 2022 that would be expected to have a material impact on the Bank's financial statements.

3.2 Basis of measurement

The Bank's financial statements are prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value; and
- financial assets at FVTPL and FVOCI are measured at fair value;

3.3 Functional and presentation currency

The Bank's financial statements have been presented in Arab Emirates Dirhams (AED), which is the presentation currency of the Bank and also the functional currency of the Bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

3. Significant accounting policies (continued)

3.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the statement of financial position are financial instruments except property and equipment, assets acquired in settlement of debts, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

3.4.1 Classification

On initial recognition a financial asset is classified as measured at:

- Amortised cost;
- Fair value through comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

The classification depends on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its debt instruments into one of three measurement categories:

- Amortised Cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as explained in Note 3.4.14. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through comprehensive income (FVOCI) – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

- Fair value through profit or loss (FVTPL) – Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement in the period in which it arises.

The business model reflects how the Bank manages its assets in order to generate cash flows that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.1 Classification (continued)

Debt instruments (continued)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.
The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments. Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Equity instruments at FVOCI are not subject to an impairment assessment.

All other financial assets are classified and measured at FVTPL.

3.4.2 Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.4.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

3.4.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.5 Gains and losses on subsequent measurement

(a) Debt Investments

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. Changes in the fair value of FVTPL investments are subsequently recognised in the profit or loss.

(b) Equity Investments

Gains and losses arising from changes in the fair value on equity investments are recognized in comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

3.4.6 Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Bank has transferred substantially all the risks and rewards of ownership.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are repurchase agreements.

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

3.4.7 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an offer price, the Bank measures its assets, liabilities, long and short positions at mid-market rate (which is computed as an average of the bid and offer price).

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances arise when cash is advanced to a debtor with no intention of trading the receivable. Loans and advances are carried at amortised cost.

3.4.9 Investments

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI and amortized cost; and
- equity investment securities designated as at FVOCI.

Investments in debt instruments are measured at amortised cost where they have:
- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described in Note 4.2.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for interest revenue using the effective interest method which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.4.10 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

3.4.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

3.4.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for credit losses'. The premium received is recognised in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.13 Derivatives and hedges

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price included in other income/expenses. Subsequent to their initial recognition, derivative financial instruments are stated at fair values where they are designated as part of a hedging relationship and classified as a hedging instrument. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the statement of income.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

3.4.14 Impairment of financial assets

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i. Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12-months is recognised.

ii. Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii. Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 139, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.14 Impairment of financial assets (continued)

The Bank measures loss allowances at an amount equal to 12-month Expected Credit Loss (ECL) for the following financial instruments which are considered to have low credit risk:

- balances with Central Bank and other banks
- debt investment securities; and
- other financial assets, mainly comprising of sundry receivables

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12-months after the reporting date.

Measurement of ECL

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost and FVOCI as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively; and
- loan commitments and financial guarantee contracts as a provision in other liabilities

3.5 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.6 Write-off

The Bank writes off its loans and advances, Islamic financing receivable balances or other financial asset (and any other related allowances for impairment losses) when the Bank's credit determines that such financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered uncollectible.

However, the Bank retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

Subsequent recoveries of amounts previously written off are recognised in the statement of income.

3. Significant accounting policies (continued)

3.7 Assets acquired in settlement of debts

In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. No depreciation is provided in respect of these assets. These assets are recorded in "Other assets".

Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the statement of income. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of income. The Bank's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Bank operates.

3.8 Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as FVOCI and Islamic financial instruments, interest income / profit or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. The interest income / expense accrual on the assets / liabilities linked to Risk Free Rate (RFR) indexes will follow the standard market conventions relating to respective RFRs.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income on letter of credits, guarantees and others, custody and other management advisory fees.

Foreign exchange income includes income from trading in foreign currencies as well as revaluation gains and losses.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3.9 Property and equipment

Property and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	Over 25 years
Motor vehicles	Over 5 years
Furniture and equipment	Over 3 to 8 years
Fixtures and leasehold improvements	Over 12 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of income in the year the asset is derecognised.

3. Significant accounting policies (continued)

3.10 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the statement of income net of any reimbursement.

3.11 Employees' end of service benefits

Provision is made for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising disclosed as 'provision for employees end of service benefits' in the statement of financial position. The Bank pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

3.12 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the statement of income.

3.13 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

3.14 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated based on the higher of fair value less costs to sell and value in use. The reduction in carrying amount is recognised in the income statement.

3.15 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.16 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.17 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3.18 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3. Significant accounting policies (continued)

3.19 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability in the statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

Murabaha:

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Bank) expressly mentions the actual cost of the asset to be sold to the customer and sells it to the customer on a cost-plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:

Ijara involves a contract where the Bank buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Bank acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

Qard:

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Bank, on which no profit or other form of return is payable.

Wakala:

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Bank becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Bank's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Bank recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

3. Significant accounting policies (continued)

3.21 Leases

Right-of-use assets:

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities:

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets:

The Bank applies the short-term lease recognition exemption to its short-term leases of ATM's (i.e. those leases that have a lease term of 12-months or less from the commencement date and do not contain a purchase option) together with the exemption of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Bank has the option, under some of its leases to lease the assets for an additional term. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

3.22 Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

4. Significant management judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

4.1 Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4.2 Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the probability of default (PD) occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort (including both qualitative and quantitative information) and also uses its historical experience, internal credit risk grading system, external risk ratings and forward-looking information to assess deterioration in credit quality of a financial asset.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) (continued)

The Bank uses Moody's credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Bank's credit risk grades.

S.No.	Moody's Rating Grades	Classification	Description
1	1	High	Strong
2	2+		Very Good
3	2		
4	2-		
5	3+	Standard	Good
6	3		
7	3-		
8	4+		Satisfactory
9	4		
10	4-		
11	5+		Acceptable
12	5		
13	5-		
14	6+		Marginal
15	6		
16	6-	Watch list	Watch list
17	7+		Watch list
18	7		OLEM
19	7-		
20	8	Default	Sub Standard
21	9		Doubtful
22	10		Loss

Generating the term structure of PD:

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. Information purchased from external credit reference agencies is also used.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and / or regions, the analysis may extend to relevant commodity and / or real estate prices.

Based on advice from the Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 to 7 years.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Importance of staging criteria

Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12-months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

Determining the stage for impairment

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

Corporate and Institutional Banking portfolio:
Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at the reporting date. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Downgrade by 3 notches on a 22 scale as per internal rating guidelines

Retail portfolio:
Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk. In addition, the following parameters are also considered:

- 30 days past due
- Restructuring flag
- Abandoned segment

Investment portfolio and Due from banks:
External rating agency credit grades are used to assess the significant increase in credit risk. These external published grades are continuously monitored and updated. The Bank's rating method comprises 19 rating levels for instruments not in default (1 to 19) and 3 default classes (20 to 22). The Bank's internal rating scale is mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time.

Qualitative criteria:
The Bank also considers in its assessment of significant increase in credit risk various qualitative factors like significant adverse changes in business, actual and expected forbearance or restructuring and early signs of cash flows and liquidity problems.

Curing criteria:
The Bank continues to monitor financial instruments for a minimum probationary period of 12-months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from Stage 2 to Stage 1.

The Bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12-months (in cases where instalments are on a longer frequency than quarterly) after restructuring, before upgrading from Stage 3 to Stage 2.

Exposures are not upgraded from Stage 3 to Stage 1 directly and are upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

The Bank ensures that the risk rating of the obligor correctly reflects its credit risk. The Bank has in place a robust early warning signal mechanism to ensure credit risk deterioration is highlighted before the default takes place. This is via close monitoring of key early warning signals such as excesses, past dues, cheque / payment failures, external market feedback and credit ratings, covenant / condition breaches and weak financials. Where a client shows early signs of financial strain, it is placed on a watch list category and monitored at an internal watch list forum.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Definition of default
The Bank considers a financial asset to be in default in line with the Circular No. 28/2010 and associated regulations issued by the Central Bank of the UAE.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets the default criteria for a consecutive period of 12-months as determined by the regulatory guidelines.

Measurement of ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates Two types of PDs are used for calculating ECL
    - 12-month PDs: This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12-months). This is used to calculate 12-month ECL for Stage 1 exposures
    - Lifetime PDs: This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD represents the expected exposure at the time of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. As described and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.
- LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a loss percentage of the exposure at the time of default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The measurement of ECL is based on a probability-weighted average credit loss. As a result, the measurement of the loss allowance is the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it may be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

The weighted average ECL is calculated considering base, upside and downside scenarios for recognition of ECL.

These parameters are generally derived from internally developed statistical models, other historical data and forward-looking information.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Measurement of ECL (continued)

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

In 2022, the Bank has adjusted the LGD on the unsecured portfolio following regulatory guidelines as well as independent reviews undertaken during the year. The revised LGD of the Bank's unsecured portfolio reflects historical recovery data together with the Bank's forward looking business plans. The impact of this change in estimate has been disclosed in Note 7 (on loans and advances) as well as Note 25 (on commitments and contingencies).

The Bank has incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in Note 26 of these financial statements.

The measurement of ECL for each stage consider information about past events, current condition as a well as reasonable and supported forecast of future events and economic conditions. Inherent limitations in modelling process and its reliance on previous historical losses required Bank to implement the ECL overlay framework with subjective inputs to adequately cover the current and future losses. In some instances, the inputs and model used for calculating ECLs may not always capture all the obligor characteristic at the time of preparation of financial statements, to reflect this, qualitative adjustments or overlay are used to shore the ECL coverage across the customers.

The most significant assumptions used for ECL estimate as at 31 December 2022 and 31 December 2021 are set out below. The scenarios of base case, upside and downside cases were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables As at 31 December 2022	Scenario	Assigned probabilities	2023	2024	2025	2026
Real Private Consumption (USD bn)	Base	40%	521.28	538.38	550.64	567.38
	Upside	20%	532.70	564.91	593.73	616.87
	Downside	40%	512.98	508.18	524.39	567.69
Government Expenditure (USD bn)	Base	40%	471.09	528.08	578.90	615.28
	Upside	20%	471.38	531.89	591.32	635.12
	Downside	40%	471.12	524.03	558.55	574.01
Real Net Exports (USD bn)	Base	40%	440.56	450.68	487.74	512.61
	Upside	20%	442.24	445.89	463.72	479.04
	Downside	40%	425.40	405.70	428.53	448.06
General government debt to GDP (USD bn)	Base	40%	27.26	25.36	26.38	27.79
	Upside	20%	25.60	21.99	22.88	24.68
	Downside	40%	30.20	35.11	38.89	40.13
Economic Composite Indicator (proxy of GDP)	Base	40%	2.96	0.67	1.63	2.18
	Upside	20%	3.62	1.93	1.79	2.21
	Downside	40%	-0.33	-3.24	2.45	3.74
Employee Compensation (USD bn)	Base	40%	395.46	426.40	445.42	456.79
	Upside	20%	405.02	456.19	476.76	483.68
	Downside	40%	386.45	398.97	401.51	406.50
1-year EIBOR rates (%)	Base	40%	6.02	5.25	4.42	4.00
	Upside	20%	6.05	5.33	4.49	4.05
	Downside	40%	5.31	3.60	3.61	3.96

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Measurement of ECL (continued)

Macroeconomic variables As at 31 December 2021	Scenario	Assigned probabilities	2022	2023	2024	2025
Real Private Consumption (USD bn)	Base	40%	464.06	485.07	498.34	505.60
	Upside	20%	496.17	515.93	528.75	534.18
	Downside	40%	405.30	435.15	457.30	470.87
Government Expenditure (USD bn)	Base	40%	481.35	516.65	546.69	579.31
	Upside	20%	529.66	567.80	621.64	680.12
	Downside	40%	421.79	448.57	480.77	526.56
Real Net Exports (USD bn)	Base	40%	430.31	439.40	450.02	462.47
	Upside	20%	460.08	467.36	477.49	488.61
	Downside	40%	375.82	394.19	412.96	430.70
General government debt to GDP (USD bn)	Base	40%	54.88	57.64	61.41	66.47
	Upside	20%	34.27	29.96	27.59	29.10
	Downside	40%	92.00	99.72	107.51	117.24
Economic Composite Indicator (proxy of GDP)	Base	40%	3.21	3.06	2.81	2.54
	Upside	20%	3.59	2.69	2.54	2.12
	Downside	40%	5.46	5.78	4.89	3.96
Employee Compensation (USD bn)	Base	40%	481.34	555.18	624.18	667.35
	Upside	20%	566.76	652.12	725.00	771.76
	Downside	40%	361.30	438.39	515.65	572.89
1-year EIBOR rates (%)	Base	40%	1.76%	3.21%	3.75%	4.08%
	Upside	20%	1.91%	3.25%	3.74%	4.10%
	Downside	40%	-1.43%	1.48%	3.39%	3.97%

Sensitivity analysis

If the macroeconomic variables (listed above) were to change by the base, upside and downside scenarios, the ECL under stage 1 and 2 would change as follows:

Change in ECL due to change in macroeconomic variables	Base	Upside	Downside
Stage 1	-10.73%	-13.44%	+13.59%
Stage 2	-1.18%	-4.01%	+7.56%

Stage 3 ECL is arrived in compliance with Circular 28/2010 and are above the minimum regulatory requirements, with NIL impairment reserve.

4.4 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

4. Significant management judgements and estimates (continued)

4.5 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in UAE and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

4.6 Determination of the lease term for lease contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as credit rating, or to reflect the terms and conditions of the lease).

5. Cash and balances with UAE Central Bank

	2022 AED'000	2021 AED'000
Cash on hand	**44,809**	56,424
Balances with UAE Central bank:		
- Statutory and other deposits with UAE Central Bank*	**312,780**	653,141
- Overnight Deposit Facility and Certificate of Deposits	**850,000**	1,300,000
	1,207,589	2,009,565

* includes statutory reserve requirement of AED 257,665 thousand (2021: AED 266,843 thousand)

The reserve requirements which are kept with the Central Bank of the UAE is not available to finance the day-to-day operations of the Bank. The Central Bank of the UAE balances are high grade in nature.

6. Due from banks

	2022 AED'000	2021 AED'000
Demand deposits	**302,837**	228,735
Term deposits	**-**	150,000
	302,837	378,735

The Bank holds a stage 1 expected credit loss allowance of AED 65 thousand (2021: AED 134 thousand) on its due from bank balances.

Due from banks includes AED 292,803 thousand (2021: AED 137,268 thousand) placed with foreign banks outside the UAE. Nil margin (2021: AED 119,778 thousand) is held with other banks for derivative transactions.

Gross amounts of due from banks by geographical area:

	2022 AED'000	2021 AED'000
Within UAE	**10,034**	241,467
Within GCCs	**33,191**	4,488
Other countries	**259,612**	132,780
	302,837	378,735

An analysis of due from banks based on external credit ratings is as follows:

	2022 AED'000	2021 AED'000
AA-	**369**	16,786
A+	**1,887**	3,379
A	**104,028**	129,514
A-	**14,818**	31,235
BBB+	**179,571**	195,906
BBB- and below	**2,164**	1,915
	302,837	378,735

Grading of gross balances of due from banks along with stages

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Stage 4 AED'000**
High	**121,102**	**-**	**-**	**121,102**
Standard	**181,735**	**-**	**-**	**181,735**
As at 31 December 2022	**302,837**	**-**	**-**	**302,837**
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Stage 4 AED'000
High	180,915	-	-	180,915
Standard	197,820	-	-	197,820
As at 31 December 2021	378,735	-	-	378,735

7. Loans and advances and Islamic financing receivables

The composition of loans and advances and Islamic financing receivables portfolio is as follows:

	2022 AED'000	2021 AED'000
(a) By type:		
Overdrafts	**1,134,946**	1,076,137
Loans (medium and short term)*	**6,480,812**	7,091,709
Loans against trust receipts	**440,195**	499,278
Bills discounted	**124,604**	153,962
Other cash advances	**27,302**	42,785
Bills drawn under letters of credit	**31,776**	49,871
Gross amount of loans and advances and Islamic financing receivables	**8,239,635**	8,913,742
Less: Provision for impairment on loans and advances and Islamic financing receivables	**(635,335)**	(700,392)
Net loans and advances and Islamic financing receivables	**7,604,300**	8,213,350

* Includes retail loans of AED 1,341,125 thousand (2021: AED 1,670,052 thousand)

	2022 AED'000	2021 AED'000
(b) By economic sector:		
Government and public sector	**878,627**	607,304
Trade	**905,813**	1,383,574
Personal loans (retail and HNIs)	**3,035,354**	3,269,399
Manufacturing	**575,468**	719,674
Construction	**324,937**	447,935
Services	**1,027,820**	852,211
Financial institutions	**1,273,799**	1,412,858
Transport and communication	**201,737**	215,882
Others	**16,080**	4,905
Net loans and advances and Islamic financing receivables	**8,239,635**	8,913,742

Islamic financing gross receivables amount to AED 426,824 thousand (2021: AED 452,541 thousand) recognized through the Bank's Shari'a - compliant Islamic window.

At 31 December 2022, the gross amount of loans and advances and Islamic financing receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 673,806 thousand (2021: AED 1,034,082 thousand).

Grading of gross balances of loans and advances and Islamic financing receivables along with stages

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	**20,296**	**-**	**-**	**20,296**
Standard	**6,909,077**	**423,000**	**-**	**7,332,077**
Watch list	**-**	**213,456**	**-**	**213,456**
Default	**-**	**-**	**673,806**	**673,806**
Total gross carrying amount	**6,929,373**	**636,456**	**673,806**	**8,239,635**
Expected credit loss	**(93,109)**	**(245,401)**	**(296,825)**	**(635,335)**
As at 31 December 2022	**6,836,264**	**391,055**	**376,981**	**7,604,300**

7. Loans and advances and Islamic financing receivables (continued)

Grading of gross balances of loans and advances and Islamic financing receivables along with stages (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	13,164	-	-	13,164
Standard	7,249,619	492,098	-	7,741,717
Watch list	-	124,779	-	124,779
Default	-	-	1,034,082	1,034,082
Total gross carrying amount	7,262,783	616,877	1,034,082	8,913,742
Expected credit loss	(85,065)	(175,051)	(440,276)	(700,392)
As at 31 December 2021	7,177,718	441,826	593,806	8,213,350

Movement in the gross balances of loans and advances and Islamic financing receivables

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2021	**7,262,783**	**616,877**	**1,034,082**	**8,913,742**
Net of new assets originated or purchased	**(211,969)**	**(166,841)**	**(97,975)**	**(476,785)**
Write-offs	**-**	**-**	**(197,322)**	**(197,322)**
Transferred from Stage 1	**(193,044)**	**157,404**	**35,640**	**-**
Transferred from Stage 2	**40,063**	**(158,079)**	**118,016**	**-**
Transferred from Stage 3	**31,540**	**187,095**	**(218,635)**	**-**
As at 31 December 2022	**6,929,373**	**636,456**	**673,806**	**8,239,635**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2020	7,468,060	1,523,926	1,499,636	10,491,622
Net of new assets originated or purchased	(194,310)	(243,833)	(205,307)	(643,450)
Write-offs	-	-	(934,430)	(934,430)
Transferred from Stage 1	(326,591)	291,710	34,881	-
Transferred from Stage 2	315,624	(954,926)	639,302	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2021	7,262,783	616,877	1,034,082	8,913,742

Movement in provision for impairment of loans and advances and Islamic financing receivables

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2021	**85,065**	**175,051**	**440,276**	**700,392**
Changes due to provisions recognized in the opening balance that have:				
Transferred from 12-month ECL	**(21,056)**	**21,056**	**-**	**-**
Transferred from lifetime ECL not credit impaired	**440**	**(440)**	**-**	**-**
Transferred from lifetime ECL credit-impaired	**43**	**47,330**	**(47,373)**	**-**
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (Note 25)	**-**	**-**	**50**	**50**
Charge to income statement (Note 21)	**28,617**	**2,404**	**101,194**	**132,215**
Write-offs	**-**	**-**	**(197,322)**	**(197,322)**
As at 31 December 2022	**93,109**	**245,401**	**296,825**	**635,335**

7. Loans and advances and Islamic financing receivables (continued)

Grading of gross balances of loans and advances and Islamic financing receivables along with stages (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2020	87,398	294,841	1,095,743	1,477,982
Changes due to provisions recognized in the opening balance that have:				
Transferred from 12-month ECL	2,907	(2,907)	-	-
Transferred from lifetime ECL not credit impaired	(26,076)	26,076	-	-
Transferred from lifetime ECL credit-impaired	-	(204,477)	204,477	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (Note 25)	-	-	10,960	10,960
Charge to income statement (Note 21)	20,836	61,518	63,526	145,880
Write-offs	-	-	(934,430)	(934,430)
As at 31 December 2021	85,065	175,051	440,276	700,392

Sector wise analysis of impaired loans and advances and Islamic financing receivables in the default category and related provisions is as follows:

	2022		2021	
	Gross exposure AED'000	**Impairment provision AED'000**	Gross exposure AED'000	Specific provision AED'000
By economic sector				
Trade	**104,486**	**78,857**	305,688	130,797
Personal loans (retail and HNIs)	**335,143**	**92,542**	411,153	160,003
Manufacturing	**143,158**	**75,265**	166,749	56,319
Construction	**3,081**	**619**	6,207	10,783
Services	**8,919**	**2,308**	65,266	34,365
Financial institutions	**79,019**	**47,234**	79,019	48,009
Total	**673,806**	**296,825**	1,034,082	440,276

For the year ended 31 December 2022 onwards, the Bank has excluded Interest in Suspense from its Gross Loans and advances and Islamic financing receivables & corresponding provisions thereon. Accordingly, the comparative numbers for FY 2021 have been amended to that effect.

The fair value of collateral that the Bank holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2022 amounts to AED 462,040 thousand (2021: AED 616,412 thousand). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees from parent companies for loans to their subsidiaries or other Bank companies.

8. Investments and Islamic instruments

	31 Dec 2022			31 Dec 2021		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
FVOCI						
Local	**1,908,114**	**-**	**1,908,114**	2,314,568	-	2,314,568
Overseas	**1,151,576**	**-**	**1,151,576**	1,106,020	-	1,106,020
Amortised Cost						
Local	**581,361**	**-**	**581,361**	-	-	-
Overseas	**248,013**	**-**	**248,013**	111,176	-	111,176
Total debt securities	**3,889,064**	**-**	**3,889,064**	3,531,764	-	3,531,764
Equity:						
FVOCI						
Local	**-**	**466**	**466**	-	467	467
Overseas	**112**	**76**	**188**	152	76	228
Total equities	**112**	**542**	**654**	152	543	695
Total investments	**3,889,176**	**542**	**3,889,718**	3,531,916	543	3,532,459
ECL on investments held at amortised cost			**(2,242)**			(2,242)
Net investments			**3,887,476**			3,530,217

The Bank holds a stage 1 ECL allowance on its investment securities classified under FVOCI amounting to AED 29,260 thousand as at 31 December 2022 (31 December 2021: AED 23,260 thousand).

Included in the above are investment securities amounting to AED 1,144,033 thousand (2021: AED 816,437 thousand) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 1,931 thousand (2021: AED 3,155 thousand) on these investment securities secured under repurchase agreements.

Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages:

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
High	**1,940,590**	**-**	**-**	**1,940,590**
Standard	**1,948,474**	**-**	**-**	**1,948,474**
Total gross carrying amount	**3,889,064**	**-**	**-**	**3,889,064**
Expected credit loss	**(31,502)**	**-**	**-**	**(31,502)**
As at 31 December 2022	**3,857,562**	**-**	**-**	**3,857,562**

8. Investments and Islamic instruments (continued)

Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages: (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	1,703,378	-	-	1,703,378
Standard	1,828,386	-	-	1,828,386
Total gross carrying amount	3,531,764	-	-	3,531,764
Expected credit loss	(25,502)	-	-	(25,502)
As at 31 December 2021	3,506,262	-	-	3,506,262

Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Balance as at 31 December 2021	**25,502**	**-**	**-**	**25,502**
Charge to income statement (Note 21)	**6,000**	**-**	**-**	**6,000**
As at 31 December 2022	**31,502**	**-**	**-**	**31,502**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2020	19,758	-	-	19,758
Charge to income statement (Note 21)	5,744	-	-	5,744
As at 31 December 2021	25,502	-	-	25,502

An analysis of the investment based on external credit ratings is as follows:

As at 31 December 2022	**Debt securities AED'000**	**Other investments AED'000**	**Total AED'000**
AA	**1,222,757**	**-**	**1,222,757**
AA-	**276,634**	**-**	**276,634**
A	**441,199**	**-**	**441,199**
A-	**-**	**112**	**112**
BBB+	**60,020**	**-**	**60,020**
BBB	**32,759**	**-**	**32,759**
BBB- and below	**1,587,914**	**-**	**1,587,914**
Unrated	**267,781**	**542**	**268,323**
Total investments	**3,889,064**	**654**	**3,889,718**
Expected credit loss	**(2,242)**	**-**	**(2,242)**
Net investments	**3,886,822**	**654**	**3,887,476**

Notes to the Financial Statements

8. Investments and Islamic instruments (continued)

As at 31 December 2021	Debt securities AED'000	Other investments AED'000	Total AED'000
AA	896,947	-	896,947
AA-	301,764	-	301,764
A	504,668	-	504,668
A-	-	152	152
BBB+	25,805	-	25,805
BBB	35,308	-	35,308
BBB- and below	1,360,352	-	1,360,352
Unrated	406,920	543	407,463
Total investments	3,531,764	695	3,532,459
Expected credit loss	(2,242)	-	(2,242)
Net investments	3,529,522	695	3,530,217

9. Property, equipment and capital work-in-progress

	Freehold land and buildings AED'000	**Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000**	**Capital work-in-progress AED'000**	**Total AED'000**
Cost or valuation:				
At 1 January 2022	**420,661**	**300,021**	**108,649**	**829,331**
Additions	**-**	**68**	**12,794**	**12,862**
Transfers	**-**	**22,943**	**(22,943)**	**-**
Write-offs	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**
At 31 December 2022	**420,661**	**323,032**	**98,500**	**842,193**
Accumulated Depreciation:				
At 1 January 2022	**26,054**	**254,243**	**-**	**280,297**
Charge for the year	**3,293**	**15,144**	**-**	**18,437**
Write-offs	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**
At 31 December 2022	**29,347**	**269,387**	**-**	**298,734**
Impairment on properties	**(171,234)**	**-**	**(76,529)**	**(247,763)**
Net Carrying Value as at 31 December 2022	**220,080**	**53,645**	**21,971**	**295,696**

9. Property, equipment and capital work-in-progress (continued)

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2021	432,362	293,616	112,383	838,361
Additions	-	29	12,642	12,671
Transfers	-	6,376	(6,376)	-
Write-offs	(3,170)	-	-	(3,170)
Disposals	(8,531)	-	-	(8,531)
Other movements	-	-	(10,000)	(10,000)
At 31 December 2021	420,661	300,021	108,649	829,331
Accumulated Depreciation:				
At 1 January 2021	27,137	237,671	-	264,808
Charge for the year	3,433	16,572	-	20,005
Write-offs	(581)	-	-	(581)
Disposals	(3,935)	-	-	(3,935)
At 31 December 2021	26,054	254,243	-	280,297
Impairment on properties	(169,234)	-	(76,529)	(245,763)
Net Carrying Value as at 31 December 2021	225,373	45,778	32,120	303,271

The cost of freehold land included above is AED 338,368 thousand (2021: AED 338,368 thousand).

During 2022, additions to capital work in progress relate to expenditure incurred in connection with the purchase of property and equipment amounting to AED 12,794 thousand (2021: AED 12,642 thousand). Upon completion of associated projects, AED 22,943 thousand (2021: AED 6,376 thousand) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment' whilst Nil was (2021: Nil) was written-off.

During 2022, the Bank wrote-off computer software with a net carrying value of Nil (2021: Nil).

Included in Property, equipment and capital work-in-progress are plots of land with gross carrying values of AED 422,400 thousand (2021: AED 422,400 thousand). Management has completed the assessment of the carrying values of these plots of land and has accordingly recognised an impairment of AED 2,000 thousand during 2022 (2021: AED Nil).

Intangible assets relating to computer software are included within equipment with a net carrying value of AED 12,892 thousand (2021: AED 18,833 thousand).

Description of the valuation techniques used and key inputs to valuation of properties is as follows:

	Valuation technique	**Significant unobservable inputs**
Plot 1	DRC method (refer below)	Sales rate per sq ft on gross floor area (GFA) amended to incorporate negotiation, size and time adjustment for transactions
Plot 2	Sales Comparison method (refer below)	Negotiation adjustment of 15% has been applied to the current asking price for similar land parcels

<u>Depreciated Replacement Costs (DRC) method</u>
The DRC method is based on the market value of the current use of the land in addition to the current gross replacement costs of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

<u>Sales comparison method</u>
This method involves analysing sales and asking prices of similar plots of land and comparing these to the property owned.

Notes to the Financial Statements

10. Other assets

	2022 AED'000	2021 AED'000
Interest receivable	**97,585**	60,243
Positive fair value of derivatives (Note 24)	**84,786**	16,054
Acceptances	**356,795**	390,030
Prepayments and other assets	**173,513**	116,954
Right-of-use assets (Note 27)	**-**	4,886
Assets repossessed in settlement of debts (refer below)	**69,910**	156,737
	782,589	744,904

The Bank's portfolio of assets (net) repossessed in settlement of debts amounted to AED 69,910 thousand (2021: AED 156,737 thousand). During 2022, the Bank recognised a gain on sale of AED 48,018 thousand (2021: AED 5,945 thousand) on its properties which had a net carrying value of AED 100,507 thousand (2021: AED 8,162 thousand) at the time of sale. The management completed an assessment of the carrying values of the remaining properties in 2022 and has accordingly recognised AED 2,286 thousand impairment (2021: AED 4,831 thousand) for the year.

Grading of credit exposure for financial assets which are part of other assets along with stages is shown below:

Other assets	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
High	**9,707**	**-**	**-**	**9,707**
Standard	**689,707**	**6,227**	**-**	**695,934**
Watch list	**-**	**1,213**	**-**	**1,213**
As at 31 December 2022	**699,414**	**7,440**	**-**	**706,854**

Other assets	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	10,588	-	-	10,588
Standard	533,167	22,184	-	555,351
Watch list	-	7,801	-	7,801
As at 31 December 2021	543,755	29,985	-	573,740

11. Due to banks

	2022 AED'000	2021 AED'000
Demand deposits	**56,794**	5,525
Term deposits	**3,215,649**	2,405,463
	3,272,443	2,410,988

Term deposits include borrowings through repurchase agreements of AED 1,038,860 thousand (2021: AED 709,245 thousand). Demand deposits include AED 52,305 thousand (2021: AED Nil) held as margin for derivative transactions.

11. Due to banks (continued)

	2022 AED'000	2021 AED'000
Gross amounts due to banks by geographical area		
Demand deposits	**680,175**	888,268
Term deposits	**2,659**	4,516
Other countries	**2,589,609**	1,518,204
	3,272,443	2,410,988

12. Customers' deposits and Islamic customer deposits

	2022 AED'000	2021 AED'000
Term deposits	**5,493,952**	7,304,064
Current accounts	**2,915,492**	2,819,597
Call and saving accounts	**159,143**	282,764
	8,568,587	10,406,425

Customer' deposits include Islamic customer deposits amounting to AED 1,755,365 thousand (2021: AED 2,299,713 thousand) undertaken through the Bank's Shari'a - compliant Islamic window.

13. Other liabilities

	2022 AED'000	2021 AED'000
Acceptances	**356,795**	390,030
Interest payable	**105,456**	79,384
Negative fair value of derivatives (Note 24)	**10,066**	116,664
ECL on off-balance sheet exposures and due from banks	**87,983**	100,722
Staff related provisions	**17,246**	19,223
Accrued expenses	**53,284**	33,534
Un-presented cheques	**44,842**	36,435
Lease liability (Note 27)	**1,181**	6,164
Others	**63,268**	68,581
	740,121	850,737

	2022 AED'000	2021 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**17,246**	18,805
Other liabilities	**-**	418
	17,246	19,223

13. Other liabilities (continued)

In accordance with UAE labour law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

	2022 AED'000	2021 AED'000
Liability as at 1 January	**18,805**	16,394
Expense recognised in the statement of income	**4,976**	5,065
End of service benefits paid	**(6,535)**	(2,654)
Liability as at 31 December	**17,246**	18,805

14. Share capital and reserves

(a) Share capital

The authorised paid up share capital of the Bank is 2,750,067,532 (2021: 2,750,067,532) shares of AED 1 each. The issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2021: 2,062,550,649) shares of AED 1 each. See Note 22 for details.

b) Special reserve

Decretal Federal Law No. (14) of 2018 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital. This reserve has been a balance of AED 22,491 thousand as of 31 December 2022.

c) Statutory reserve

UAE Federal Law No.(2) of 2015 and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve has a balance of AED 51,415 thousand as of 31 December 2022.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors. This reserve has a balance of AED 9,311 thousand as of 31 December 2022.

e) Dividends

The directors do not propose any cash dividend for the year ended 31 December 2022 (2021: Nil).

f) Cumulative changes in fair value

Cumulative changes in fair value reserve includes the net change in fair value of FVOCI assets and the net effective portion of changes in fair value of cash flow hedges (if any). This reserve has a balance of AED (153,621) thousand as of 31 December 2022.

15. Interest income and income from Islamic financing products

	2022 AED'000	2021 AED'000
Loans and advances and Islamic financing products	**362,088**	340,560
Money market and interbank transactions	**80,069**	10,223
Debt investments securities and profit on Sukuk's	**142,327**	127,332
	584,484	478,115

16. Interest expense and distribution to depositors

	2022 AED'000	2021 AED'000
Customer deposits	**149,044**	131,239
Interbank transactions	**113,873**	69,066
	262,917	200,305

17. Net fees and commission income

	2022 AED'000	2021 AED'000
Fees on letters of credit and acceptances	**10,396**	12,218
Fees on guarantees	**24,768**	20,006
Fees on loans and advances	**20,534**	21,854
Commission expense	**(8,621)**	(7,015)
	47,077	47,063

18. Foreign exchange income

Foreign exchange income comprises mainly of net gains of AED 14,046 thousand (2021: AED 13,089 thousand) arising from trading in foreign currencies.

19. Other operating income

	2022 AED'000	2021 AED'000
(Loss) / Gain on sale of FVOCI investments	**(173)**	40,775
Charges recovered from customers	**18,348**	20,021
Income from collections	**1,735**	2,459
Others	**92,905**	42,683
	112,815	105,938

20. Other operating expenses

	2022 AED'000	2021 AED'000
Occupancy and maintenance costs	**41,658**	36,452
Legal and professional fees	**18,073**	17,565
Other administrative expenses	**22,584**	21,656
Write-off of property and equipment (Note 9)	**-**	2,589
	82,315	78,262

21. Net impairment losses

Provision for credit losses recognised in the statement of income is as follows

	2022 AED'000	2021 AED'000
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables (Note 7)	**133,643**	150,180
Contingent liabilities (Note 25)	**(12,614)**	(870)
Due from banks (Note 6)	**(69)**	22
Investments and Islamic instruments (Note 8)	**6,000**	5,744
Net impairment of non-financial assets on:		
Property, equipment and capital work-in-progress (Note 9)	**2,000**	-
Other assets (Note 10)	**2,286**	4,831
Recovery on bad debts written off	**(36,984)**	(24,180)
Net impairment losses	**94,262**	135,727

22. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. The calculations are as follows:

	2022 AED'000	2021 AED'000
Net profit for the year	**154,721**	70,191
Weighted average number of ordinary shares: Weighted average number of shares of AED 1 each outstanding for the year	**2,062,550,649**	2,062,550,649
Basic and diluted earnings per share	**AED 0.08**	AED 0.03

The diluted earnings per share are the same as Basic earnings per share as the Bank has not issued any instruments which would have a dilutive impact on earnings per share if or when exercised.

23. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, directors of the Bank, key management personnel of the Bank and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly. The significant balances outstanding at 31 December are as follows:

	2022 AED'000	2021 AED'000
Shareholders:		
Due from banks	**118**	94
Due to other banks	**2,659**	3,454
Commitments and contingencies	**4,570**	4,000
Directors:		
Loans and advances	**15,809**	11,045
Customers' deposits	**16,122**	7,151
Commitments and contingencies	**45**	45
Other related entities of shareholders and directors:		
Loans and advances	**159,397**	171,989
Due from banks	**10**	13
Due to other banks	**1,786**	273
Customers' deposits	**191,005**	235,035
Commitments and contingencies	**85,320**	76,020
Key management personnel of the Bank:		
Loans and advances	**809**	2,132
Customers' deposits	**4,861**	4,312
Shareholders, directors and their related entities and key management personnel:		
Accrued interest income	**834**	221
Accrued interest expense	**735**	899
ECL (release from) / charge to income statement	**(2,127)**	1,423

23. Related party transactions (continued)

The income, expenses, purchase and sale of investments in respect of related parties during the year included in the statement of income are as follows:

	2022 AED'000	2021 AED'000
Shareholders, directors and their related entities		
Interest income	**13,280**	9,681
Interest expense	**1,505**	783
Professional fees	**2,545**	3,000
Loss from sale of investments	**-**	(4,078)
Sale proceeds from investments	**-**	66,105

	2022 AED'000	2021 AED'000
Director's remuneration and meeting attendance fees	**6,790**	1,019

	2022 AED'000	2021 AED'000
Key management personnel		
Number of key management personnel	**14**	14
Salaries and other short term benefits	**17,778**	17,478
Employees' end of service benefits	**373**	1,429
Total compensation to key management personnel	**18,151**	18,907

	2022 AED'000	2021 AED'000
Key management personnel		
Interest income	**20**	66
Interest expense	**13**	-

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length. The interest charged to, and by, related parties is at normal commercial rates.

The related parties exposures have been secured against collateral amounting to AED 126,639 thousand (2021: AED 127,088 thousand).

For the year ended 31 December 2022, the Bank has not recorded any stage 3 impairment on amounts owed by related parties (2021: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals less associated expenses for the year amounted to AED 1,874 thousand (2021: AED 1,916 thousand). The property rentals are negotiated each year at market rates.

23. Related party transactions (continued)

Movement in the gross balances of all related party loans and advances:

Gross carrying amount	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 31 December 2021	**123,811**	**61,355**	**-**	**185,166**
Net of new assets originated or purchased	**(4,779)**	**(4,372)**	**-**	**(9,151)**
As at 31 December 2022	**119,032**	**56,983**	**-**	**176,015**

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2020	167,743	23,071	-	190,814
Net of new assets originated or purchased	(5,265)	(383)	-	(5,648)
Transferred from Stage 1	(40,505)	40,505	-	-
Transferred from Stage 2	1,838	(1,838)	-	-
As at 31 December 2021	123,811	61,355	-	185,166

Movement in provision for impairment of related party loans and advances:

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Balance as at 31 December 2021	**1,795**	**3,600**	**-**	**5,395**
Release to income statement	**(844)**	**(1,283)**	**-**	**(2,127)**
As at 31 December 2022	**951**	**2,317**	**-**	**3,268**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2020	2,118	1,854	-	3,972
Changes due to provisions recognized in the opening balance that have:				
Transferred from 12-months ECL	120	(120)	-	-
Charge to income statement	(443)	1,866	-	1,423
As at 31 December 2021	1,795	3,600	-	5,395

24. Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards and swaps.

24. Derivatives (continued)

24.1 Derivative product types

(a) Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts.

b) Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

c) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

24.2 Purpose of derivatives

The Bank is a party to derivative instruments in the normal course of meeting the needs of the Bank's customers. In addition, as part of its risk management activity, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices actual market transactions and the Bank's best estimate of the most appropriate model inputs (Note 26).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as Other Assets and Other Liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

24. Derivatives (continued)

24.2 Purpose of derivatives (continued)

24.2.1 Derivatives held for risk management

31 December 2022				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	2,757	(3,063)	2,854,673	1,969,009	871,126	14,538	-
Interest rate swaps	7,003	(7,003)	885,988	-	209,988	676,000	-
	9,760	(10,066)	3,740,661	1,969,009	1,081,114	690,538	-

31 December 2021				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	10,600	(1,710)	2,170,134	758,524	907,270	504,340	-
Interest rate swaps	5,454	(5,455)	1,082,415	-	-	482,415	600,000
	16,054	(7,165)	3,252,549	758,524	907,270	986,755	600,000

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2022, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

				Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
31 December 2022							
Hedge of investments	75,026	-	1,792,660	-	130,956	1,223,903	437,801
31 December 2021							
Hedge of investments	-	(109,499)	1,989,166	-	146,900	1,180,635	661,631

24. Derivatives (continued)

24.2 Purpose of derivatives (continued)

24.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to AED 1,741,981 thousand (2021: AED 2,110,459 thousand). These hedged items comprise of debt instruments which are held as FVOCI.

The Bank has recognised the following gain relating to hedge ineffectiveness calculated as follows:

	2022		2021	
	Change in value AED'000	Ineffectiveness recognised in profit and loss AED'000	Change in value AED'000	Ineffectiveness recognised in profit and loss AED'000
On hedging instruments	184,438	24,443	(106,916)	9,625
On hedged items	(159,995)	-	116,541	-

24.3 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 92% (2021: 89%) of the Bank's derivative contracts are entered into with other financial institutions.

25. Contingent liabilities and commitments

Credit related commitments

The Bank's contractual amounts in respect of letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down, and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirements.

The Bank has the following credit related commitments:

	2022 AED'000	2021 AED'000
Contingent liabilities		
Letters of credit	295,245	278,000
Guarantees	2,072,693	2,386,034
	2,367,938	2,664,034
Contingent liabilities		
Guarantees	2,295,621	2,286,975

The undrawn loan commitments of the Bank are all revocable and are not considered for ECL computation.

25. Contingent liabilities and commitments (continued)

Grading of gross balances of commitments and contingent liabilities along with stages

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	**4,307**	**-**	**-**	**4,307**
Standard	**1,983,609**	**175,290**	**-**	**2,158,899**
Watch list	**-**	**67,437**	**-**	**67,437**
Default	**-**	**-**	**137,295**	**137,295**
Total gross carrying amount	**1,987,916**	**242,727**	**137,295**	**2,367,938**
Expected credit loss	**(6,416)**	**(26,113)**	**(55,389)**	**(87,918)**
As at 31 December 2022	**1,987,916**	**242,727**	**137,295**	**2,367,938**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	4,947	-	-	4,947
Standard	2,086,697	310,828	-	2,397,525
Watch list	-	53,351	-	53,351
Default	-	-	208,211	208,211
Total gross carrying amount	2,091,644	364,179	208,211	2,664,034
Expected credit loss	(9,059)	(31,855)	(47,033)	(87,947)
As at 31 December 2021	2,082,585	332,324	161,178	2,576,087

Movement in the gross balance of contingent liabilities

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2021	**2,091,644**	**364,178**	**208,212**	**2,664,034**
Changes due to financial assets recognised in the opening balance that have:				
Transferred to/ (from) Stage 1	**(94,547)**	**94,547**	**-**	**-**
Transferred to/ (from) Stage 2	**174,929**	**(180,986)**	**6,057**	**-**
Transferred to/ (from) Stage 3	**-**	**3,698**	**(3,698)**	**-**
Originated / (expired) during the year	**(184,110)**	**(38,710)**	**(73,276)**	**(296,096)**
As at 31 December 2022	**1,987,916**	**242,727**	**137,295**	**2,367,938**

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2020	1,860,322	791,621	91,262	2,743,205
Changes due to financial assets recognised in the opening balance that have:				
Transferred to/ (from) Stage 1	(58,986)	58,986	-	-
Transferred to/ (from) Stage 2	160,523	(160,523)	-	-
Transferred to/ (from) Stage 3	-	(125,109)	125,109	-
Originated / (expired) during the year	129,785	(200,797)	(8,159)	(79,171)
As at 31 December 2021	2,091,644	364,178	208,212	2,664,034

25. Contingent liabilities and commitments (continued)

Movement in the provision for impairment of contingent liabilities

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2021	**8,990**	**44,510**	**47,032**	**100,532**
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12-month ECL	**1,605**	**(1,605)**	**-**	**-**
Transferred to lifetime ECL not credit impaired	**(4,153)**	**4,153**	**-**	**-**
Transferred to/ (from) lifetime ECL credit impaired		**859**	**(859)**	**-**
Charge to income statement (Note 21)	**(26)**	**(21,804)**	**9,216**	**(12,614)**
As at 31 December 2022	**6,416**	**26,113**	**55,389**	**87,918**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2020	18,255	56,710	37,397	112,362
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12-month ECL	1,838	(1,838)	-	-
Transferred to lifetime ECL not credit impaired	(7,247)	7,247	-	-
Transferred to lifetime ECL credit impaired	-	(1,860)	1,860	-
Transferred from / (to) ECL credit impaired on loans (Note 7)	-	(7,997)	(2,963)	(10,960)
Charge to income statement (Note 21)	(3,856)	(7,752)	10,738	(870)
As at 31 December 2021	8,990	44,510	47,032	100,532

26. Risk management

Introduction

The Bank recognizes the importance of effective risk management in achieving its strategic goals and maintaining its stability and resilience. Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including strategic, capital, credit, market & liquidity, operational, fraud, information technology and information security, reputation risks, etc., and processes from origination and assessment of risks to ongoing monitoring, control, review, maintenance and reporting of risks. It also covers roles and responsibilities of Board and Management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The Bank's Risk Management Strategy includes comprehensive Enterprise-wide Risk and Compliance Risk Frameworks, which are fully aligned with our Bank's Vision to drive consistent value for all stakeholders. The key strategic imperatives that drive Bank's vision include the following:

- **Sound Fundamentals and Strong Risk Bearing Capacity:** Maintaining strong financial and operational fundamentals serves as a foundation for effective risk management and supports risk bearing capacity.
- **Strategic Alignment and Enduring Partnership with Business Lines:** A risk management approach that is strategically aligned with business goals ensures a close partnership between risk management and business units to effectively manage risks.

26. Risk management (continued)

Introduction (continued)

- **Efficient Deployment of Capital, Liquidity and Provisioning:** Efficient deployment of capital, liquidity, and provisioning supports sustainable growth and minimizes risks.
- **Comprehensive and Integrated Corporate & Risk Governance Framework:** A robust corporate and risk governance framework ensures effective risk management, independent oversight, and accountability.
- **Resilient Risk Infrastructure and Strong Risk Culture:** A strong risk infrastructure and culture promotes transparency, accountability, and a proactive approach to risk management.

The Bank recognizes the importance of effective risk management in achieving its strategic goals and maintaining

1. Strong Governance

The Bank has a strong governance framework in place to ensure that its risk management framework is effective and that risks are managed in a controlled and transparent manner. This includes committees at Board and Management levels, clear policies and procedures, regular reporting and monitoring, and independent oversight from internal and external stakeholders.

Board committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Group Remuneration Committee

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

(e) Joint Board Audit and Board Risk Committee

Joint Meeting between the Board Audit Committee (BAC) and the Board Risk Committee (BRC) is held regularly in accordance with the Central Bank of the UAE (CBUAE) guidelines to ensure effective coordination and collaboration between the two committees in managing risks. This joint meeting enhances the overall risk management framework by providing a platform for robust discussions and effective decision-making in matters relating to risk management.

Notes to the Financial Statements

26. Risk management (continued)

Management Committees

The Board level committees are further supplemented by key management committees to ensure comprehensive risk management and governance. These committees include:

The Board level committees are further supplemented by key management committees to ensure comprehensive risk management and governance. These committees include:

(a) Management Committee

The Management Committee provides overall strategic direction for the organization, including the management of risk, by reviewing and approving the organization's risk appetite, risk tolerance, and risk management framework, and providing overall oversight of the risk management process.

(b) Credit Committee

The Credit Committee is responsible for reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing ongoing monitoring of credit risk.

(c) Asset Liability Committee

The Asset and Liability Committee (ALCO) is instrumental in the management of the organization's interest rate and liquidity risk. It makes recommendations to ensure an adequate level of liquidity while operating within a robust risk control framework. This enables effective management of these risks.

(d) Risk Committee

The Risk Committee supports the Board and Management in fulfilling their responsibilities related to risk management. It evaluates the effectiveness of the internal control system for managing bank-wide risks, ensures compliance with legal and regulatory requirements, and reviews the performance of the risk function. The Committee provides impartial oversight of the risk management framework and processes, and regularly reports on risk management activities to the Board and Management.

(e) Business Technology Steering Committee

The Business Technology Steering Committee provides oversight of the organization's technology-related risks, including information security and technology resilience.

(f) Customer Experience Committee

The Customer Experience Committee ensures that the organization's customer-facing activities are aligned with its risk appetite and that the risks associated with customer interactions are effectively managed.

2. Risk Appetite Framework

The Bank has established a risk appetite framework to ensure that its risk-taking activities are aligned with its strategic goals and risk tolerance. The framework includes clear definitions of the Bank's risk appetite and limits for various types of risks, as well as regular monitoring and reporting to ensure that these limits are not exceeded.

3. Sustainability

The Bank is committed to incorporating sustainability considerations into its risk management framework, including environmental, social, and governance (ESG) risks. The Bank has established processes for assessing and managing ESG risks, and regularly monitors its exposure to these risks.

26. Risk management (continued)

4. Three Lines of Defence

The Bank's risk management framework is built on three lines of defence, which work together to ensure that risks are effectively identified, assessed, monitored, and controlled:

- The first line of defence is the business unit, which is responsible for identifying, assessing, and managing risks in its day-to-day activities.
- The second line of defence is the risk management function, which provides oversight and support to the business units in managing risks.
- The third line of defence is the internal audit function, which independently assesses the effectiveness of the Bank's risk management framework and provides recommendations for improvement.

As part of the three lines of defence, the Board and Management committees are further supplemented by functions who are responsible for day-to-day monitoring of risks:

(a) Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b)Credit Department:

The Credit Department is responsible for spearheading overall credit strategy of the bank, reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing assistance in ongoing monitoring of credit risk.

(c)Financial Markets
Financial Markets department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(d) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

From 2019 till 2022, the Central Bank of the UAE has issued a number of standards and regulations on the various elements of overall Risk Management, Consumer Protection Regulation, Anti-Money Laundering, Capital adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

5. Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

26. Risk management (continued)

5. Risk Measurement and Reporting Systems (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, Risk Committee and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

6. Risk Mitigation

The Bank has implemented a comprehensive risk mitigation framework that aims to minimize the impact of potential risks on its operations, financial performance, and reputation. This includes identifying and evaluating risk, implementing risk mitigation strategies, and regularly monitoring the effectiveness of these strategies.

The Bank actively uses collateral to reduce its credit risks. Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

7. Robust Business Continuity Framework

The Bank's well-structured Business Continuity Framework and Policy, along with our comprehensive Crisis Management Framework and supplementary emergency plans and incident response protocols, provide a strong foundation of organizational resilience against major disruptions or unexpected events, such as the recent COVID-19 pandemic. These frameworks and procedures are subjected to regular testing, with a minimum frequency of annual assessments, to guarantee their effectiveness and readiness in such scenarios.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is the single largest risk for the Bank's business and is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

26. Risk management (continued)

Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	2022 AED'000	2021 AED'000
Cash and balances with UAE Central Bank (excluding cash on hand)	5	1,162,780	1,953,141
Due from banks	6	302,837	378,735
Loans and advances (Gross)	7	8,239,635	8,913,742
Investments	8	3,889,064	3,531,764
Other assets*	10	706,853	573,740
*excluding prepayments and assets acquired in settlement of debt and lease assets			
Total		14,301,169	15,351,122
Letters of credit	25	295,245	278,000
Guarantees	25	2,072,693	2,386,034
Undrawn loan commitments	25	2,295,621	2,286,975
Total		4,663,559	4,951,009
Total credit risk exposure		18,964,728	20,302,131

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2022 was AED 574,959 thousand (2021: AED 599,959 thousand).

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2022		2021	
	Assets AED'000	Contingent liabilities and commitments AED'000	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	11,961,011	4,580,897	13,109,762	4,908,108
Other Middle East countries	1,106,209	11,772	1,215,353	20,695
Europe	192,180	14,748	64,323	15,186
USA	237,585	-	75,889	-
Rest of the World	804,184	56,142	885,795	7,020
Total	14,301,169	4,663,559	15,351,122	4,951,009

Notes to the Financial Statements

26. Risk management (continued)

Credit Risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Bank's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2022 AED'000	2021 AED'000
Financial services	3,907,579	4,098,747
Trade	1,175,694	1,523,742
Manufacturing	616,875	763,586
Government and public sector	3,832,927	3,918,262
Construction	363,195	480,487
Services	1,232,659	1,071,854
Others	3,172,240	3,494,444
	14,301,169	15,351,122
Less: Provisions	(637,577)	(702,634)
	13,663,592	14,648,488

Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. Aging analysis of past due but not impaired loans and advances is as follows:

31 December 2022	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
Loans and advances	48,061	492	245	3,710	52,508
31 December 2021					
Loans and advances	42,396	8,144	710	125	51,375

Amounts which are not yet past due and related to loans which have delinquent payments, are not included in the table above. Approximately 98% (2021: 86%) of the above loans are advanced to the corporate sector.

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are those which have been rescheduled or restructured and where the Bank has made concessions that it would otherwise not consider. Rescheduled and restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

The gross amount per class of on-balance sheet financial assets whose terms have been renegotiated are as follows:

	2022 AED'000	2021 AED'000
Loans and advances and Islamic financing receivables	869,147	963,219

26. Risk management (continued)

Credit Risk (continued)

Loans and advances and Islamic financing receivables with renegotiated terms (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	**19,048**	**314,135**	**535,964**	**869,147**
Less: Provision for impairment	**(539)**	**(92,152)**	**(200,215)**	**(292,906)**
As at 31 December 2022	**18,509**	**221,983**	**335,749**	**576,241**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	41,621	131,730	789,868	963,219
Less: Provision for impairment	(1,768)	(13,889)	(322,715)	(338,372)
As at 31 December 2021	39,853	117,841	467,153	624,847

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Bank companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		
	2022	**2021**	**Principal type of collateral held**
Retail Mortgage Loans	100%	100%	Retail Mortgage Loans
Corporate customers	64%	62%	Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables

26. Risk management (continued)

Credit Risk (continued)

Retail mortgage loans

Credit exposure on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

LTV ratio	2022 AED'000	2021 AED'000
Less than 50%	**279,823**	213,574
51- 75%	**371,077**	579,511
76- 90%	**121,974**	176,805
91- 100%	**24,194**	29,873
More than 100%	**9,965**	50,476
Total	**807,033**	1,050,239

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

Impaired loans

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

LTV ratio	2022 AED'000	2021 AED'000
Less than 50%	**9,627**	3,807
51- 75%	**20,892**	21,636
More than 75%	**16,133**	50,409
Total	**46,652**	75,852

Collateral and other credit enhancements

Retail customers

At 31 December 2022, the carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 65,538 thousand (2021: AED 93,727 thousand) and the fair value of identifiable collateral held against those loans and advances amounted to AED 41,095 thousand (2021: AED 53,130 thousand).

Corporate customers

At 31 December 2022, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 608,268 thousand (2021: AED 1,044,296 thousand) and the fair value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 420,945 thousand (2021: AED 563,282 thousand). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan.

26. Risk management (continued)

Credit Risk (continued)

Impairment Reserve under the UAE Central Bank

The Central Bank of the UAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the Guidance). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of the Central Bank of the UAE and IFRS 9 is as follows:

	2022 AED'000	2021 AED'000
Impairment Reserve: General		
General Provisions under Circular 28/2010 of UAE Central Bank	155,601	163,869
Less: Stage 1 & Stage 2 provisions under IFRS 9	338,510	260,116
General Provision transferred to impairment reserve	-	-
Impairment Reserve: Specific		
Specific Provisions under Circular 28/2010 of UAE Central Bank	169,676	269,726
Less: Stage 3 provisions under IFRS 9	296,825	440,276
Specific Provision transferred to impairment reserve	-	-

Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of the UAE equal to 7% of current deposits and 1% of time deposits (2021: 7% of current deposits and 1% of time deposits). In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by the Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year-end were as follows:

	2022 AED'000	2021 AED'000
Lending to Stable Resources Ratio	86.9%	80.7%
Eligible Liquid Assets Ratio	17.6%	19.1%

26. Risk management (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2022 is as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
Assets									
Cash and balances with the UAE Central Bank	1,207,589	-	-	1,207,589	-	-	-	-	1,207,589
Due from banks	302,837	-	-	302,837	-	-	-	-	302,837
Loans and advances (Gross)	2,082,646	336,627	191,282	2,610,555	2,374,785	3,254,295	5,629,080	-	8,239,635
Investments	507,919	104,580	36,648	649,147	1,546,292	1,691,379	3,237,671	658	3,887,476
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	295,696	295,696
Other assets	412,830	202,459	19,301	634,590	125,961	22,038	147,999	-	782,589
Provision for impairment of loans and advances and interest in suspense	(635,335)	-	-	(635,335)	-	-	-	-	(635,335)
Total assets	3,878,486	643,666	247,231	4,769,383	4,047,038	4,967,712	9,014,750	296,354	14,080,487
Liabilities and shareholders' funds									
Due to banks	2,844,893	242,375	185,175	3,272,443	-	-	-	-	3,272,443
Customers' deposits	5,364,222	1,517,069	1,497,659	8,378,950	189,637	-	189,637	-	8,568,587
Other liabilities	495,570	202,343	18,642	716,555	5,838	-	5,838	17,728	740,121
Shareholders' equity	-	-	-	-	-	-	-	1,499,336	1,499,336
Total liabilities and shareholders' equity	8,704,685	1,961,787	1,701,476	12,367,948	195,475	-	195,475	1,517,064	14,080,487
Net liquidity gap	(4,826,199)	(1,318,121)	(1,454,245)	(7,598,565)	3,851,563	4,967,712	8,819,275	(1,220,710)	-

26. Risk management (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2021 was as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
Assets									
Cash and balances with the UAE Central Bank	2,009,565	-	-	2,009,565	-	-	-	-	2,009,565
Due from banks	378,735	-	-	378,735	-	-	-	-	378,735
Loans and advances (Gross)	2,194,419	474,313	300,008	2,968,740	2,614,819	3,330,183	5,945,002	-	8,913,742
Investments	55,551	169,659	-	225,210	1,404,290	1,900,019	3,304,309	698	3,530,217
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	303,271	303,271
Other assets	343,296	49,781	188,745	581,822	160,191	2,891	163,082	-	744,904
Provision for impairment of loans and advances and interest in suspense	(700,392)	-	-	(700,392)	-	-	-	-	(700,392)
Total assets	4,281,174	693,753	488,753	5,463,680	4,179,300	5,233,093	9,412,393	303,969	15,180,042
Liabilities and shareholders' funds									
Due to banks	1,883,873	108,450	418,665	2,410,988	-	-	-	-	2,410,988
Customers' deposits	5,784,503	2,054,972	1,699,157	9,538,632	867,792	-	867,792	-	10,406,424
Other liabilities	485,695	43,948	188,401	718,044	53,115	60,773	113,888	18,806	850,738
Shareholders' equity	-	-	-	-	-	-	-	1,511,892	1,511,892
Total liabilities and shareholders' equity	8,154,071	2,207,370	2,306,223	12,667,664	920,907	60,773	981,680	1,530,698	15,180,042
Net liquidity gap	(3,872,897)	(1,513,617)	(1,817,470)	(7,203,984)	3,258,393	5,172,320	8,430,713	(1,226,729)	-

26. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial Liabilities	**Carrying amount AED'000**	**On demand AED'000**	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2022							
Due to banks	**3,272,443**	**56,794**	**2,816,579**	**442,041**	**-**	**-**	**3,315,414**
Customers' deposits	**8,568,587**	**2,868,484**	**2,534,819**	**3,124,459**	**201,078**	**-**	**8,728,840**
Other liabilities	**730,053**	**244,557**	**268,224**	**217,272**	**-**	**-**	**730,053**
Financial derivatives	**163,752**	**-**	**12,284**	**35,253**	**104,590**	**11,625**	**163,752**
Total undiscounted financial liabilities	**12,728,835**	**3,169,835**	**5,625,906**	**3,819,025**	**305,668**	**11,625**	**12,932,059**

Financial Liabilities	Carrying amount AED'000	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2021							
Due to banks	2,410,988	5,525	1,883,125	532,157	-	-	2,420,807
Customers' deposits	10,406,425	2,821,739	2,987,649	3,816,072	896,046	-	10,521,506
Other liabilities	734,072	245,436	258,781	229,855	-	-	734,072
Financial derivatives	218,651	-	13,440	37,887	139,661	27,663	218,651
Total undiscounted financial liabilities	13,770,136	3,072,700	5,142,995	4,615,971	1,035,707	27,663	13,895,036

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2022						
Inflows	**-**	**21,107**	**64,453**	**162,853**	**17,216**	**265,629**
Outflows	**-**	**(12,284)**	**(35,253)**	**(104,590)**	**(11,625)**	**(163,752)**
Net	**-**	**8,823**	**29,200**	**58,263**	**5,591**	**101,877**
Discounted at applicable interbank rates	**-**	**(8,403)**	**(27,719)**	**(55,669)**	**(5,371)**	**(97,162)**

26. Risk management (continued)

Liquidity risk (continued)

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2021						
Inflows	-	948	5,537	57,238	13,713	77,436
Outflows	-	(13,440)	(37,887)	(139,661)	(27,663)	(218,651)
Net	-	(12,492)	(32,350)	(82,423)	(13,950)	(141,215)
Discounted at applicable interbank rates	-	(12,466)	(32,216)	(81,491)	(13,748)	(139,921)

The table below shows the contractual maturity profile of the Bank's contingent liabilities and commitments:

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2022						
Contingent liabilities	**-**	**1,818,134**	**336,389**	**213,415**	**-**	**2,367,938**
Commitments	**2,295,621**	**-**	**-**	**-**	**-**	**2,295,621**
Total	**2,295,621**	**1,818,134**	**336,389**	**213,415**	**-**	**4,663,559**
31 December 2021						
Contingent liabilities	-	2,050,108	348,120	265,806	-	2,664,034
Commitments	2,286,975	-	-	-	-	2,286,975
Total	2,286,975	2,050,108	348,120	265,806	-	4,951,009

The Bank expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

26. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. 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 instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Less than 3 months AED'000	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Non Interest Sensitive AED'000**	**Carrying Amount AED'000**
31 December 2022						
Assets						
Cash and balances with the UAE Central Bank	**850,000**	**-**	**-**	**-**	**357,589**	**1,207,589**
Due from banks	**-**	**-**	**-**	**-**	**302,837**	**302,837**
Loans and advances (net)	**5,752,718**	**543,274**	**1,058,298**	**250,010**	**-**	**7,604,300**
Investments	**507,919**	**141,228**	**1,613,459**	**1,624,216**	**654**	**3,887,476**
Property, equipment and capital work-in-progress	**-**	**-**	**-**	**-**	**295,696**	**295,696**
Other assets	**-**	**-**	**-**	**-**	**782,589**	**782,589**
Total assets	**7,110,637**	**684,502**	**2,671,757**	**1,874,226**	**1,739,365**	**14,080,487**
Liabilities and shareholders' equity						
Due to banks	**2,788,099**	**427,550**	**-**	**-**	**56,794**	**3,272,443**
Customers' deposits	**2,504,265**	**2,978,574**	**170,256**	**-**	**2,915,492**	**8,568,587**
Other liabilities	**-**	**-**	**-**	**-**	**740,121**	**740,121**
Shareholders' equity	**-**	**-**	**-**	**-**	**1,499,336**	**1,499,336**
Total liabilities and shareholders' equity	**5,292,364**	**3,406,124**	**170,256**	**-**	**5,211,743**	**14,080,487**
On-balance sheet	**1,818,273**	**(2,721,622)**	**2,501,501**	**1,874,226**	**(3,472,378)**	**-**
Off-balance sheet	**2,678,648**	**-**	**-**	**-**	**2,854,673**	**5,533,321**
Cumulative interest rate sensitivity gap	**4,496,921**	**1,775,299**	**4,276,800**	**6,151,026**	**5,533,321**	**-**

26. Risk management (continued)

Interest rate risk (continued)

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non Interest Sensitive AED'000	Carrying Amount AED'000
31 December 2021						
Assets						
Cash and balances with the UAE Central Bank	1,300,000	-	-	-	709,565	2,009,565
Due from banks	150,000	-	-	-	228,735	378,735
Loans and advances (net)	5,785,722	668,711	1,438,801	320,116	-	8,213,350
Investments	55,551	138,816	1,378,485	1,956,670	695	3,530,217
Property, equipment and capital work-in-progress	-	-	-	-	303,271	303,271
Other assets	-	-	-	-	744,904	744,904
Total assets	7,291,273	807,527	2,817,286	2,276,786	1,987,170	15,180,042
Liabilities and shareholders' equity						
Due to banks	1,878,348	527,115	-	-	5,525	2,410,988
Customers' deposits	3,020,807	3,715,753	850,267	-	2,819,598	10,406,425
Other liabilities	-	-	-	-	850,737	850,737
Shareholders' equity	-	-	-	-	1,511,892	1,511,892
Total liabilities and shareholders' equity	4,899,155	4,242,868	850,267	-	5,187,752	15,180,042
On-balance sheet	2,392,118	(3,435,341)	1,967,019	2,276,786	(3,200,582)	-
Off-balance sheet	3,071,581	-	-	-	2,165,104	5,236,685
Cumulative interest rate sensitivity gap	5,463,699	2,028,358	3,995,377	6,272,163	5,236,685	-

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2022, including the effect of hedging instruments.

	2022		2021	
	Change in basis points	Sensitivity of net interest income AED'000	Change in basis points	Sensitivity of net interest income AED'000
Increase in rate	+25	11,879	+25	19,398
Decrease in rate	-25	(11,879)	-25	(19,398)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/-5% will result in a positive/negative change in the fair value reserve in equity by AED 14,312 thousand (2021: AED 1,062 thousand).

26. Risk management (continued)

Interest rate risk (continued)

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates - RFR (referred to as 'IBOR reform'). The Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. The Bank has established a cross-functional IBOR Transition Working Group (referred to as 'IBOR Working Group') to manage its transition to alternative RFRs.

The Bank has continued to maintain its momentum in tracking its exposure to IBOR, restricting the use of IBOR indexes in its products, preparing its IT systems to accommodate the incoming RFRs, amending contracts / addendums and communicating progress with the regulators and clients.

The Bank has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

The Bank holds derivatives for risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Bank's derivative instruments are governed by ISDA definitions and the Bank adheres to the ISDA 2020 IBOR fall back protocol and supplement.

Further, the Bank evaluated the extent to which it's fair value hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Bank's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, mainly USD 3 months LIBOR Index. The Bank monitors closely the developments occurring the transitioning IBOR rates and the RFRs. These IBOR benchmark rates are quoted regularly and IBOR cash flows are exchanged with its counterparties as usual.

The Bank has achieved readiness to transition the relevant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the IBOR exposures prior to the its cessation. The Bank continues to communicate to the impacted customers with necessary information and price revision letters based on RFR effective 01 January 2022. Since 01 January 2022, RFR including SOFR are being used in the bank's systems and for customer pricing.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2022 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2022		2021	
Currency	Change in currency rate in %	Effect on profit AED'000	Change in currency rate in %	Effect on profit AED'000
EUR	+10	89	+10	19
GBP	+10	3	+10	(2)

26. Risk management (continued)

Currency risk (continued)

Concentration of assets and liabilities by currency

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Cash and balances with UAE Central Bank	1,207,589	-	-	1,207,589
Due from banks	10,035	236,891	55,911	302,837
Loans and advances and Islamic financing receivables	6,381,727	1,156,030	66,543	7,604,300
Investments and Islamic instruments	489,592	3,358,567	39,317	3,887,476
Property, equipment and capital work-in-progress	295,696	-	-	295,696
Other assets	723,262	58,353	974	782,589
Total assets	9,107,901	4,809,841	162,745	14,080,487
Due to banks	611,105	2,661,338	-	3,272,443
Customers' deposits and Islamic customer deposits	6,579,991	1,074,177	914,419	8,568,587
Other liabilities	724,014	-	16,057	740,071
Total liabilities	7,915,110	3,735,515	930,476	12,581,101
Net shareholders' equity	1,683,879	(190,592)	6,049	1,499,336
Net balance sheet position	(491,088)	1,264,918	(773,780)	50
Off-balance sheet position	459,043	(1,234,750)	776,217	510

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Cash and balances with UAE Central Bank	2,009,565	-	-	2,009,565
Due from banks	161,847	195,212	21,676	378,735
Loans and advances and Islamic financing receivables	6,873,722	1,249,882	89,746	8,213,350
Investments and Islamic instruments	543	3,485,844	43,830	3,530,217
Property, equipment and capital work-in-progress	303,271	-	-	303,271
Other assets	703,641	40,278	985	744,904
Total assets	10,052,589	4,971,216	156,237	15,180,042
Due to banks	515,525	1,895,463	-	2,410,988
Customers' deposits and Islamic customer deposits	7,427,284	1,248,801	1,730,340	10,406,425
Other liabilities	702,475	132,035	16,217	850,727
Total liabilities	8,645,284	3,276,299	1,746,557	13,668,140
Net shareholders' equity	1,529,698	(23,749)	5,943	1,511,892
Net balance sheet position	(122,393)	1,718,666	(1,596,262)	11
Off-balance sheet position	132,210	(1,721,569)	1,598,574	9,215

26. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Right of use assets and lease liabilities

Below are the carrying amounts of right-of-use assets (included under 'Other Assets' in Note 10) and lease liabilities (included under 'Other Liabilities' in Note 13) and the movements during the year:

	2022 AED'000	2021 AED'000
Right-of-use assets		
As at 1 January	4,886	9,838
Less: Asset retirement obligation	-	(56)
Less: Depreciation charge	(4,886)	(4,896)
As at 31 December	-	4,886

	2022 AED'000	2021 AED'000
Lease liabilities		
As at 1 January	6,164	9,838
Add: Accretion of interest	134	243
Less: Payments	(4,245)	(4,336)
Less: Liability increase in obligation / (retirement)	(872)	419
As at 31 December	1,181	6,164

28. Segmental analysis

For the purposes of reporting to the chief operating decision makers, the Bank is organised into two segments:

Wholesale banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers. This segment also includes Financial Markets which is principally involved in providing money market, trading and treasury services, as well as the management of the Bank's funding operations; and

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

28. Segmental analysis (continued)

Segmental information for the year ended 31 December 2022 is as follows:

	Wholesale banking AED'000	Retail banking AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	**259,468**	**62,099**	**321,567**
Other operating income	**166,033**	**13,187**	**179,220**
Operating expenses	**(194,633)**	**(57,171)**	**(251,804)**
Net impairment losses	**(93,151)**	**(1,111)**	**(94,262)**
Profit for the year	**137,717**	**17,004**	**154,721**
Capital Expenditure - Property and equipment	**11,697**	**1,166**	**12,863**
31 December 2022 Segment Assets	**12,804,043**	**1,276,444**	**14,080,487**
Segment Liabilities	**10,838,364**	**1,742,787**	**12,581,151**

Segmental information for the year ended 31 December 2021 was as follows:

	Wholesale banking AED'000	Retail banking AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	202,872	74,939	277,811
Other operating income	154,070	17,753	171,823
Operating expenses	(181,319)	(62,397)	(243,716)
Net impairment losses	(96,353)	(39,374)	(135,727)
Profit / (Loss) for the year	79,270	(9,079)	70,191
Capital Expenditure - Property and equipment	11,343	1,327	12,670
31 December 2021 Segment Assets	13,590,009	1,590,033	15,180,042
Segment Liabilities	11,867,321	1,800,830	13,668,151

Notes to the Financial Statements

28. Segmental analysis (continued)

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

The Bank operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

29. Fair values of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2022	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	**82,029**	-	**82,029**
Forward contracts	-	**2,757**	-	**2,757**
Currency swaps	-	-	-	-
	-	**84,786**	-	**84,786**
Financial investments FVOCI				
Quoted investments				
Government debt securities	**1,415,879**	-	-	**1,415,879**
Other debt securities	**1,643,811**	-	-	**1,643,811**
Equities	**112**	-	-	**112**
Unquoted Investments				
Equities	-	-	**542**	**542**
	3,059,802	**84,786**	**542**	**3,145,130**
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	**7,003**	-	**7,003**
Forward contracts	-	**3,063**	-	**3,063**
Currency options	-	-	-	-
	-	**10,066**	-	**10,066**

29. Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value (continued)

31 December 2021	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	5,454	-	5,454
Forward contracts	-	10,600	-	10,600
Currency swaps	-	-	-	-
	-	16,054	-	16,054
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,683,641	-	-	1,683,641
Other debt securities	1,736,947	-	-	1,736,947
Equities	153	-	-	153
Unquoted Investments				
Equities	-	-	543	543
	3,420,741	-	543	3,421,284
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	114,954	-	114,954
Forward contracts	-	1,710	-	1,710
Currency options	-	-	-	-
	-	116,664	-	116,664

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

29.1 Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

29.2 Financial investments

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

29.3 Movements in level 3 financial instruments measured at fair value

There was no other movement between the levels of financial instruments during the year (2021: AED Nil).

29. Fair values of financial instruments (continued)

29.4 Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2021: AED Nil).

29.5 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

29.6 Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with the Central Bank of the UAE, due from banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

29.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

29.6.2 Financial instruments carried at amortised cost

The fair value of the quoted debt instruments at amortised cost as at 31 December 2022 amounted to AED 818,438 thousand (2021: AED 111,176 thousand). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

30. Capital adequacy

The Bank actively manages its capital to ensure that inherent risks in the business are adequately covered. The capital management process is aligned to the overall business strategy and within the Bank's capital risk appetite complying with the capital requirements set by the CBUAE. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Bank uses the standardised approach for calculating its capital requirements for credit risk. Based on the asset class of the exposure and external credit ratings of the exposure or counterparty from designated credit rating agencies, wherever available, the appropriate risk weights are determined. For the regulatory market risk capital requirements, the Bank uses the standardised approach. For operational risk, the capital requirement is calculated using the basic indicator approach, which is a simple percentage of average positive gross revenues over the last three financial years.

The Bank manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Notes to the Financial Statements

30. Capital adequacy (continued)

As per the Central Bank of the UAE Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer (CCB) for the year ended 31 December 2022 is as below:

Capital element	
Minimum Common Equity Tier 1 (CET 1) ratio	7%
Minimum tier 1 capital ratio	8.5%
Minimum capital adequacy ratio	10.5%
CCB	2.5%

Capital structure

The table below details the regulatory capital resources of the Bank:

	2022 AED'000	2021 AED'000
CET 1 / Tier 1 Capital		
Share capital	**2,062,550**	2,062,550
Statutory reserve	**51,415**	35,943
Special reserve	**22,491**	7,019
General reserve	**9,311**	9,311
Fair value reserves on investment securities at FVOCI	**(153,621)**	3,445
Accumulated losses	**(492,810)**	(610,587)
Regulatory deduction for intangibles	**(12,892)**	-
Total CET 1 / Tier 1	**1,486,444**	1,507,681
Tier 2 Capital		
Eligible general provision	**129,668**	136,558
Total Tier 2	**129,668**	136,558
Total Regulatory Capital	**1,616,112**	1,644,239

	2022 AED'000	2021 AED'000
Risk weighted exposures		
Credit Risk	**10,373,414**	10,924,600
Operational Risk	**794,797**	996,951
Market Risk	**2,940**	2,835
Total Risk weighted exposures	**11,171,151**	11,924,386
CET 1 / Tier I and Tier II Capital		
CET 1 / Tier I Capital	**1,486,444**	1,507,681
Tier II Capital	**129,668**	136,558
Total Capital Base	**1,616,112**	1,644,239

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

Capital Ratios	**2022 %**	2021 %
Total capital adequacy ratio	**14.5%**	13.8%
Common equity Tier 1 capital ratio	**13.3%**	12.6%
Tier 1 capital ratio	**13.3%**	12.6%

31. Social contribution

Social contributions (including donations and charity) made during the year to various beneficiaries amounts to AED 186 thousand (2021: AED 264 thousand).

32. Zakat

The articles of association of the Bank do not require the Bank to pay zakat on behalf of its shareholders. Consequently, distribution of the zakat is the responsibility of the shareholders of the Bank.

33. Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Bank is expected to arise from legal claims as at 31 December 2022 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

34. Subsequent event

The shareholders of the Bank in their General Meeting held on 24 January 2023, have approved to issue a non-convertible additional tier 1 instrument up to an amount of USD 150 million or equivalent thereof in other currencies, for the purposes of strengthening the Bank's capital adequacy, subject to the regulatory approvals by the Securities and Commodities Authority and the CBUAE.

35. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.

Contents

1. Introduction

This document provides Pillar 3 disclosures for United Arab Bank PJSC (UAB or "the Bank") as at 31 December 2022 with the objective of allowing market participants to assess key information on the Bank's capital, risk exposures and risk assessment process.

The Bank is regulated by the Central Bank of the UAE (CBUAE) and follows the Pillar 3 disclosure requirements as stated in the CBUAE guidelines on the implementation of Basel III standards, issued in November 2020 with subsequent updates in December 2022. The Pillar 3 disclosures contain both quantitative and qualitative information and are to be read in conjunction with the Audited Financial Statements as at 31 December 2022.

The Basel Committee on Banking Supervision (BCBS) Basel III Capital Adequacy Framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risks and additionally to cover other material risks, where required. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

The capital requirements are computed using the Basel III framework of the Basel Committee on Banking Supervision, after applying the amendments advised by the CBUAE, within national discretion.

The report is prepared as per the enhanced Pillar 3 Disclosure requirements guidelines issued by CBUAE in November 2020 with subsequent updates in December 2022 and are effective for the year ended 31 December 2022. The enhanced Pillar 3 disclosures focus on regulatory measures required under Pillar 1 of the Basel framework for measuring credit, market and operational risks and their associated resulting risk-weighted assets (RWA) and capital requirements. In some instances, Pillar 3 also requires supplementary information to be disclosed to improve the understanding of underlying risks.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. Additional capital buffers include Capital Conservation Buffer and Countercyclical Capital Buffer, with a maximum up to 2.5% for each buffer, over and above the minimum CET1 requirement of 7.0% and minimum Total Capital Ratio of 10.5%.

CBUAE requires the Pillar 2 Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

The purpose of Pillar 3, Market Discipline, is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline through a set of disclosure requirements which will allow market participants to assess key information regarding capital adequacy of the Bank through various views such as the scope of application, capital, risk exposure and risk assessment process.

The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Bank, and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.

In compliance with the CBUAE Basel III standards and guidelines, these disclosures include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes, capital management and capital adequacy.

The Pillar 3 Disclosures for the year 2022 have been appropriately reviewed by the management and internal audit.

2. About the Bank

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates.

The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates. The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches. The Bank does not have any subsidiaries and accordingly there is no consolidation.

3. OVA: Overview of Risk Management and Risk Weighted Assets (RWA)

The Bank recognizes the importance of effective risk management in achieving its strategic goals and maintaining its stability and resilience. Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including strategic, capital, credit, market & liquidity, operational, fraud, information technology and information security, reputation risks, etc., and processes from origination and assessment of risks to ongoing monitoring, control, review, maintenance and reporting of risks. It also covers roles and responsibilities of Board and Management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The Bank's Risk Management Strategy includes comprehensive Enterprise-wide Risk and Compliance Risk Frameworks, which are fully aligned with our Bank's Vision to drive consistent value for all stakeholders. The key strategic imperatives that drive Bank's vision include the following:

- **Sound Fundamentals and Strong Risk Bearing Capacity:** Maintaining strong financial and operational fundamentals serves as a foundation for effective risk management and supports risk bearing capacity.
- **Strategic Alignment and Enduring Partnership with Business Lines:** A risk management approach that is strategically aligned with business goals ensures a close partnership between risk management and business units to effectively manage risks.
- **Efficient Deployment of Capital, Liquidity and Provisioning:** Efficient deployment of capital, liquidity, and provisioning supports sustainable growth and minimizes risks.
- **Comprehensive and Integrated Corporate & Risk Governance Framework:** A robust corporate and risk governance framework ensures effective risk management, independent oversight, and accountability.
- **Resilient Risk Infrastructure and Strong Risk Culture:** A strong risk infrastructure and culture promotes transparency, accountability, and a proactive approach to risk management.

3.1 Strong Governance

The Bank has a strong governance framework in place to ensure that its risk management framework is effective and that risks are managed in a controlled and transparent manner. This includes committees at Board and Management levels, clear policies and procedures, regular reporting and monitoring, and independent oversight from internal and external stakeholders.

Board Committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Governance & Remuneration Committee

The Governance & Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

(e) Joint Board Audit and Board Risk Committee

Joint Meeting between the Board Audit Committee (BAC) and the Board Risk Committee (BRC) is held regularly in accordance with the Central Bank of the UAE (CBUAE) guidelines to ensure effective coordination and collaboration between the two committees in managing risks. This joint meeting enhances the overall risk management framework by providing a platform for robust discussions and effective decision-making in matters relating to risk management.

Management Committees

The Board level committees are further supplemented by key management committees to ensure comprehensive risk management and governance. These committees include:

(a) Management Committee

The Management Committee provides overall strategic direction for the organization, including the management of risk, by reviewing and recommending for approval the organization's risk appetite, risk tolerance, and risk management framework, and providing overall oversight of the risk management process.

(b) Credit Committee

The Credit Committee is responsible for reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing ongoing monitoring of credit risk.

(c) Asset Liability Committee

The Asset and Liability Committee (ALCO) is instrumental in the management of the organization's interest rate and liquidity risk. It makes recommendations to ensure an adequate level of liquidity while operating within

(d) Risk Committee

The Risk Committee supports the Board and Management in fulfilling their responsibilities related to risk management. It evaluates the effectiveness of the internal control system for managing bank-wide risks, ensures compliance with legal and regulatory requirements, and reviews the performance of the risk function. The Committee provides impartial oversight of the risk management framework and processes, and regularly reports on risk management activities to the Board and Management.

(e) Business Technology Steering Committee

The Business Technology Steering Committee provides oversight of the organization's technology-related risks, including information security and technology resilience.

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(f) Customer Experience Committee

The Customer Experience Committee ensures that the organization's customer-facing activities are aligned with its risk appetite and that the risks associated with customer interactions are effectively managed.

3.2. Risk Appetite Framework

The Bank has established a risk appetite framework to ensure that its risk-taking activities are aligned with its strategic goals and risk tolerance. The framework includes clear definitions of the Bank's risk appetite and limits for various types of risks, as well as regular monitoring and reporting to ensure that these limits are not exceeded.

3.3. Sustainability

The Bank is committed to incorporating sustainability considerations into its risk management framework, including environmental, social, and governance (ESG) risks. The Bank has established processes for assessing and managing ESG risks, and regularly monitors its exposure to these risks.

3.4. Three Lines of Defence

The Bank's risk management framework is built on three lines of defence, which work together to ensure that risks are effectively identified, assessed, monitored, and controlled:

- The first line of defence is the business unit, which is responsible for identifying, assessing, and managing risks in its day-to-day activities.
- The second line of defence is the risk management function, which provides oversight and support to the business units in managing risks.
- The third line of defence is the internal audit function, which independently assesses the effectiveness of the Bank's risk management framework and provides recommendations for improvement.

(a) Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit risk submissions, risk policy and portfolio management reports to the Risk Committee and the Board Risk Committee.

(b) Credit Department

The Credit Department is responsible for spearheading overall credit strategy of the bank, reviewing and approving credit proposals, ensuring compliance with credit policies and procedures, and providing assistance in ongoing monitoring of credit risk.

(c) Financial Markets

Financial Markets department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(d) Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

From 2019 till 2022, the Central Bank of the UAE has issued a number of standards and regulations on the various elements of overall Risk Management, Consumer Protection Regulation, Anti-Money Laundering, Capital adequacy and Capital Management Framework. The standards and regulations including but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk have been effected in 2019. The Bank had taken measures to adhere to the aforementioned standards and regulations to ensure compliance from the effective implementation date.

3.5. Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, Risk Committee and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

3.6. Risk Mitigation

The Bank has implemented a comprehensive risk mitigation framework that aims to minimize the impact of potential risks on its operations, financial performance, and reputation. This includes identifying and evaluating risk, implementing risk mitigation strategies, and regularly monitoring the effectiveness of these strategies.

The Bank actively uses collateral to reduce its credit risks. Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

3.7. Robust Business Continuity Framework

The Bank's well-structured Business Continuity Framework and Policy, along with our comprehensive Crisis Management Framework and supplementary emergency plans and incident response protocols, provide a strong foundation of organizational resilience against major disruptions or unexpected events, such as the recent COVID-19 pandemic. These frameworks and procedures are subjected to regular testing, with a minimum frequency of annual assessments, to guarantee their effectiveness and readiness in such scenarios.

3.8. Business Segments

The Bank is organised into two segments:

Wholesale Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers. This segment also includes Financial Markets which is principally involved in providing money market, trading and treasury services, as well as the management of the Bank's funding operations; and

Retail Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

The Bank operates in only one geographic area, the Middle East and hence, no geographical analysis is given.

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3.9. UAB's Approach to Pillar 1

Pillar 1 Risks	Pillar 1 Approach
Credit Risk	The Bank uses the Standardized Approach for calculating regulatory capital requirements for Credit Risk. This approach allows the use of external ratings from designated credit-rating agencies wherever available in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors.
Market Risk	The Bank uses the Standardized Approach for calculating regulatory capital requirements for Market Risk.
Operational Risk	The Bank uses the Basic Indicator Approach for calculating regulatory capital requirements for Operational Risk.

3.10. KM1: Overview of Risk Management, Key Prudential Metrics and RWA

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	Available capital (amounts)	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
1	Common Equity Tier 1 (CET1)	1,486,444	1,383,030	1,401,594	1,500,581	1,507,681
1a	Fully loaded ECL accounting model	1,486,444	1,383,030	1,401,594	1,500,581	1,507,681
2	Tier 1	1,486,444	1,383,030	1,401,594	1,500,581	1,507,681
2a	Fully loaded ECL accounting model Tier 1	1,486,444	1,383,030	1,401,594	1,500,581	1,507,681
3	Total capital	1,616,112	1,512,888	1,536,921	1,633,494	1,644,239
3a	Fully loaded ECL accounting model total capital	1,616,112	1,512,888	1,536,921	1,633,494	1,644,239
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	11,171,151	11,201,723	11,673,757	11,444,483	11,924,386
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	13.31%	12.35%	12.01%	13.11%	12.64%
5a	Fully loaded ECL accounting model CET1 (%)	13.31%	12.35%	12.01%	13.11%	12.64%
6	Tier 1 ratio (%)	13.31%	12.35%	12.01%	13.11%	12.64%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.31%	12.35%	12.01%	13.11%	12.64%
7	Total capital ratio (%)	14.47%	13.51%	13.17%	14.27%	13.79%
7a	Fully loaded ECL accounting model total capital ratio (%)	14.47%	13.51%	13.17%	14.27%	13.79%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.97%	3.01%	2.67%	3.77%	3.29%
	Leverage Ratio					
13	Total leverage ratio measure	16,261,118	16,162,354	16,806,624	16,171,153	17,155,160
14	Leverage ratio (%) (row 2 / row 13)	9.14%	8.56%	8.34%	9.28%	8.79%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 8 + row 9+ row 10)	9.14%	8.56%	8.34%	9.28%	8.79%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.14%	8.56%	8.34%	9.28%	8.79%
	Liquidity Coverage Ratio					
15	Total HQLA	2,991,747	2,877,501	2,994,849	2,934,746	3,077,935
16	Total net cash outflow	2,524,912	2,084,202	2,379,342	2,799,669	3,216,771
17	LCR ratio (%)	**118.49%**	**138.06%**	**125.87%**	**104.82%**	**95.68%**
	Net Stable Funding Ratio					
18	Total available stable funding	6,371,774	6,926,440	7,203,724	6,926,440	7,582,284
19	Total required stable funding	6,947,855	7,546,566	7,514,756	7,546,566	8,838,073
20	NSFR ratio (%)	**91.71%**	**91.78%**	**95.86%**	**91.78%**	**85.79%**
	ELAR					
21	Total HQLA	2,193,241	2,184,653	2,030,972	2,008,422	2,588,923
22	Total liabilities	12,494,130	12,583,272	13,248,446	12,426,425	13,571,925
23	Eligible Liquid Assets Ratio (ELAR) (%)	**17.55%**	**17.36%**	**15.33%**	**16.16%**	**19.08%**
	ASRR					
24	Total available stable funding	9,193,735	9,573,610	10,754,456	10,495,562	10,962,743
25	Total Advances	7,991,641	8,408,128	8,901,444	8,442,147	8,843,830
26	Advances to Stable Resources Ratio (%)	**86.92%**	**87.83%**	**82.77%**	**80.44%**	**80.67%**

Note 1: "Fully Loaded" means bank's regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04 / 2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements". UAB has not used the transitional arrangement.

3.11. OV1: Overview of Risk Weighted Assets

		Risk Weighted Assets					Minimum Capital Requirements
		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	31 Dec 2022
1	Credit risk (excluding counterparty credit risk)	10,034,109	10,279,295	10,761,585	10,541,951	10,838,749	1,053,581
2	Of which: standardised approach (SA)	10,034,109	10,279,295	10,761,585	10,541,951	10,838,749	1,053,581
3	Of which: foundation internal ratings-based (F-IRB) approach						
4	Of which: supervisory slotting approach						
5	Of which: advanced internal ratings-based (A-IRB) approach						
6	Counterparty credit risk (CCR)	297,733	109,328	64,603	91,044	85,852	31,262
7	Of which: standardised approach for counterparty credit risk	297,733	109,328	64,603	91,044	85,852	31,262
8	Of which: Internal Model Method (IMM)						
9	Of which: other CCR						
10	Credit valuation adjustment (CVA)	41,572	22,720	12,640	0	0	4,365
11	Equity positions under the simple risk weight approach						
12	Equity investments in funds - look-through approach	0	0	0	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0	0	0	0
14	Equity investments in funds - fall-back approach	0	0	0	0	0	0
15	Settlement risk	0	0	0	0	0	0
16	Securitisation exposures in the banking book	0	0	0	0	0	0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)						
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0	0	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0	0	0	0
20	Market risk	2,940	5,078	39,547	3,465	2,835	309
21	Of which: standardised approach (SA)	2,940	5,078	39,547	3,465	2,835	309
22	Of which: internal models approach (IMA)						
23	Operational risk	794,797	808,022	808,022	808,022	996,951	83,454
24	Amounts below thresholds for deduction (subject to 250% risk weight)						
25	Floor adjustment						
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**11,171,151**	**11,201,723**	**11,673,757**	**11,444,483**	**11,924,386**	**1,172,971**

**The minimum capital requirements applied is 10.5%*

4. Linkages between Financial Statements and Regulatory Exposures

4.1. Summary of differences between Pillar 3 disclosures and disclosures in the audited financial statements

Topic	Risk review in the audited annual financial statements	Pillar 3 disclosures
Basis of requirements	The Bank's audited annual financial statements is prepared in accordance with the requirements of IFRS and UAE Federal Law No. 2 of 2015.	The Bank's Pillar 3 disclosures provide details on risk from a regulatory perspective as required by the Basel 3 Standardized approach requirements, which have been implemented in the UAE through the Central Bank of the UAE standards / guidelines issued in November 2020 with subsequent updates in December 2022. The capital supply is determined based on Basel 3 requirements, which have been implemented in the UAE through the Central Bank of the UAE guidelines issued in February 2017 and standards / guidance issued in December 2022.
Basis of preparation	The disclosures in the credit risk management section are set out based on IFRS. Loans and advances are reported net of impairments and interest in suspense. Off balance sheet exposures are reported without applying CCF.	Provides details from a regulatory perspective on credit, market and operational risk. The capital calculation and the disclosures are based on the Standardized approach as required by the Central Bank of the UAE. Loans and advances are reported at gross levels and off balance sheet exposures are disclosed at post-CCF levels. Market risk and operational risk disclosures are based on the capital required.

4.2. LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2022 AED 000s

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central bank	1,207,589	1,207,589	1,207,589	0	0	0	0
Due from banks	302,837	302,837	302,837	0	0	0	0
Loans and advances and Islamic financing receivables	7,604,300	7,604,300	7,604,300	0	0	0	0
Investments and Islamic instruments	3,887,476	3,887,476	3,887,476	0	0	0	0
Property, equipment and capital work-in-progress	295,696	295,696	295,696	0	0	0	0
Other assets	782,589	782,589	661,803	84,786	0	0	0
Total Assets	**14,080,487**	**14,080,487**	**13,995,701**	**84,786**	**0**	**0**	**0**
Liabilities							
Due to banks	3,272,443	3,272,443	0	0	0	0	0
Customers' deposits and Islamic customer deposits	8,568,587	8,568,587	0	0	0	0	0
Other liabilities	740,121	740,121	0	0	0	0	0
Total Liabilities	**12,581,151**	**12,581,151**	**0**	**0**	**0**	**0**	**0**
Shareholder's Equity							
Share Capital	2,062,550	2,062,550	0	0	0	0	0
Special Reserve	22,491	22,491	0	0	0	0	0
Statutory Reserve	51,415	51,415	0	0	0	0	0
General Reserve	9,311	9,311	0	0	0	0	0
Cumulative changes in Fair Value	(153,621)	(153,621)	0	0	0	0	0
Accumulated losses	(492,810)	(492,810)	0	0	0	0	0
Net shareholders' equity	**1,499,336**	**1,499,336**	**0**	**0**	**0**	**0**	**0**
Total Liabilities and shareholders' equity	**14,080,487**	**14,080,487**	**0**	**0**	**0**	**0**	**0**

31 December 2021 AED 000s

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central bank	2,009,565	2,009,565	2,009,565	0	0	0	0
Due from banks	378,735	378,735	378,735	0	0	0	0
Loans and advances and Islamic financing receivables	8,213,350	8,213,350	8,213,350	0	0	0	0
Investments and Islamic instruments	3,530,217	3,530,217	3,530,217	0	0	0	0
Property, equipment and capital work-in-progress	303,271	303,271	303,271	0	0	0	0
Other assets	744,904	744,904	728,850	16,054	0	0	0
Total Assets	**15,180,042**	**15,180,042**	**15,180,042**	**0**	**0**	**0**	**0**
Liabilities							
Due to banks	2,410,988	2,410,988	0	0	0	0	0
Customers' deposits and Islamic customer deposits	10,406,425	10,406,425	0	0	0	0	0
Other liabilities	850,737	850,737	0	0	0	0	0
Total Liabilities	**13,668,150**	**13,668,150**	**0**	**0**	**0**	**0**	**0**
Shareholder's Equity							
Share Capital	2,062,550	2,062,550	0	0	0	0	0
Special Reserve	7,019	7,019	0	0	0	0	0
Statutory Reserve	35,943	35,943	0	0	0	0	0
General Reserve	9,311	9,311	0	0	0	0	0
Cumulative changes in Fair Value	7,656	7,656	0	0	0	0	0
Accumulated losses	(610,587)	(610,587)	0	0	0	0	0
Net shareholders' equity	**1,511,892**	**1,511,892**	**0**	**0**	**0**	**0**	**0**
Total Liabilities and shareholders' equity	**15,180,042**	**15,180,042**	**0**	**0**	**0**	**0**	**0**

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

31 December 2022 AED 000s

		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)**	14,080,487	13,995,701	0	84,786	0
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	14,080,487	13,995,701	0	84,786	0
4	Off-balance sheet amounts	2,367,938	2,367,938	0	0	0
5	Differences in valuations	0	0	0	0	0
6	Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
7	Differences due to consideration of provisions	0	0	0	0	0
8	Differences due to prudential filters	0	0	0	0	0
9	**Exposure amounts considered for regulatory purposes**	**16,448,425**	**16,363,639**	**0**	**84,786**	**0**

31 December 2021 AED 000s

		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)**	15,180,042	15,163,988	0	16,054	0
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	15,180,042	15,163,988	0	16,054	0
4	Off-balance sheet amounts	2,664,034	2,664,034	0	0	0
5	Differences in valuations	0	0	0	0	0
6	Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
7	Differences due to consideration of provisions	0	0	0	0	0
8	Differences due to prudential filters	0	0	0	0	0
9	**Exposure amounts considered for regulatory purposes**	**17,844,076**	**17,828,022**	**0**	**16,054**	**0**

4.4. LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

UAB does not have any subsidiaries and hence there are no differences between carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation disclosed in LI1.

As of 31 December 2022, material assets requiring daily valuation are a) Fixed Income Securities, and b) Derivative Instruments. Both these instruments get marked-to-market valuations. The Bank uses price available on Bloomberg terminal to MTM the securities and derivatives on daily basis.

5. Prudential Valuation

5.1. Adjustment PV1: Prudential Valuation Adjustments (PVA)

This disclosure is not applicable as the Bank does not have any prudential valuation adjustments.

6. CC1: Composition of Capital

AED 000s

		31 Dec 2022	31 Dec 2021
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2,062,550	2,062,550
2	Retained earnings	(492,810)	(610,587)
3	Accumulated other comprehensive income (and other reserves)	(70,404)	55,718
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	0	0
5	Common share capital issued by third parties (amount allowed in group CET1)	0	0
6	**Common Equity Tier 1 capital before regulatory deductions**	**1,499,336**	**1,507,681**
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles including mortgage servicing rights (net of related tax liability)	12,892	0
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash flow hedge reserve	0	0
12	Securitisation gain on sale	0	0
13	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
14	Defined benefit pension fund net assets	0	0
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0	0
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	0	0
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)	0	0
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)	0	0
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	0
20	Amount exceeding 15% threshold	0	0
21	Of which: significant investments in the common stock of financials	0	0
22	Of which: deferred tax assets arising from temporary differences	0	0
23	CBUAE specific regulatory adjustments	0	0
24	**Total regulatory adjustments to Common Equity Tier 1**	12,892	0
25	**Common Equity Tier 1 capital (CET1)**	**1,486,444**	**1,507,681**
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	0
27	Of which: classified as equity under applicable accounting standards	0	0
28	Of which: classified as liabilities under applicable accounting standards	0	0
29	Directly issued capital instruments subject to phase-out from additional Tier 1	0	0
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)	0	0
31	Of which: instruments issued by subsidiaries subject to phase-out	0	0
32	Additional Tier 1 capital before regulatory adjustments	0	0

	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	0	0
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	0
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	0
36	CBUAE specific regulatory adjustments	0	0
37	Total regulatory adjustments to additional Tier 1 capital	0	0
38	**Additional Tier 1 capital (AT1)**	**0**	**0**
39	**Tier 1 capital (T1= CET1 + AT1)**	**1,486,444**	**1,507,681**
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	0
41	Directly issued capital instruments subject to phase-out from Tier 2	0	0
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)	0	0
43	Of which: instruments issued by subsidiaries subject to phase-out	0	0
44	Provisions	129,668	136,558
45	**Tier 2 capital before regulatory adjustments**	**129,668**	**136,558**
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	0	0
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)	0	0
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
49	CBUAE specific regulatory adjustments	0	0
50	**Total regulatory adjustments to Tier 2 capital**	0	0
51	**Tier 2 capital (T2)**	**129,668**	**136,558**
52	**Total regulatory capital (TC = T1 + T2)**	**1,616,114**	**1,644,239**
53	**Total risk-weighted assets**	**11,171,151**	**11,924,386**
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**13.31%**	**12.64%**
55	**Tier 1 (as a percentage of risk-weighted assets)**	**13.31%**	**12.64%**
56	**Total capital (as a percentage of risk-weighted assets)**	**14.47%**	**13.79%**
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)**	**2.50%**	**2.50%**
58	**Of which: capital conservation buffer requirement**	**2.50%**	**2.50%**
59	**Of which: bank-specific countercyclical buffer requirement**	**0.00%**	**0.00%**
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	**0.00%**	**0.00%**
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	**3.97%**	**3.29%**

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	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.00%	7.00%
63	Tier 1 minimum ratio	8.50%	8.50%
64	Total capital minimum ratio	10.50%	10.50%
	Amounts below the thresholds for deduction (before risk weighting)		
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	0	0
66	Significant investments in common stock of financial entities	0	0
67	Mortgage servicing rights (net of related tax liability)	0	0
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	0
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	155,601	163,869
70	Cap on inclusion of provisions in Tier 2 under standardised approach	129,668	136,558
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0	0
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0	0
	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	0	0
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	0
75	Current cap on AT1 instruments subject to phase-out arrangements	0	0
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	0	0
77	Current cap on T2 instruments subject to phase-out arrangements	0	0
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	0	0

6.1. CC2: Reconciliation of regulatory capital to balance sheet

The following table enables users to identify the differences between the scope of accounting balance sheet and the scope of regulatory balance sheet, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1. Variances between the financial and regulatory balance sheets are consistent with LI1 disclosure.

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	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances at central banks	1,207,589	1,207,589
Items in the course of collection from other banks	-	-
Equity Investments	654	654
Financial investments designated at amortised cost	827,134	827,134
Derivative financial instruments	84,786	84,786
Loans and advances to banks	302,837	302,837
Loans and advances to customers	7,604,300	7,604,300
Reverse repurchase agreements / other similar secured lending	-	-
Available for sale financial investments (Includes FVOCI)	3,059,688	3,059,688
Current and deferred tax assets	-	-
Prepayments, accrued income and other assets	697,803	697,803
Investments in associates and joint ventures	-	-
Goodwill and other intangible assets	12,892	12,892
Of which: goodwill	-	-
Of which: intangibles (excluding MSRs)	12,892	12,892
Of which: MSRs	-	-
Property, plant and equipment	282,804	282,804
Total assets	**14,080,487**	**14,080,487**
Liabilities		
Deposits from banks	3,272,443	3,272,443
Items in the course of collection due to other banks	-	-
Customer accounts	8,568,587	8,568,587
Repurchase agreements and other similar secured borrowing	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue	-	-
Accruals, deferred income and other liabilities	634,892	634,892
Current and deferred tax liabilities	-	-
Of which: DTLs related to goodwill	-	-
Of which: DTLs related to intangible assets (excluding MSRs)	-	-
Of which: DTLs related to MSRs	-	-
Subordinated liabilities	-	-
Provisions	87,983	87,983
Retirement benefit liabilities	17,246	17,246
Total liabilities	**12,581,151**	**12,581,151**
Shareholders' equity		
Paid-in share capital	2,062,550	2,062,550
Of which: amount eligible for CET1	2,062,550	2,062,550
Of which: amount eligible for AT1	-	-
Retained earnings	(492,810)	(492,810)
Accumulated other comprehensive income	(153,621)	(153,621)
Special Reserve	22,491	22,491
Statutory Reserve	51,415	51,415
General Reserve	9,311	9,311
Total shareholders' equity	**1,499,336**	**1,499,336**

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	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances at central banks	2,009,565	2,009,565
Items in the course of collection from other banks	-	-
Equity Investments	695	695
Financial investments designated at amortised cost	108,934	108,934
Derivative financial instruments	16,054	16,054
Loans and advances to banks	378,735	378,735
Loans and advances to customers	8,213,350	8,213,350
Reverse repurchase agreements and other similar secured lending	-	-
Available for sale financial investments (Includes FVOCI)	3,420,588	3,420,588
Current and deferred tax assets	-	-
Prepayments, accrued income and other assets	728,850	728,850
Investments in associates and joint ventures	-	-
Goodwill and other intangible assets	-	-
Of which: goodwill	-	-
Of which: intangibles (excluding MSRs)	-	-
Of which: MSRs	-	-
Property, plant and equipment	303,271	303,271
Total assets	**15,180,042**	**15,180,042**
Liabilities		
Deposits from banks	2,410,988	2,410,988
Items in the course of collection due to other banks	-	-
Customer accounts	10,406,425	10,406,425
Repurchase agreements and other similar secured borrowing	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue	-	-
Accruals, deferred income and other liabilities	730,792	730,792
Current and deferred tax liabilities	-	-
Of which: DTLs related to goodwill	-	-
Of which: DTLs related to intangible assets (excluding MSRs)	-	-
Of which: DTLs related to MSRs	-	-
Subordinated liabilities	-	-
Provisions	100,722	100,722
Retirement benefit liabilities	19,223	19,223
Total liabilities	**13,668,150**	**13,668,150**
Shareholders' equity		
Paid-in share capital	2,062,550	2,062,550
Of which: amount eligible for CET1	2,062,550	2,062,550
Of which: amount eligible for AT1	-	-
Retained earnings	(610,587)	(610,587)
Accumulated other comprehensive income	7,656	3,445
Special Reserve	7,019	7,019
Statutory Reserve	35,943	35,943
General Reserve	9,311	9,311
Total shareholders' equity	**1,511,892**	**1,507,681**

6.2. CCA: Main features of regulatory capital instruments

The authorized paid up share capital of the Bank is 2,750,067,532 (2021: 2,750,067,532) shares of AED 1 each. The issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2021: 2,062,550,649) shares of AED 1 each.

7. Macro Prudential

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Currently CCyB is not applicable in UAE. UAB does not have branches in other countries and hence, this reporting is not applicable for the Bank.

8. Leverage Ratio

The Basel 3 leverage ratio is calculated by dividing the tier 1 capital by the leverage ratio exposure. The Leverage Ratio Exposure consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are calculated by including replacement value, Potential Future Exposures (PFE) and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives. The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on balance sheet exposures. Those exposures are the starting point for calculating the BCBS Leverage Ratio Exposure, as shown in the LR2 table. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and securities financing transactions (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

8.1. LR1: Summary Comparison of Accounting Assets Vs Leverage Ratio Exposure

AED 000s

		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
1	Total consolidated assets as per published financial statements	14,080,487	14,065,946	14,748,396	14,020,671	15,180,042
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	271,512	54,980	38,963	27,190	(34,124)
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)	1,909,120	2,041,428	2,019,265	2,123,291	2,009,242
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-	-
12	Other adjustments	-	-	-	-	-
13	**Leverage ratio exposure measure**	**16,261,118**	**16,162,35**	**16,806,624**	**16,171,153**	**17,155,160**

8.2. LR2: Leverage Ratio Common Disclosure Template

AED 000s

		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
On-balance sheet exposures						
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,982,796	13,967,609	14,705,960	14,000,288	15,163,988
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	0	0	0	0	0
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	0	(38,411)	(30,481)	(30,893)	(119,778)
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0	0	0	0	0
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	0	0	0	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	0	0	0	0	0
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**13,982,796**	**13,929,198**	**14,675,479**	**13,969,395**	**15,044,210**
Derivative exposures						
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and / or with bilateral netting)	32,494	76,522	27,562	20,384	16,054
9	Add-on amounts for PFE associated with all derivatives transactions	231,222	60,427	52,352	35,664	56,595
10	(Exempted CCP leg of client-cleared trade exposures)	0	0	0	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0	0	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0	0	0	0
13	**Total derivative exposures (1.4 x (rows 8+9) + sum of rows 10 to 12)**	**369,202**	**191,728**	**111,880**	**78,467**	**101,708**
Securities financing transactions						
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0	0	0	0	0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0	0	0	0
16	CCR exposure for SFT assets	0	0	0	0	0
17	Agent transaction exposures	0	0	0	0	0
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**32,494**	**76,522**	**27,562**	**20,384**	**16,054**
Other off-balance sheet exposures						
19	Off-balance sheet exposure at gross notional amount	4,663,560	4,977,316	4,822,220	5,158,985	4,951,009
20	(Adjustments for conversion to credit equivalent amounts)	(2,754,440)	(2,935,888)	(2,802,956)	(3,035,693)	(2,941,767)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0	0	0	0
22	**Off-balance sheet items (sum of rows 19 to 21)**	**1,909,120**	**2,041,428**	**2,019,265**	**2,123,291**	**2,009,242**
Capital and total exposures						
23	**Tier 1 capital**	**1,486,444**	**1,383,030**	**1,401,594**	**1,500,581**	**1,507,681**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**16,261,118**	**16,162,354**	**16,806,624**	**16,171,153**	**17,155,160**
Leverage ratio						
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.14%**	**8.56%**	**8.34%**	**9.28%**	**8.79%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.14%	8.56%	8.34%	9.28%	8.79%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%	3.00%	3.00%
27	**Applicable leverage buffers**	**6.14%**	**5.56%**	**5.34%**	**6.28%**	**5.79%**

9. Liquidity Risk Management

9.1. LIQA: Liquidity risk management

Liquidity risk is the risk that the Bank does not have sufficient liquidity to meet its financial obligations when they are due. Liquidity risk can materialize from the trading book (market liquidity risk) and banking book (funding liquidity risk) positions.

Liquidity risk can arise from several factors, such as:

- Failure to recognize or address changes in market conditions that effects the ability to liquidate assets quickly and with minimum loss in value;
- Concentration of facilities from one source due to insufficient diversification of types of funding between different products and types of customers;
- Maturity mismatch where long term assets being funded with short-term liabilities;
- External rating downgrade / adverse publicity may decrease alternate source of funds;
- Unexpected funding required for off-balance sheet items, such as payment to beneficiaries under letter of credit or guarantees; or
- Operating in different currencies which create a funding requirement and liquidity risk in each currency.

Liquidity Risk Management in the Bank is governed by the Liquidity Risk Management policy and the Risk Appetite Framework approved by the Bank's Board of Directors. The Board has delegated the responsibility of managing the liquidity risk of the Bank to the Board Risk Committee (BRC). BRC & Risk Committee (RC) review liquidity risk policy, liquidity risk appetite and tolerance limits proposed by Risk Management for the Bank in line with the Bank's objectives, strategy and overall risk appetite. RC reviews annually the risk policies to manage and monitor liquidity risk in the Bank and recommend them to the BRC for approval.

Risk Limits are recommended by the Asset and Liability Committee (ALCO). The Financial Market Department is primarily responsible for managing liquidity for the Bank. Risk Management and Finance teams are responsible for the measurement and monitoring of liquidity metrics stipulated in the policy and updating ALCO, RC and BRC on issues pertaining to liquidity risk.

As per the Central Bank of the UAE (CBUAE) regulations, the Bank is required to monitor and maintain the following ratios

- Eligible Liquid Asset (ELAR) Ratio
- Advanced to Stable Funding (ASF) Ratio

Additionally, as per the Bank's internal Risk Appetite Statement (RAS) is required to monitor Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). These metrics are complemented by internal metrics like, concentration and maturity mismatch analyses. Liquidity Risk policy includes the Contingency Funding Plan (CFP) which can be triggered in the event of a major liquidity problem, either due to bank specific or market wide / systematic triggers.

The Bank adopts a conservative strategy to manage its liquidity and funding positions, maintaining liquidity levels higher than the required regulatory ratios of ELAR and ASF.

Financial Market Department under the ALCO supervision and in coordination with Finance participates in the annual business planning / budgeting exercise, analyses overall funding requirements for the coming year(s) and provides funding strategy / fund raising plans.

The funding profile along with available tools are presented frequently to ALCO for seeking their inputs and opinion.

Liquidity risk mitigation techniques

The Bank has adopted a proactive approach in identifying and assessing, measuring and monitoring liquidity risks. Risk Management conducts regular and ad-hoc risk analyses (such as stress tests) and reports, findings and recommendations, to Bank ALCO.

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Following are some of the key controls and risk management strategies for Liquidity Risk:

- Comprehensive Risk Appetite Framework and Policy.
- Liquidity profile along with available avenues for raising liquidity and utilization.
- Maintaining a diverse, yet stable pool of potential funding.
- Maintaining sufficient liquidity buffers, pool of readily saleable and repo-eligible liquid assets.
- Regular monitoring of liquidity risk exposures.

A compressive framework along with reporting structure are in place and continuously updated and shared with relevant committee.

Stress Testing

The Risk Management function, in conjunction with the Chief Risk Officer and other Executive management, finalize the key risk scenarios which could have an impact on the Bank's liquidity. The scenarios will be reviewed on an ongoing basis and will be aligned with the Central Bank of the UAE guidelines. These scenarios will be the basis for carrying out detailed stress testing of the Bank's liquidity positions.

Potential scenarios may include:

- Bank's specific stress situation - a significant reputational risk leading to:
  - Two or Three notch downgrade of the institution's credit rating
  - Partial to severe loss of deposits
  - Loss of unsecured wholesale funding
  - Drying up of short-term liquidity from the inter-bank market

- Market wide Stress situation - a general deterioration of the business environment caused by one or more of the following:
  - Recession / global economic conditions (e.g. Euro situation) / local property market downturn / liquidity crisis / political unrest / Pandemic. Impact of these may include:
    - Increases in derivative collateral calls.
    - Substantial calls on contractual and non-contractual off-balance sheet exposures, including liquidity facilities.
    - Need to fund balance sheet growth arising from non-contractual obligations honoured in the interest of mitigating reputational risk.
    - Significant increase in use of committed credit lines.

Stress testing results are presented to ALCO at least on a quarterly basis and shall assess impact on various aspects of liquidity and on key regulatory ratios. Stress testing may be carried out on a more frequent basis if ALCO opines that market conditions warrant the need for more frequent stress testing.

Contingency funding plans

The Contingency Funding Plan (CFP) sets out the Bank's strategies for responding to a severe disruption in its liquidity or funding position due to internal or external events. The plan designates the CFP Team, which will be activated in the event of a liquidity crisis and establishes allocation of roles within the Team. The CFP includes a set of early warning triggers consisting of internal and external indicators, which are monitored by bank's ALCO and updated to the BRC. The plan includes identification, invocation and escalation procedures and details potential actions, available sources of liquidity, mitigations and specifies a communication plan, which could be implemented based on the severity of the liquidity crisis.

ALCO is the governing body for activation and monitoring of CFP. Once the CFP is activated, the same is required to be notified to the Board and the Central Bank of the UAE.

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9.2. LIQ1: Liquidity Coverage Ratio (LCR)

31 December 2022 — AED 000s

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		2,991,747
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**3,762,872**	**215,568**
3	Stable deposits	0	0
4	Less stable deposits	3,762,872	215,568
5	**Unsecured wholesale funding, of which:**	0	0
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	55,920	13,980
7	Non-operational deposits (all counterparties)	4,079,781	2,629,672
8	Unsecured debt	0	0
9	**Secured wholesale funding**		0
10	**Additional requirements, of which:**	**500,000**	**150,000**
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding of debt products	0	0
13	Credit and liquidity facilities	500,000	150,000
14	**Other contractual funding obligations**	**418,922**	**0**
15	**Other contingent funding obligations**	**215,318**	**10,766**
16	**TOTAL CASH OUTFLOWS**		**3,019,986**
Cash inflows			
17	**Secured lending (e.g. reverse repo)**	0	0
18	**Inflows from fully performing exposures**	840,095	420,047
19	**Other cash inflows**	75,026	75,026
20	**TOTAL CASH INFLOWS**	915,120	495,073
			Total adjusted value
21	**Total HQLA**		**2,991,747**
22	**Total net cash outflows**		**2,524,912**
23	**Liquidity coverage ratio (%)**		**118.49%**

31 December 2021 — AED 000s

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		3,077,935
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**1,880,150**	**117,367**
3	Stable deposits	0	0
4	Less stable deposits	1,880,150	117,367
5	**Unsecured wholesale funding, of which:**	**3,930,782**	**2,370,704**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	5,847	1,462
7	Non-operational deposits (all counterparties)	3,924,935	2,369,242
8	Unsecured debt	0	0
9	**Secured wholesale funding**		0
10	**Additional requirements, of which:**	**2,619,941**	**730,737**
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding of debt products	0	0
13	Credit and liquidity facilities	2,619,941	730,737
14	**Other contractual funding obligations**	**113,743**	**0**
15	**Other contingent funding obligations**	**365,508**	**18,275**
16	**TOTAL CASH OUTFLOWS**		**3,237,084**
Cash inflows			
17	**Secured lending (e.g. reverse repo)**	0	0
18	**Inflows from fully performing exposures**	234,665	120,922
19	**Other cash inflows**	-100,609	-100,609
20	**TOTAL CASH INFLOWS**	134,055	20,312
			Total adjusted value
21	**Total HQLA**		**3,077,935**
22	**Total net cash outflows**		**3,216,771**
23	**Liquidity coverage ratio (%)**		**95.68%**

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9.3. LIQ2: Net Stable Funding Ratio (NSFR)

31 December 2022 **AED 000s**

	(In currency amount)	Unweighted value by residual maturity				Weighted value
		No maturity*	<6 months	6 months to <1 year	≥1 year	
	Available stable funding (ASF) item					
1	Capital:	-	-	-	1,616,112	1,616,112
2	Regulatory capital	-	-	-	1,616,112	1,616,112
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	1,364,327	420,490	120,846	1,726,733
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	1,364,327	420,490	120,846	1,726,733
7	Wholesale funding:	-	8,652,521	1,262,809	46,677	3,028,927
8	Operational deposits	-	55,920	-	-	27,960
9	Other wholesale funding	-	8,596,601	1,262,809	46,677	3,000,967
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	-	-	-
12	NSFR derivative liabilities		-	-	-	
13	All other liabilities and equity not included in the above categories	-	-	-	-	-
14	**Total ASF**					**6,371,772**
	Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)					91,259
16	Deposits held at other financial institutions for operational purposes	-	296,376	-	-	148,188
17	Performing loans and securities:	-	225,911	170,005	3,031,862	3,150,751
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	225,911	170,005	3,031,862	3,150,751
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	2,507,911	339,465	-	1,423,688
21	With a risk weight of less than or equal to 35% under the standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	757,412	501,488
23	With a risk weight of less than or equal to 35% under the standardised approach for credit risk	-	-	-	711,761	462,645
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	542	461
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	3,697,495	-	1,019,016	1,632,020
27	Physical traded commodities, including gold	-				-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	1,616,112	1,616,112
29	NSFR derivative assets		-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted		-	-	120,846	1,726,733
31	All other assets not included in the above categories	-	-	-	1,019,016	1,019,016
32	Off-balance sheet items		3,697,495	-	-	613,004
33	**Total RSF**					**6,947,855**
34	**Net Stable Funding Ratio (%)**					**91.71%**

** Items to be reported in the "no maturity" time bucket does not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.*

9.4. ELAR: Eligible Liquid Assets Ratio

31 December 2022 **AED 000s**

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,698,145	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,698,145	1,698,145
1.3	UAE local governments publicly traded debt securities	600,888	
1.4	UAE Public sector publicly traded debt securities	176,445	
	Sub Total (1.3 to 1.4)	777,333	495,096
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**2,475,478**	**2,193,241**
2	Total liabilities		12,494,130
3	**Eligible Liquid Assets Ratio (ELAR)**		**17.55%**

31 December 2021 **AED 000s**

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,014,063	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	2,014,063	2,014,063
1.3	UAE local governments publicly traded debt securities	669,026	
1.4	UAE Public sector publicly traded debt securities	191,212	
	Sub Total (1.3 to 1.4)	860,238	574,860
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**2,874,301**	**2,588,923**
2	Total liabilities		13,571,925
3	**Eligible Liquid Assets Ratio (ELAR)**		**19.08%**

9.5. ASRR: Advances to Stable Resources Ratio

AED 000s

		Items	31 Dec 2022	31 Dec 2021
1		**Computation of Advances**		
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,238,223	7,716,960
	1.2	Lending to non-banking financial institutions	135,428	160,719
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	119,256	427,281
	1.4	Interbank Placements	498,734	538,561
	1.5	**Total Advances**	**7,991,641**	**8,843,521**
2		**Calculation of Net Stable Resources**		
	2.1	Total capital + general provisions	1,837,848	1,772,008
		Deduct:		
	2.1.1	Goodwill and other intangible assets	0	0
	2.1.2	Fixed Assets	365,606	460,008
	2.1.3	Funds allocated to branches abroad	0	0
	2.1.5	Unquoted Investments	76	76
	2.1.6	Investment in subsidiaries, associates and affiliates	0	0
	2.1.7	**Total deduction**	**365,682**	**460,084**
	2.2	**Net Free Capital Funds**	**1,472,166**	**1,311,924**
	2.3	**Other stable resources:**		
	2.3.1	Funds from the head office	0	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	185,175	418,665
	2.3.3	Refinancing of Housing Loans	0	0
	2.3.4	Borrowing from non-Banking Financial Institutions	2,527,886	2,177,575
	2.3.5	Customer Deposits	5,008,508	7,052,929
	2.3.6	Capital market funding / term borrowings maturing after 6 months from reporting date	0	0
	2.3.7	**Total other stable resources**	**7,721,569**	**9,649,169**
	2.4	**Total Stable Resources (2.2+2.3.7)**	**9,193,735**	**10,961,093**
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**86.92%**	**80.68%**

10. Credit Risk

10.1. CRA: General qualitative information about credit risk

Credit risk is the most materially significant and prevalent risk. Credit risk arise from the risk that the counterparty dealing with financial institutions will fail to honour / discharge their obligation causing bank to incur a financial loss. Credit risk underwriting, credit risk monitoring and control are jointly performed by Credit and Risk department.

In order to effectively monitor the credit risk, UAB has put in place the effective three lines mechanism (lines of defence). Adequate segregation of duties is followed, so as to ensure independence and avoid conflict of interest in pursuit of the Bank's business objectives and strategy. The Bank maintains high governance standards and credit principles, and adopt industry accepted practices to avoid undesirable effects of unclear roles and responsibilities. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly and approved by Board Credit committee or directly by the Board. The Risk Appetite Statement of the Bank which is approved by the Board reflects the Risk Strategy translated to the Business Strategy to manage growth and profile of the portfolio within acceptable tolerances.

Approval, disbursements, administration, rating classification for wholesale and retail portfolio are governed by the Bank's Credit Policies. Similarly, distressed assets policy governs the restructuring, recoveries and write-offs. The policies are drafted by risk management department and approved by the Board via the Board Risk Committee (BRC). The policy scope covers all the major products and line of business. The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries. The underwriting standards also define the minimum quality for new on-boarding of customers.

The policies, guidelines and processes outlined in the Credit Policy cover the entire spectrum of Bank's credit / assets portfolio. The policy applies to all Business Units / Departments which are engaged in the process of originating; maintaining, managing and / or reviewing the related credit portfolio(s).

Identifying the credit approval authorities and the scope of delegated authorities is governed by Delegation of Authority (DOA) which is approved by Board.

All Wholesale Banking and FI (Financial Institutions) credit proposals are independently reviewed by Credit Department and recommended to appropriate approval authority as defined in the DOA and Credit Policies of the Bank. For Retail, the Bank has in place necessary approval in line with Delegation of Authority. Board Credit Committee (BCC) and Board is ultimately responsible for approving the credit.

The underwriting and risk control functions are separated from each other. Risk management is responsible for credit administration, credit control and portfolio management post disbursement. These functions report to the Chief Risk Officer (CRO,), who reports independently to the BRC. Credit function is responsible for underwriting and engaging in credit review and is headed by the Chief Credit Officer (CCO) who reports to the CEO.

All Wholesale Banking Credit proposals submitted by Wholesale Banking Group are independently reviewed by Credit Department, before they are approved by the Head of Credit or, under the DOA to Credit Committee (comprising of CCO, CRO and CEO) and, if required, recommendation to the appropriate level committee Board Credit Committee (BCC) for final approval.

Compliance team ensures that guidelines are complied with, in the due diligence process for KYC and AML among others, such as dealing with PEPs and related parties or insider trading. This is done by following the strict guidelines in-place for all these aspects.

Only after final approval and fulfilment of documentation and conditions precedent, that Credit Administration Department makes the limits available for utilization by the customer. At this point, transactions can be executed by the customer through operations.

As part of Internal Audit plan, Internal Audit team acting as the assurance provider (third line of defence) reviews the Credit Approval Process and submits its findings to Management and Board Audit Committee for its review. Although they work very closely with Risk Management, Compliance and Internal Audit are both independent from Credit Department.

Comprehensive Portfolio reports include but are not limited to: Loans and Advances, Sukuk and investment book total size, trends, risk rating, sector, past due, restructured information and geographic concentrations, retail product-wise exposures and performance, large exposure concentrations, top watch list exposures, top NPL exposures, write-offs etc. This is presented to the Provisioning Committee (previously Special Asset Management Committee), Risk Committee and Board Risk Committee on a regular basis. The report highlights the status of the exposure, recoveries, if any, collaterals, provisions held against these accounts and the action plan to regularize/ recover the dues from these accounts.

At the Board level, the Board Risk Committee has oversight of Risk Management function.

10.2. CR1: Credit quality of assets

31 December 2022 **AED 000s**

		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	14,080,487	14,080,487	14,065,946	14,748,396	14,020,671	15,180,042
2	Debt securities	-	3,889,064	31,502	-	31,502	3,857,562
3	Off-balance sheet exposures	137,295	2,230,643	87,918	32,529	55,389	2,280,020
4	**Total**	**811,101**	**13,685,536**	**754,755**	**329,354**	**425,401**	**13,741,882**

31 December 2021 **AED 000s**

		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	1,034,082	7,879,660	700,392	544,709	260,116	8,213,350
2	Debt securities	-	3,531,764	25,502	-	25,502	3,506,262
3	Off-balance sheet exposures	208,211	2,455,823	87,947	47,033	40,914	2,576,087
4	**Total**	**1,346,234**	**13,867,739**	**918,274**	**591,742**	**326,532**	**14,295,699**

10.3. CR2: Changes in stock of defaulted loans and debt securities

31 December 2022 **AED 000s**

1	**Defaulted loans and debt securities at the end of the previous reporting period**	1,034,082
2	Loans and debt securities that have defaulted since the last reporting period	153,656
3	Returned to non-default status	(218,635)
4	Amounts written off	(197,322)
5	Other changes	(97,975)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**673,806**

31 December 2021

1	**Defaulted loans and debt securities at the end of the previous reporting period**	1,499,636
2	Loans and debt securities that have defaulted since the last reporting period	674,183
3	Returned to non-default status	-
4	Amounts written off	(934,430)
5	Other changes	(205,309)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**1,034,082**

Basel III – Pillar 3 Reporting

10.4. CRB: Additional disclosure related to the credit quality of assets

An account or relationship that hits 90 DPD is proposed for 'Default' grade with downgrade to relevant rating. All customers which are in default i.e. where the principal payment or accrued interest / profit is in arrears for a period of 90 days or more are generally classified as 'Default' and considered non-performing. Business or Credit may propose for downgrade (with immediate transfer to SAM) prior to 90 DPD in the event of a drastic deterioration in quality due to financial or non-financial reasons.

For retail portfolio, an account / relationship that hits 90 DPD is proposed for 'Default' grade.
The term 'classified asset' refers to an exposure rated Substandard, Doubtful or Loss.

AED 20,463,944 is overdue past 90 days and not classified as NPL. These exposures are classified as Stage 2 as they are fully secured by tangible collateral.

10.5 Impairment of Financial Assets

Financial assets that are measured at amortized cost are assessed for impairment at each reporting date. The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortized cost:

- Financing and investing assets and investment in Bonds/ Sukuks;
- Off-balance sheet instruments issued;
- Financial guarantee contracts issued;
- Due from banks and financial institutions;
- Balances with Central Banks; and
- Other financial assets (Receivable loan and advances).

Financial assets migrate through three stages based on the change in Credit Risk since initial recognition. No impairment loss is recognized on equity investments.

Expected Credit Loss impairment model

The Expected Credit Loss (ECL) model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit Risk since initial recognition, an amount equal to 12-months ECL will be recorded. The 12-months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12-months after the reporting date. The Bank calculates the 12-months ECL 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 effective interest rate;

- Under Stage 2, where there has been a significant increase in credit Risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective interest rate; and

- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective interest rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank 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 rate relevant to the exposure. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increase in credit risk and measurement of ECL.

Assessment of significant increase in Credit Risk

The assessment of a significant increase in Credit Risk is done on a relative basis. 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 assets at the reporting date to the corresponding Risk of default at origination or last review as per bank's IFRS 9 Policy, using key Risk indicators that are used in the Bank's existing Risk management processes. At each reporting date, the assessment of a change in Credit Risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The exposure will be moved from stage 1 to stage 2 if:

- The changes in rating notch beyond the Bank's established threshold related to the initial recognition or last review as per the Bank's IFRS 9 Policy;
- Restructuring and Rescheduling of account;
- An instrument is past due beyond 30 days; and
- An instrument's Credit Risk is considered higher based on qualitative criteria of the Bank (e.g. Abandoned Segment of Retail Portfolio).

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Bank's policy and CBUAE guideline (i.e. 12-months). Movement from stage 2 to stage 3 are based on whether the financial assets are Credit impaired at the reporting date.

Experienced Credit judgment

The Bank's ECL allowance methodology requires the use of experienced Credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements.

Provisioning subcommittee is the ultimate authority in downgrading the wholesale banking account to NPL. Wherever required; significant credit judgment is applied in case of transfer between Stage 1 and stage 2.

Expected life
When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to Credit Risk along with repayment till maturity.

Refinancing and restructuring policies

Refinancing: The replacement of an obligor's existing credit facilities from another Bank with new credit facilities from UAB or consolidation of an obligor's existing credit facilities within UAB provided such facilities are not in default or likely to lead to a default.

Restructuring: The material revision or alteration of the terms and conditions of an obligor's existing credit facilities which may include reduced or deferred repayments, extended terms, reduced interest / profit rates or interest / profit roll-up or forgiveness, relaxation of covenants or terms and conditions, or relaxed collateral / security requirements. In such circumstances, failure to agree to such a restructuring is likely to lead to a credit event in the immediate or near term.

The definitions are updated in the relevant policies of the bank aligned with guidelines from CBUAE.

- The Bank may consider the refinancing of an existing credit facility from another Bank where the obligor is not in financial distress.
- Proposals for refinancing of existing credit facilities which meet the above "refinancing" definition should follow the existing credit approval process for new and existing facilities.
- If an account exhibits early warning signs (assessed based on Bank's internal early warning indicators) that may lead to potential default event, the Bank places the account on watch list for early remediation / action. The relevant approving authority shall review credit facilities exhibiting indicators which may lead to a credit event and decide whether a downgrade and the restructuring of the facility are required.
- Restructuring of existing credit facilities is usually contemplated by the Bank to avoid an impending default, address an existing payment default, or rehabilitate delinquent debt and is usually considered as a better alternative than accelerating towards legal redress.

Existing credit facilities which are being considered for restructuring may have one or more of the following features:

- Interest / profit payments are more than 90 days past due
- Principal payments are more than 90 days past due
- The obligor is in serious financial difficulties
- Sources of repayment or ability to repay or service the debt are uncertain
- The value or recoverability of supporting security is in doubt
- The principal is at serious risk of substantial or full capital loss
- A previous rescheduling has been unsuccessful
- In any other circumstance where CCO / CRO deems appropriate

The terms and conditions of the restructured credit facilities may have one or more of the following characteristics:

- Reduced cash pay interest / profit rate
- Reduced fees
- Interest / profit waiver (non-recovery of accrued interest / profit)
- Reduced or rescheduled principal payments
- Extended tenor
- Haircut on principal repayment
- Weakened financial covenants and / or conditions
- A mechanism to provide the Bank with additional reward upon a successful outcome e.g. success fees or non-cash pay interest / profit – PIK (payment in kind)
- Significantly reduced LTV due to a reduction in the value of the collateral

Overall credit assessment of the obligor's credit status and ability to repay will continue to be a matter of judgment and this will inform both the nature of the restructured facilities and the subsequent risk rating attributable to the obligor both before and after the revised facilities being operative Accounts will be closely monitored to assess source of repayment and ability to repay. Manual override of rating may be applied under revised facility structure until satisfactory repayment of obligation is met.

When considering restructuring proposals of existing credit facilities, particular emphasis should be given to the following areas when assessing the financial position of the obligor, the obligor's ability to repay, and the overall credit risk:

- Current and future financial performance, understanding assumptions and key sensitivities.
- Visibility and sustainability of current and future cash flows.
- Availability and access to free cash flow.
- Full details of funded and unfunded facilities from other lenders, repayment profiles and any personal or corporate guarantees.
- Details of trade or other creditors including details of post-dated cheques issued.
- Full details of both current and fixed assets together with details of security to other lenders.
- Current assessment of the value and recoverability of existing collateral and potential for value appreciation or deterioration over time. If the information made available is either incomplete, insufficiently detailed or is not robust, consideration should be given to involving external advisors to support the obligor and obtain an independent assessment of the situation to better inform the Bank.

Refinancing, as defined above, is subject to the normal credit process and the obligor's risk rating will be assessed based upon the criteria as set out in the policy.

Where credit facilities have been restructured and fall within "Non-performing credit facilities" as defined by CB UAE's instructions, the credit is considered to be "Substandard."

Rescheduling & restructuring may involve extending the payment arrangements and the agreement of revised terms and conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Rescheduled facilities are those facilities with renegotiated terms that do not result in NPV loss to the Bank as compared to the original facility.

Restructured facilities are those facilities with renegotiated terms that result in NPV loss to the Bank as compared to the original facility. This NPV loss can occur due to various reasons, such as a haircut of the principal, reduction in the interest / profit rate, extension in the tenor or such other consequential terms and conditions.

Basel III – Pillar 3 Reporting

Breakdown of credit exposures by geographical areas (country of residence)

31 December 2022 AED 000s

Country	FY 2022	
	On Balance sheet Assets	Contingent Assets and Unused Commitments
United Arab Emirates	11,961,011	4,580,897
Other Middle East countries	1,106,209	11,772
Europe	192,180	14,748
USA	237,585	-
Rest of the world	804,184	56,142
TOTAL	**14,301,169**	**4,663,559**

Breakdown of loan & advances (funded exposures) by geographical areas (country of residence)

31 December 2022 AED 000s

Country	Wholesale Banking	Retail Banking	Total
United Arab Emirates	6,349,520	1,341,125	7,690,645
Bahrain	32,790	-	32,790
Bangladesh	47,743	-	47,743
Burundi	24,380	-	24,380
China	-	-	-
Cyprus	-	-	-
Egypt	140,875	-	140,875
France	-	-	-
Germany	-	-	-
Jordan	75,286	-	75,286
Mauritius	55,088	-	55,088
Nigeria	56,297	-	56,297
Oman	50,199	-	50,199
Qatar	-	-	-
Saudi Arabia	999	-	999
Switzerland	-	-	-
Turkey	46,972	-	46,972
Vietnam	18,363	-	18,363
Total	**6,898,510**	**1,341,125**	**8,239,635**

Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances, broken down by industry

31 December 2022 AED 000s

Sector wise impaired loans		
Economic Sector	**Total**	**Provision**
Government and public sector	-	-
Trade	104,486	78,857
Personal loans (retail and business)	335,144	92,542
Manufacturing	143,158	75,265
Construction	3,081	619
Services	8,919	2,308
Financial institutions	79,019	47,234
Transport and communication	-	-
Agriculture	-	-
Others	-	-
Total	**673,806**	**296,825**

Ageing analysis of accounting past-due but not impaired exposures

AED 000s

FY 2022	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances	**48,061**	**492**	**245**	**3,710**	**52,508**
FY 2021	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances	**42,396**	**8,144**	**710**	**125**	**51,375**

Breakdown of restructured exposures (net) between impaired and not impaired exposures

AED 000s

31 December 2022			31 December 2021		
Restructured Exposures	Impaired	Not impaired	Restructured Exposures	Impaired	Not impaired
576,241	335,749	240,492	624,847	467,153	157,694

10.6. CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

Financial assets and liabilities are offset and reported net in the financial position only when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle either on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

10.7. Credit – Related Commitments Risks

The products offered by the Bank include Letter of Guarantees and Letters of Credit to beneficiaries, on behalf of the obligor. In such product offering, Bank commits to pay the beneficiary in an event of default of obligor. This exposes the Bank to a similar Risk to financing and investing assets and these are mitigated by the same control processes and policies.

Security is defined as all cash or near cash items, such as cash margin, fixed deposits under lien, unconditional financial guarantees from acceptable banks, negotiable instruments like bankers' check, demand draft, bills of exchange issued by prime banks and certain government securities / bonds.

Collateral means additional security, which secures the bank's exposure in case the primary source of repayment and liquidity of security stated above is not sufficient to settle in full the bank's exposure.

Example of such collaterals are mortgage of property, pledge of blue-chip quoted and listed company shares, mortgage of plant, machinery and vehicles etc. Credit policy defines the acceptable practice for valuation and frequency based on the type of asset. A list of approved valuation firms is maintained to conduct such valuation.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors, which is achieved through Risk Appetite thresholds, Target Market Criteria and Risk Acceptance Criteria.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers, customer groups and economic segments. Credit risk is also mitigated by securing the exposure using tangible collaterals and guarantees.

10.8. CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The Standardised Approach for computation of Credit RWA, as described in the CBUAE issued Standards re Capital Adequacy of Banks in the UAE, allows the use of risk assessments by External Credit Assessment Institutions (ECAIs) to determine the risk weights applied to externally rated counterparties. The Bank uses risk assessments by CBUAE approved ECAIs - Moody's Investors Service, Standard & Poor's and Fitch Ratings - to determine the risk weights for externally rated counterparties within the following asset classes: Sovereigns, PSEs, MDBs, Banks, Securities Firms and Corporates.

10.9. CR3: Credit risk mitigation techniques – overview

31 December 2022 — **AED 000s**

		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	8,239,635	1,857,105	759,597	0	0	0	0
2	Debt securities	3,889,064	0	0	0	0	0	0
3	**Total**	**12,128,699**	**1,857,105**	**759,597**	**0**	**0**	**0**	**0**
4	Of which defaulted	673,806	33,531	548	0	0	0	0

10.10. CR4: Standardized approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

31 December 2022 — **AED 000s**

		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	3,906,351	64,421	3,906,351	3,082	915,116	8.9%
2	Public Sector Entities	1,593,588	80,000	1,593,588	0	864,648	8.4%
3	Multilateral development banks	99,039	0	99,039	0	49,520	0.5%
4	Banks	1,090,719	382,627	1,090,719	376,751	812,429	7.9%
5	Securities firms	0	613	0	613	613	0.0%
6	Corporates	4,607,426	4,314,141	3,857,654	2,350,889	5,100,269	49.4%
7	Regulatory retail portfolios	515,378	78,415	511,870	6	400,631	3.9%
8	Secured by residential property	760,376	0	758,956	0	281,518	2.7%
9	Secured by commercial real estate	739,899	45,842	725,510	10,110	725,620	7.0%
10	Equity Investment in Funds (EIF)	0	0	0	0	552,984	5.4%
11	Past-due loans	748,574	138,893	385,578	84,051	11,145	0.1%
12	Higher-risk categories	24,495	0	7,430	0	617,349	6.0%
13	Other assets	733,989	1,048	724,947	702	0	0.0%
14	**Total**	**14,819,834**	**5,106,000**	**13,661,642**	**2,826,205**	**10,331,841**	**100.0%**

10.11. CR5: Standardized approach - exposures by asset classes and risk weights

31 December 2022 — **AED 000s**

	Risk Weight / Asset Class	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	2,857,438	171,099	0	0	0	880,896	0	0	3,909,433
2	Public Sector Entities	0	657,147	0	406,445	0	529,996	0	0	1,593,588
3	Multilateral development banks	0	0	0	99,039	0	0	0	0	99,039
4	Banks	0	377,218	0	706,534	0	383,716	1	0	1,467,470
5	Securities firms	0	0	0	0	0	613	0	0	613
6	Corporates	1,069,833	0	0	0	0	4,882,437	0	256,273	6,208,543
7	Regulatory retail portfolios	6	0	0	0	444,957	66,913	0	0	511,877
8	Secured by residential property	0	0	727,127	0	19,219	12,609	0	0	758,956
9	Secured by commercial real estate	10,000	0	0	0	0	725,620	0	0	735,620
10	Equity Investment in Funds (EIF)	0	0	0	0	0	0	0	0	0
11	Past-due loans	9,774	0	0	0	0	273,598	186,257	0	469,629
12	Higher-risk categories	0	0	0	0	0	0	7,430	0	7,430
13	Other assets	108,572	0	0	0	0	616,535	542	0	725,650
14	**Total**	**4,055,623**	**1,205,464**	**727,127**	**1,212,019**	**464,176**	**8,372,934**	**194,231**	**256,273**	**16,487,847**

Basel III – Pillar 3 Reporting

11. Counterparty Credit Risk

Counterparty credit risk that the counterparty to a transaction could default before the final settlement of the transaction in cases where there is a bilateral risk of loss. The bilateral risk of loss is the key concept on which counterparty risk is calculated. Broad definition of counterparty credit risk includes wrong way risk. The Bank calculates the counterparty credit risk charge for all exposures that give risk to counterparty credit risk. The categories of transaction that give risk to counterparty credit risk are:

- Over the counter (OTC) derivatives
- Exchange traded derivative
- Long settlement transaction
- Securities financing transaction

The transactions listed above generally exhibit the following abstract characteristics:

- The transactions generate a current exposure or market value
- The transactions have an associated random future market value based on market variable

11.1. CCRA: Qualitative disclosure related to counterparty credit risk

This disclosure is not applicable as the Bank does not have any exposures to CCP.

11.2. CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

31 December 2022 **AED 000s**

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	84,807	231,222		1.4	442,440	297,732
2				0	0	0	0
3	Simple Approach for credit risk mitigation (for SFTs)					0	0
4	Comprehensive Approach for credit risk mitigation (for SFTs)					0	0
5	**VaR for SFTs**					0	0
6	**Total**						**297,732**

11.3. CCR3: Standardized approach - CCR exposures by regulatory portfolio and risk weights

31 December 2022 **AED 000s**

Regulatory Portfolio / Risk Weight	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	3,082	0	0	0	0	0	0	3,082
Public Sector Entities (PSEs)	0	0	0	0	0	0	0	0
Multilateral development banks (MDBs)	0	0	0	0	0	0	0	0
Banks	0	14,994	259,263	0	5,622	0	0	279,878
Securities firms	0	0	0	0	613	0	0	613
Corporates	0	0	0	0	158,867	0	0	158,867
Regulatory retail portfolios	0	0	0	0	0	0	0	0
Secured by residential property	0	0	0	0	0	0	0	0
Secured by commercial real estate	0	0	0	0	0	0	0	0
Equity Investment in Funds (EIF)	0	0	0	0	0	0	0	0
Past-due loans	0	0	0	0	0	0	0	0
Higher-risk categories	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0	0
Total	**3,082**	**14,994**	**259,263**	**0**	**165,101**	**0**	**0**	**442,440**

11.4. CCR5: Composition of collateral for CCR exposure

31 December 2022 **AED 000s**

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash - domestic currency	0	0	0	0	0	0
Cash - other currencies	0	0	0	0	0	0
Domestic sovereign debt	0	0	0	0	0	0
Government agency debt	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	0
Equity securities	0	0	0	0	0	0
Other collateral	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**

11.5. CCR6: Credit derivative exposures

This disclosure is not applicable as the Bank does not have any exposure to credit derivatives.

11.6. CCR8: Exposures to central counterparties

This disclosure is not applicable as the Bank does not have any exposure to central counterparties.

12. Securitization

This disclosure is not applicable as the Bank does not hold any securitisation positions.

13. Market Risk

13.1. MRA: General qualitative disclosure requirements related to market risk

Market Risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as foreign exchange rates, interest / profit rates, credit spreads, equity and sukuk / bond market prices etc. The Bank, keeping in view the size and scale, doesn't encourage proprietary trading activities. The Bank has a low appetite for market risk exposure(s) guided by approved tolerances. The Bank provides hedging solutions to its customers to mitigate their market risk on their underlying commitments and not for any speculative purposes. The Bank allows limited products for hedging purposes. These positions are monitored and reported on a regular basis. The Bank squares off its customer deals with the interbank counterparties in order to not carry any significant market risk on these positions.

Market Risk is governed by the Enterprise Risk Management Framework, Risk Appetite Framework and the Market Risk Policy approved by the Bank's Board of Directors. The Board has delegated the responsibility of managing Market risk of the Bank to the Board Risk Committee (BRC). BRC & Risk Management Committee (RC) reviews Market risk policy, Market risk appetite and tolerance limits proposed by Risk Management for the Bank in line with the Bank's objectives, strategy and overall risk appetite. ERM framework and the Market Risk Policy are reviewed annually and changes / enhancements if any are approved by the RC and BRC. Asset Liability Committee (ALCO) monitors the market risk positions, Head of ERM will report related management information to ALCO for necessary discussion, resolutions and decisions. The Market Risk function folds under Enterprise Risk Management Unit under Risk Management and reports to the Chief Risk Officer. MRM department reviews the framework periodically and ensure that it remains aligned with changing market conditions and updates in regulatory guidelines that impact operations of the Bank.

The Bank calculates market risk capital requirements using Basel III Standardized Approach. As the Bank was not holding any trading positions as of 31 December 2022, market risk capital charge was applicable only for foreign exchange risk.

Following are the key reports used in Market Risk:

- Limit Monitoring across product, asset class
- Market Intelligence and alerts reporting
- Market to Market and valuation report
- Hedge Effectiveness Reports (IRS Deals) & Hedge Ratio calculation
- Monitoring Country Limit and CDS / Rating
- DV01 Balance and Trading Portfolio
- Interest Rate mismatch report
- NII, EVE Report
- Stress Testing

13.2. MR1: Market risk under the Standardized Approach (SA)

		RWA
1	General Interest rate risk (General and Specific)	2,940
2	Equity risk (General and Specific)	0
3	Foreign exchange risk	2,940
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus method	0
7	**Scenario approach**	
8	Securitisation	0
9	**Total**	**2,940**

14. Interest Rate Risk in Banking Book

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. 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 instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Financial Market in its day-to-day monitoring activities.

Economic Value of Equity (EVE)

Measurement of the Bank's IRRBB through Economic Value of Equity:

Interest rate sensitive banking book positions are distributed based on repricing cash flows. Commercial margins are not included in the cash flows and discounting curves.

ΔEVE is determined for each of the following six Basel prescribed interest rate shock scenarios for each significant currency.

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

Add-ons for changes in the value of options are added to the delta EVE. IRRBB ΔEVE is computed as the maximum of worst ΔEVE across all the six Basel prescribed stress scenarios.

Earnings at Risk (EaR)

Measurement of the Bank's IRRBB through earnings-based measure, ΔNII, is similar to ΔEVE measure with the exception that earnings based measures are limited to a shorter time horizon.

Interest rate sensitive banking book positions are distributed based on repricing cash flows. All notional repricing cash flows are distributed in the respective time buckets. All notional repricing cash flows within a given time bucket are netted to form a single long or short position. For each time bucket, ΔNII is computed for each stress scenario and currency as product of long or short position and the assumed change in interest rate.

Banking book positions without a fixed maturity are distributed with various maturity profiles. Early withdrawal risk on term deposits and prepayment risk on loans with fixed rate in the banking book are not considered to be material. interest rate risk in the banking book is managed using interest rate swaps to some extent.

Key assumptions used in IRRBB computations

- The Bank has exposure to multiple currencies. For IRRBB calculation, the exposures have been grouped as "AED and Others" and USD", based on materiality.
- Overdrafts have been bucketed as per behavioural assumptions for NMDs as defined in the liquidity policy. In line with regulatory cap of 60% for exposures in maturity bucket of greater than 1 year, any excess has been reallocated proportionately as per weights to the cash flow bucket of less than 1 year.
- NMDs have been bucketed in line with regulatory cap of 60% for exposures in maturity buckets of greater than 1 year. Any excess has been reallocated proportionately as per weights to the cash flow buckets of less than 1 year.

Average repricing maturity assigned to NMDs: 2.8 years

Longest repricing maturity assigned to NMDs: 4 years

14.1. IRRBB1: Quantitative information on IRRBB

Impact of shock on interest rate is as follows:

AED 000s

	31 Dec 2022	31 Dec 2022	31 Dec 2021	31 Dec 2021
	ΔEVE	ΔNII	ΔEVE	ΔNII
Parallel up	(50,941)	(40,404)	(37,530)	155,184
Parallel down	78,403	40,404	89,931	(155,184)
Steepener	(12,259)		(471)	
Flattener	824		(75,134)	
Short rate up	19,723		(22,764)	
Short rate down	24,709		-	
Maximum	**78,403**		**(75,134)**	
Tier 1 Capital	**1,486,444**		**1,507,681**	

15. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, it includes legal risk, but excluding strategic and reputational risk.

Operational risk is inherent in all divisions of the Bank, including all banking products, processes, sub-processes and systems. Therefore, the effective management of operational risk is a fundamental element of the Bank's risk management program.

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

The Bank has an established Operational Risk framework consisting of policies and procedures to ensure identification, assessment, reporting & monitoring of controls towards management of operational risk bank wide. Where appropriate, risk transfer in the form of insurance has also been looked into as part of risk mitigation. Ongoing management of operational risk is reviewed and monitored by dedicated Operational Risk Champions across the bank with coordination from Operational Risk Management (ORM) department. The Operational Risk Management unit continues to lead the effort to embed the Operational Risk Management Framework (ORMF) across the Bank. The ORMF (RCSA, KRI, Control Testing and Incident reporting) is currently being embedded into bank's people, process and systems which enables an end-to-end view of non-financial risks, facilitating focus on the risks that are critical to achieving the Bank's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assisting management focus.

Risk identification, monitoring and reporting

The risk identification and assessment process involves risk assessment of all new activities which has impact on process, system and people, which may include products, processes, systems, third party engagements or strategic alliances etc. Risk assessment methodology employs a more detailed and objective assessment of operational risk exposures for material risks identified through the risk identification processes, which enables us to prioritize risks and related mitigating actions. A robust manual and system controls that are commensurate with the level of operational risks to be managed are in place. Review of existing controls through testing process helps the bank to identify gaps proactively and facilitate timely remedial action. The timely reporting of issues and Risk events is a critical component of the Bank's operational risk management process. Monitoring and reporting processes are in place for periodic status update of key operational risks. The reports are submitted to the Board (as part of CRO update) and also to Risk Committee members (RC) for information and resolution.

Fraud Risk Management

The Bank has adopted a 'zero tolerance' policy towards fraud, bribery and corruption and as such will seek to take disciplinary and / or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management and Investigations (FRM) unit manages the fraud risk and investigations for the Bank. The unit monitors transactions originating from Cards, POS and other Digital channels, either internally or through outsourcing arrangements. The unit is also responsible for managing Incidents and conducting investigations across the Bank and maintenance of Operational Loss Database.

Proactive and preventive approach adopted for fraud-risk management is a key success factor in combating the increasing frauds perpetrated against financial institutions in UAE and internationally keeping in line with the fraud trends in the market. The Bank continued to strengthen its anti-fraud measures by centralizing its fraud management capabilities, increased fraud awareness to the employees and customers, as well as initiating various projects to drive fraud prevention through use of technology and systems.

Business Continuity Management

The safety of employees and the ability to recover from a crisis in a timely manner are of utmost importance to the Bank. To appropriately handle crisis situations, emergency response procedures and business continuity plans (BCPs) have been prepared.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, call tree testing, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations with minimal disruption to business as usual activities.

Capital Risk Management

For operational risk measurement and determination of the amount that the bank needs to hold to absorb potential operational losses, bank follows the Basic Indicator approach under Basel III.

16. Remuneration Policy

UAB aims to attract, retain and reward talented individuals by offering compensation that is competitive within the industry, motivates them to achieve the Bank's goals, and encourages high level of performance. To achieve these objectives and have an effective governance of our remuneration policies, the remuneration implementation is overseen by the Board Governance & Remuneration Committee (GRC).

Board GRC

The Board Governance & Remuneration Committee (GRC) provides oversight to the bank's Human Capital policies and is the main body that oversees remuneration for the Bank, on behalf of the Board of Directors. The GRC has an independent oversight and control to review and approve HCM policies endorsed by the Bank's Human Capital Committee (HCC), Management Committee (ManCom) or the Chief Executive Officer (CEO).

Senior Managers and Material Risk Takers (MRTs)

UAB have identified the CEO and his Direct Reports as senior managers of the Bank responsible for the sound and prudent management of UAB.

In line with the CBUAE Corporate Governance Regulations and Corporate Governance Standards published in September 2019, UAB is currently in a process of defining and identifying the Material Risk Takers based on appropriate quantitative and qualitative criteria. MRTs will be communicated of their MRT status by mid-2023.

Key elements of the Remuneration Policy

UAB's compensation approach is to provide a Total Reward offering to employees based on a fair, transparent and performance driven culture ensuring that our compensation practices are aligned with our business strategy, risk management objectives and long-term sustainability. Our principles are:

- Pay for performance, based on balanced risk taking and good business conduct as measured on a performance appraisal rating process
- Attract, retain top performers, talent and business critical resources and motivate all employees to achieve results with integrity and fairness
- Monitor compensation trends and practices in the relevant markets
- Comply with Corporate Governance guidelines and regulatory requirements

The compensation in UAB is based on the role (assessed through Job Evaluation), the individual performance and the employee's potential and capabilities.

Control functions such as Risk, Compliance and Audit are remunerated independently from the Bank's performance. In these control functions, the Fixed Pay to Variable Pay ratio is higher than other functions.

Key compensation elements

(a) Fixed Pay

UAB aim to attract and retain employees by offering a fixed salary that is competitive with the market. Fixed pay shall be determined based on job responsibilities, experience required and market benchmark.

(b) Benefits

Out of salary benefits are provided to employees in accordance with market benchmarks. This includes, but not limited to, UAE and GCC pension, medical insurance, life insurance and other cash allowances related to the nature of the role. These benefits will be reviewed regularly to ensure they remain competitive with market rates.

(c) Variable Pay

Employees may be eligible for variable pay in the form of performance-based bonus or incentives. The amount of variable pay shall be based on the employee, function and Bank's performances and aligned with the Bank's risk management objectives.

16.1. REM1: Remuneration awarded during the financial year

AED 000s

	Remuneration Amount		31 Dec 2022 Senior Management	31 Dec 2022 Other Material Risk-takers	31 Dec 2021 Senior Management	31 Dec 2021 Other Material Risk-takers
1	Fixed Remuneration	Number of employees	14	0	14	0
2		Total fixed remuneration (3 + 5 + 7)	17,778	0	16,154	0
3		Of which: cash-based	17,778	0	16,154	0
4		Of which: deferred	0	0	0	0
5		Of which: shares or other share-linked instruments	0	0	0	0
6		Of which: deferred	0	0	0	0
7		Of which: other forms	0	0	0	0
8		Of which: deferred	0	0	0	0
9	Variable Remuneration	Number of employees	6	0	0	0
10		Total variable remuneration (11 + 13 + 15)	3,740	0	0	0
11		Of which: cash-based	3,740	0	0	0
12		Of which: deferred	0	0	0	0
13		Of which: shares or other share-linked instruments	0	0	0	0
14		Of which: deferred	0	0	0	0
15		Of which: other forms	0	0	0	0
16		Of which: deferred	0	0	0	0
17	**Total Remuneration (2+10)**		**21,518**	**0**	**16,154**	**0**

16.2. REM2: Special payments

31 December 2022 AED 000s

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	0	0	2	1,872	10	4,900
Other material risk-takers	0	0	0	0	0	0

31 December 2021

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	0	0	0	0	0	0
Other material risk-takers	0	0	0	0	0	0

Severance payments includes payments towards retirements.

Basel III – Pillar 3 Reporting

16.3. REM3: Deferred payments

31 December 2022 AED 000s

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and / or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Other material risk-takers	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Total	0	0	0	0	0

31 December 2021 AED 000s

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and / or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Other material risk-takers	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Total	0	0	0	0	0

Our success relies on the loyalty of our customers. We will continue to deliver innovative offerings that meet the desires of our customers and reflect our commitment to the UAE community.

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إنَّ نجاحنا يعتمد على ولاء عملائنا، الذين أشكرهم شخصيًا على ثقتهم ودعمهم المستمرّين. ونعدهم بمواصلة تقديم العروض المبتكرة التي تلبّي رغبات عملائنا وتعكس التزامنا تجاه المجتمع الإماراتي، في الوقت الذي نحقّق فيه القيمة العظمى لمساهمينا وأصحاب المصلحة بشكل عام.

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