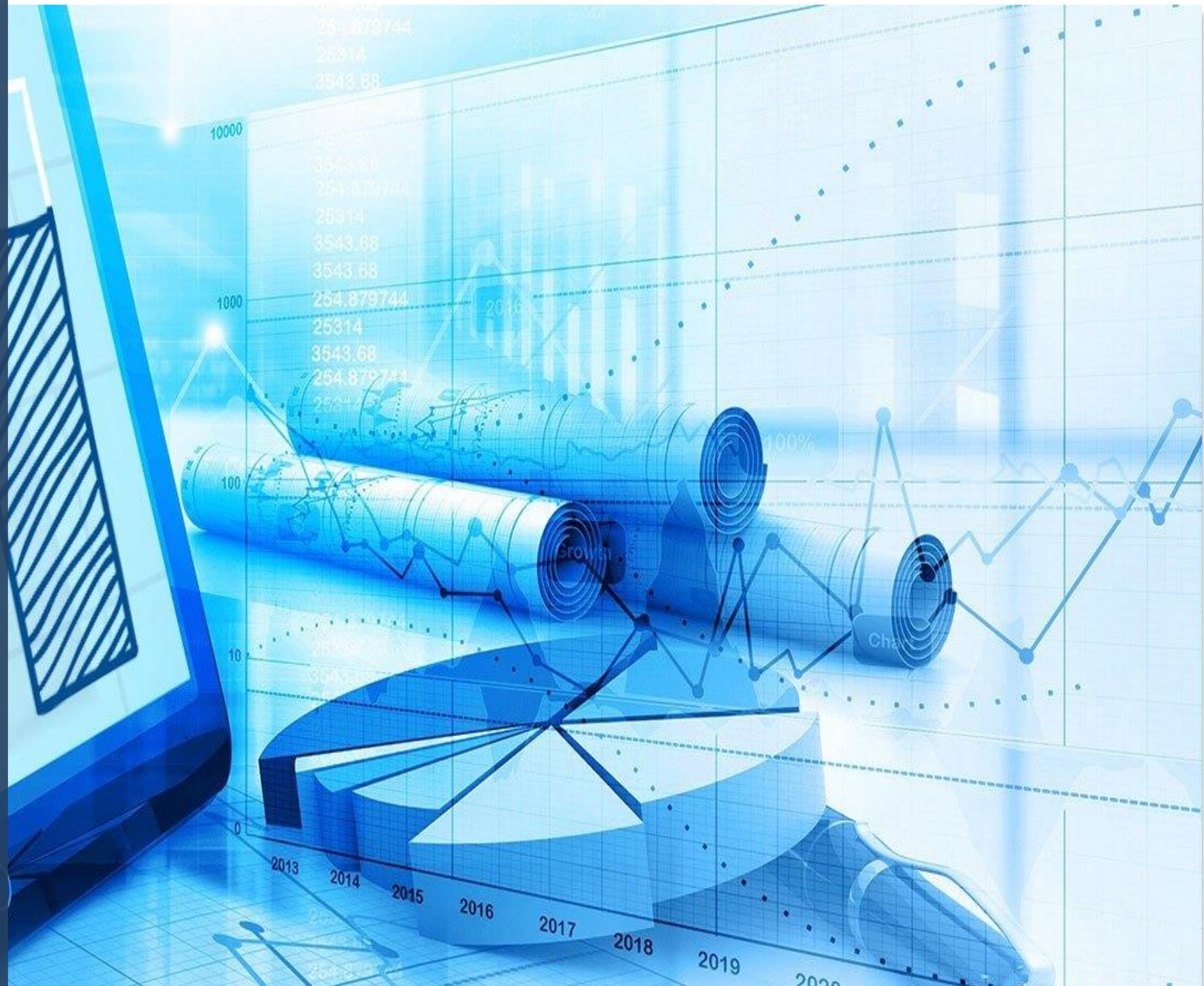
# ARAB BANK PLC

## RISK MANAGEMENT & PILLAR III DISCLOSURES

## FOR THE PERIOD ENDED
## 31 March 2024



www.arabbank.ae

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## OVERVIEW

### Introduction

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess the organization's key prudential metrics, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Notice No. CBUAE/BSD/N/2020/4980, and are mainly based on reviewed/audited financial statements as at 31 March 2024 with comparative figures for 31 December 2023 where relevant. Some of the comparative figure disclosures have been represented to comply with the latest published standards.

### Objective

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

### Scope

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

The Bank operates within the UAE through the following branches:

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

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

### Regulatory Changes

a.) <u>IFRS9 Transitional adjustments</u>

The IFRS9 partial add-back transitional adjustments was introduced as a 'prudential filter' to smooth the impact of ECL accounting on capital by providing relief to any increases in Stage 1 and 2 Expected Credit Losses (ECL), based on a 5-year transitional period as follows:

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

b.) IBOR reform

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 these market-wide initiatives. 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 its 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 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.

## Bank Risk Management Approach

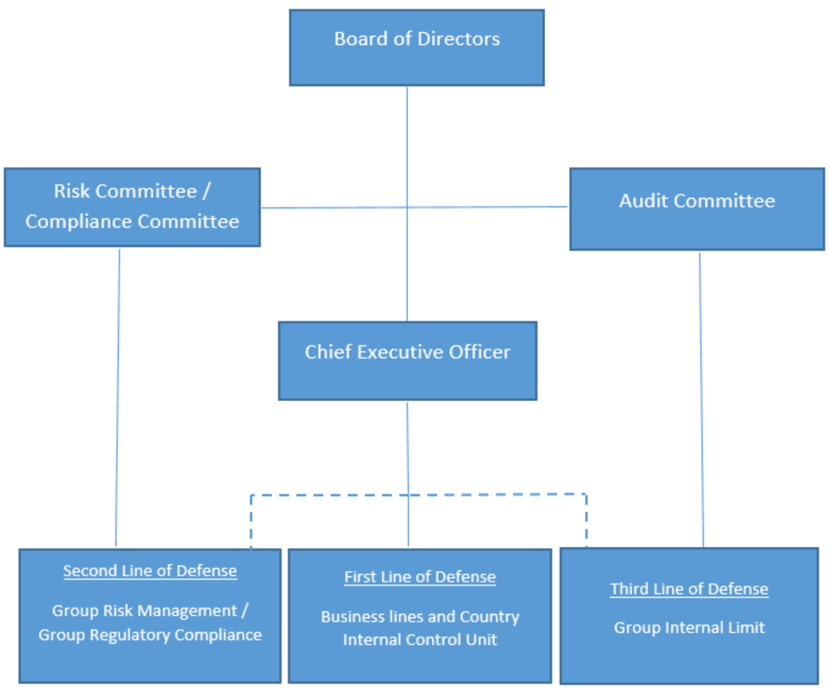
Arab Bank addresses the challenges of banking risks comprehensively through an Enterprise-Wide Risk Management Framework based on leading practices, and supported by a Board and Executive level risk governance structure consisting of the following committees and three independent levels of oversight:

**Committees:**

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

The internal control process consists of three levels as follows:

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



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

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

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

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

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

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

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

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

## RISK MANAGEMENT

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

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

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

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

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

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

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

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

H. The Risk Management Department shall carry out the following tasks, as a minimum:

- Implementing the Risk Management strategy in addition to developing policies and procedures to manage all types of risks.
- Prepare risk management policies that covers all Bank's operations, setting clear and limits for each type of risk. Ensure that all employees, benchmarks according to their administrative level, are fully informed and aware of this/ these policies, while reviewing them periodically. The Risk Management policies shall be approved by the Board.
- Prepare a comprehensive document covering all Bank's acceptable risks and approving it by the board.
- Reviewing the Risk Management framework before being approved by the Board.
- Developing the internal Capital Adequacy Assessment Process document (ICAAP), review it periodically and ensure its implementation. whereby the document should be comprehensive, capable of identifying all risks considering the Bank's strategic plan and capital plan. The document should be approved by the Board.
- Develop methodologies to identify, measure, analyze, assess and monitor all types of risks.
- Verify the compatibility of the risk measurement methodologies with the applied management information systems.
- Developing a business continuity plan and approving it by the Board, provided that it is checked periodically.
- Ensure, prior to launching/ introducing any new (product/ service/ process/ system), that it aligns with the Bank's strategy, and that all risks involved, including operational/ information security/ cyber

risks, have been identified. New controls, procedures or amendments should be made in accordance with the Bank's acceptable risk limits.

- Provide necessary information about the Bank risks for use in the Bank's disclosures.
- Submitting recommendations to the Risk Management Committee on risk exposures and any exception to the Risk Management Policy.
- Monitor the compliance of the executive departments at the Bank with the levels of risk acceptable.
- Reporting to the Board of Directors, through the Risk Management Committee, and with a copy to the Chief Executive Officer, on the actual risk exposures for all the Bank's operations compared to the accepted risk document, and to follow-up on the measures taken to remedy any negative deviations. The executive management has the right to request special reports, as needed, from the Bank's risk management department.

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

- The Credit Risk Management Department is responsible for the centralized reporting of credit risk, Credit policy review, and the internal risk rating systems. These rating systems are designed to improve "probability of default" measurements and lead to the implementation of the Bank's risk adjusted return-on-capital model. The Credit Risk Management Department is responsible for the centralized reporting of credit risk, credit policy review, the International Financial Reporting Standard (IFRS9) Impairment Methodology, and the internal risk rating systems, which are designed to enhance "probability of default" measurement. The department is also responsible for the implementation of Central Banks and Basel Committee requirements that are related to Credit Risk and any amendments thereof.

- Business Risk Review Department, as part of the Credit Risk Management, conducts comprehensive individual, portfolio and business risk reviews to ensure that the Bank's various portfolios are aligned to their economic perspective, business strategy and target market and recommends corrective action, if necessary. The department also assesses the quality of the loan portfolio, the sound implementation of the lending policies and processes and the capabilities of the credit staff. Supplemental targeted reviews are undertaken based on market conditions, the size and sectoral nature of portfolios. In specific instances, such reviews are supported by tailored stress testing scenarios.

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

- The Operational Risk Management Department, which also covers strategic and reputation risks, leads the implementation of a Bank-wide operational risk management framework, as part of the overall strengthening and continuous improvement of the internal control systems within the Bank. The framework consists of policies and aims at the identification, assessment, controlling/responding, monitoring, and reporting of operational risks in all business activities. The Bank monitors operational risk exposures against the risk appetite which is articulated in the Board approved Risk Appetite Statement.

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

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

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

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

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

**CREDIT RISK:**

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

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

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

- Clear tolerance limits and risk appetite set at the Board level, well communicated to the business units and periodically reviewed and adjusted as appropriate
- Credit Committee structure that ensures credit approvals are made by consensus by committees and not individuals.
- Clear segregation between Business and Credit.
- Authorities are delegated based on risk-differentiated grids for each committee at Country and Head Office levels which are reviewed on a regular basis.
- Well-defined target market and risk asset acceptance criteria.
- Rigorous financial, credit and overall risk analysis for each customer/ transaction.
- Regular credit risk reporting to Senior Management, Credit Committees and Risk Management Committee of the Board.
- Concentrations together with mitigation strategies are continuously assessed.
- Early warning system is continually validated and modified to ensure proper functioning for risk identification.
- Advanced systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgment; these methodologies undergo regular validation and calibration processes.
- Systematic credit limits management enabling the Bank to monitor its credit exposure on a daily basis at country, borrower, industry, credit risk rating and credit facility type levels.
- Solid documentation and collateral management processes where collateral is continuously monitored and assessed to ensure proper coverage and top-up triggers.
- Annual and interim individual credit reviews to ensure detecting any signs of weakness or warning signals and considering proper remedies in case of need.
- Implementation of strict control and monitoring systems which are based on disciplined follow up and monitoring.
- The Bank offers several consumer banking products which are managed on a product portfolio basis through a well-established Credit Product Program. The program is considered the principal approval vehicle for credit products offered to a homogenous set of customers in multiple locations, and is subject to annual review and approval and regular assessment of the program performance at Arab Bank Head Office.
- Conservative approach to provisioning and managing bad debt collection and early identification of problem areas. Such approach is subject to periodic legal and credit reviews and account strategies set to minimize NPLs and maximize recoveries and collections.
- Regular Stress-testing scenarios for top exposures and portfolios and assessment of impact on capital and earnings.

- On an ongoing basis the Bank enhances its processes and technology infrastructure taking into account the changing banking environment and the availability of new systems in the industry.
- Our credit processes are supplemented by sectorial portfolio reviews focused on countries, regions or specific industries which are intended to identify any inherent risks in the portfolios resulting from changes in market conditions.
- Business Risk Review department within Group Risk Management and Group Internal Audit provide independent regular reviews and assessments on the quality of the credit portfolios within the bank and the related credit management processes.
- The Bank is focused on developing and enhancing its credit staff competencies through specialized training programs to ensure that they are well equipped to effectively carry out their roles and responsibilities.

**LIQUIDITY RISK:**

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

Liquidity continues to be an area of great focus for Arab Bank. The Bank has a highly diversified and stable funding footprint. In addition, it maintains a large portfolio of highly liquid assets, which acts as a contingent funding source which further boosts liquidity. Arab Bank's long-standing emphasis on maintaining a broad and stable liquidity base has protected the Bank from any negative effects of market volatility.
Arab Bank's liquidity management strategy is determined by the High Asset and Liability Management Committee (High ALCO). The operations of the country level Treasury teams are centrally controlled and monitored. In coordination with local Asset and Liability Management Committees, the various countries' Treasury teams across Arab Bank work together to meet local and Group needs. The Asset and Liability Management Committees analyze liquidity and market risk exposures and take action where appropriate to adjust the pricing and product mix in order to ensure an optimal balance sheet structure and market risk profile for the bank.

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

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

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

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

**MARKET RISK:**

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

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

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

**I. Market Risk Management**

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

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

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

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

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

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

**II. Interest rate risk:**

Interest Rate Risk: Interest rate risk in the Group is well managed, and continuously supervised. A large proportion of the interest rate exposure is concentrated in the banking book due to limited trading IRR activity. Treasury exposures of more than one year are tightly controlled. Interest rate risk is managed in accordance with the policies and limits established by the High ALCO. The Asset and Liability Management Committees in the various countries, as well as the respective treasurers, handle the day-to-day management of interest rate risks.

**III. Capital Market Exposure:**

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

**IV. Foreign Exchange Risk:**

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

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

## OTHER RISK:

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

## COMPLIANCE RISK:

Arab Bank maintains an unwavering commitment to integrity and exercises the highest ethical standards across its operation, applying both the letter and spirit of regulations to ensure compliance with statutory, regulatory, and supervisory requirements. The Board of Directors exercises effective governance over the Compliance Program ensuring advanced compliance technology solutions and streamlined controls are supported with a culture of ethics to create good conduct across the Bank. The Board's Compliance Committee has primary oversight responsibility for all aspects of compliance risks. Group Regulatory Compliance (GRC) Division, reports directly to the Compliance Committee of the Board of Directors with direct access to the Chief Executive Officer. GRC is responsible for maintaining appropriate policies, procedures and controls to identify and mitigate risks arising from financial crime including terrorist financing, money laundering, bribery and corruption, and sanctions programs. Our combating financial crime standards and controls set the minimum requirements and control objectives to guard against involvement in illicit activity and are reflective of applicable regulatory requirements and industry leading practices. Compliance processes are in place across the Bank's Branches and Subsidiaries while also taking into consideration applicable local requirements. Where local laws and regulations are more stringent, these more stringent local laws and regulations are applied.

Appropriate processes are also applied to manage conduct risk, a sub-category of compliance risk, This includes processes covering conflicts of interest, treating customers fairly, as well as privacy and data protection. To preserve the Bank's reputation and integrity, all employees are expected to adhere to applicable laws, policies, and the Bank's Code of Conduct which provides an ethical compass guiding their daily actions. Senior management leads by example encouraging a culture of ethics. Employees and third parties are required to promptly report any actual or potential irregularity or misconduct within the Bank. There have been no regulatory sanctions nor any significant fines associated with non-compliance.

Arab Bank endeavors to protect customers' interests and that they are treated fairly by applying a customer centric approach in developing and marketing products and services. Internal communications and training reiterate and foster customer centricity while treating customers fairly and transparently. Arab Bank gives great importance to customer complaints, recognizing that it is one of the key indicators of the level of service quality and performance of its products and services offered to customers. In Arab Bank Plc Branches in Jordan, Algeria, Bahrain, Egypt, Palestine, Qatar, UAE, Yemen, Morocco, Singapore, and China, as well as Islamic International Arab Bank. Customer Complaints are managed by a dedicated unit within the Compliance function in accordance with local regulatory guidelines / requirements in these countries, and has been equipped with qualified and trained staff who are able to handle, analyze, and act on customer complaints as required. In the rest of Arab Bank Plc Branches Customer Complaints are managed by the Service Excellence Unit under the Consumer Banking Division. All complaints are handled in an effective and highly professional manner including the identification of root causes to avoid repeated complaints. All customer complaints received by the Bank during 2023, have been reviewed, analyzed, and handled in accordance with the Bank's policies and procedures and in a fair and transparent manner.

The Bank maintains a tech-enabled compliance program driving towards a data-led approach to compliance for greater efficiency and effectiveness supporting management of regulatory risk, conduct risk, privacy and data protection, and financial crime. With the steadfast support and commitment of the Arab Bank Board of Directors and Senior Management, coupled with the dedication of Bank staff, Arab Bank is resolved to sustain and further strengthen its sound compliance program and to continue to adhere with applicable regulatory requirements while also adapting to changing customer demands.

**STRATEGIC RISK:**

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

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

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

**REPUTATIONAL RISK:**

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

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

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

**OUTSOURCING RISK:**

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

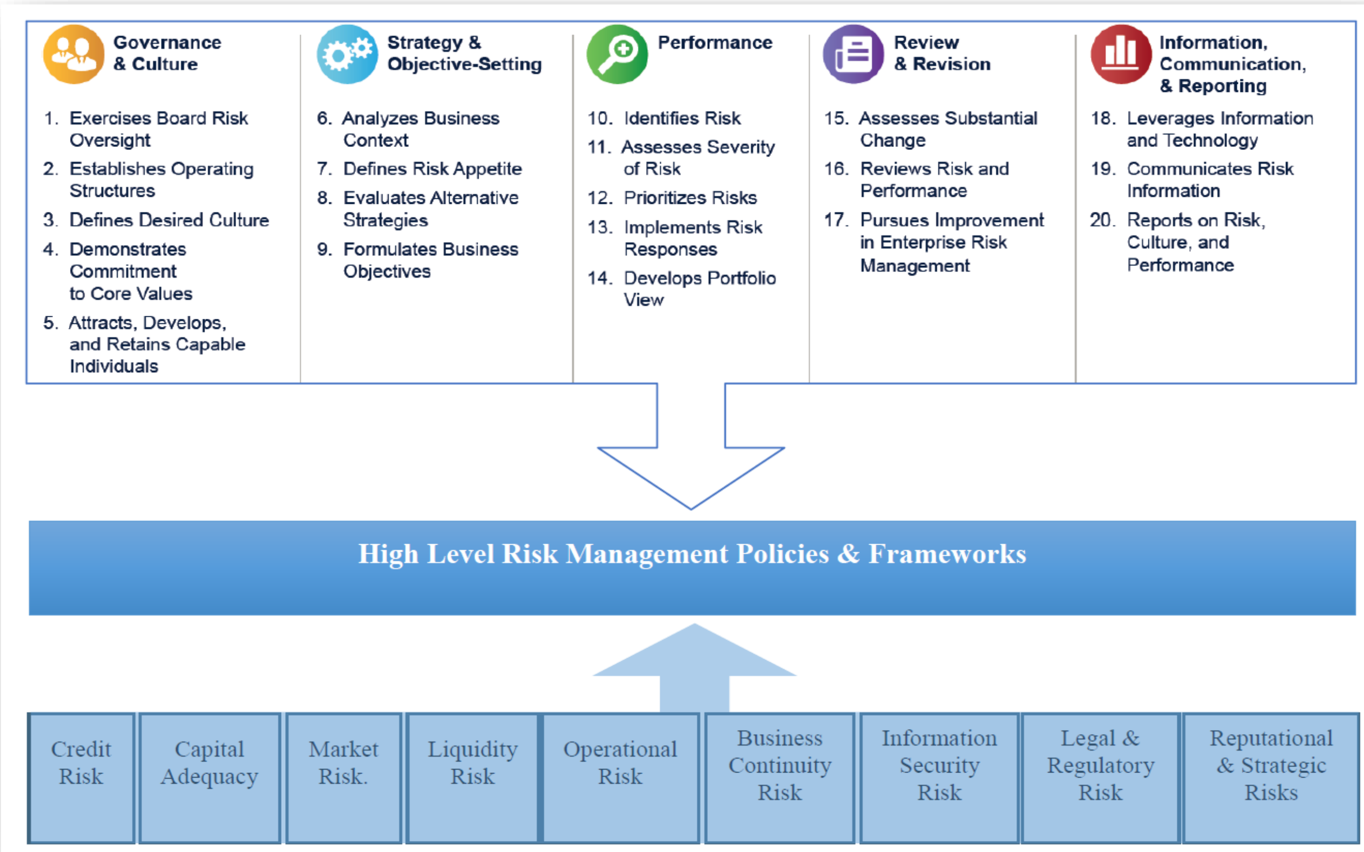
**PENSION OBLIGATION RISK:**

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

## COSO ERM Framework

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

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



## I. Key Metrics

| | | 31-Mar-2024 | 31-Dec-2023 |
|---|---|---|---|
| | | ***AED'000*** | *AED'000* |
| | **Available capital (amounts)** | | |
| 1 | Common Equity Tier 1 (CET1) | 2,503,039 | 2,376,593 |
| 1a | Fully loaded ECL accounting model | 2,503,039 | 2,376,593 |
| 2 | Tier 1 | 2,503,039 | 2,376,593 |
| 2a | Fully loaded ECL accounting model Tier 1 | 2,503,039 | 2,376,593 |
| 3 | Total capital | 2,699,866 | 2,566,623 |
| 3a | Fully loaded ECL accounting model total capital | 2,699,866 | 2,566,623 |
| | **Risk-weighted assets (amounts)** | | |
| 4 | Total risk-weighted assets (RWA) | 16,988,109 | 16,236,679 |
| | **Risk-based capital ratios as a percentage of RWA** | | |
| 5 | Common Equity Tier 1 ratio (%) | 14.73% | 14.64% |
| 5a | Fully loaded ECL accounting model CET1 (%) | 14.73% | 14.64% |
| 6 | Tier 1 ratio (%) | 14.73% | 14.64% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 14.73% | 14.64% |
| 7 | Total capital ratio (%) | 15.89% | 15.81% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 15.89% | 15.81% |
| | **Additional CET1 buffer requirements as a percentage of RWA** | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% |
| 9 | Countercyclical buffer requirement (%) | - | - |
| 10 | Bank D-SIB additional requirements (%) | - | - |
| 11 | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10) | 2.50% | 2.50% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 5.39% | 5.31% |
| | **Leverage Ratio** | | |
| 13 | Total leverage ratio measure | 27,391,140 | 26,945,807 |
| 14 | Leverage ratio (%) (row 2/row 13) | 9.14% | 8.82% |
| 14a | Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) | 9.14% | 8.82% |
| 14b | Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 9.14% | 8.82% |
| | **Liquidity Coverage Ratio** | | |
| 15 | Total HQLA | - | - |
| 16 | Total net cash outflow | - | - |
| 17 | LCR ratio (%) | 0% | 0% |
| | **Net Stable Funding Ratio** | | |
| 18 | Total available stable funding | - | - |
| 19 | Total required stable funding | - | - |
| 20 | NSFR ratio (%) | 0% | 0% |
| | **ELAR** | | |
| 21 | Total HQLA | 6,882,657 | 6,824,059 |
| 22 | Total liabilities | 18,712,681 | 18,520,949 |
| 23 | Eligible Liquid Assets Ratio (ELAR) (%) | 36.78% | 36.85% |
| | **ASRR** | | |
| 24 | Total available stable funding | 18,265,643 | 17,886,001 |
| 25 | Total Advances | 12,571,876 | 12,142,546 |
| 26 | Advances to Stable Resources Ratio (%) | 68.83% | 67.89% |

# II. Overview of RWA

| | AED'000 | **RWA** | RWA | **Minimum capital requirements** | Minimum capital requirements |
|---|---|---|---|---|---|
| | | **31-Mar-2024** | 31-Dec-2023 | **31-Mar-2024** | 31-Dec-2023 |
| 1 | Credit risk (excluding counterparty credit risk) | **15,704,916** | 15,157,809 | **1,649,016** | 1,591,570 |
| 2 | Of which: standardised approach (SA) | **15,704,916** | 15,157,809 | **1,649,016** | 1,591,570 |
| 3 | [redacted] | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | Counterparty credit risk (CCR) | **41,292** | 44,798 | **4,336** | 4,704 |
| 7 | Of which: standardised approach for counterparty credit risk | **41,292** | 44,798 | **4,336** | 4,704 |
| 8 | Of which: Internal Model Method (IMM) | **-** | - | **-** | - |
| 9 | Of which: other CCR | **-** | - | **-** | - |
| 10 | Credit valuation adjustment (CVA) | **-** | - | **-** | - |
| 11 | Equity positions under the simple risk weight approach | **-** | - | **-** | - |
| 12 | Equity investments in funds - look-through approach | **-** | - | **-** | - |
| 13 | Equity investments in funds - mandate-based approach | **-** | - | **-** | - |
| 14 | Equity investments in funds - fall-back approach | **-** | - | **-** | - |
| 15 | Settlement risk | **-** | - | **-** | - |
| 16 | Securitisation exposures in the banking book | **-** | - | **-** | - |
| 17 | [redacted] | | | | |
| 18 | Of which: securitisation external ratings-based approach (SEC-ERBA) | **-** | - | **-** | - |
| 19 | Of which: securitisation standardised approach (SEC-SA) | **-** | - | **-** | - |
| 20 | Market risk | **52,073** | 53,857 | **5,468** | 5,655 |
| 21 | Of which: standardised approach (SA) | **52,073** | 53,857 | **5,468** | 5,655 |
| 22 | [redacted] | | | | |
| 23 | Operational risk | **1,189,828** | 980,215 | **124,932** | 102,923 |
| 24 | [redacted] | | | | |
| 25 | | | | | |
| **26** | **Total (1+6+10+11+12+13+14+15+16+20+23)** | **16,988,109** | 16,236,679 | **1,783,751** | 1,704,851 |

# 2.Leverage Ratio

## 2.1 Summary comparison of accounting assets vs leverage ratio exposure

| | | **31-Mar-2024** | 31-Dec-2023 |
|---|---|---|---|
| | | **AED'000** | AED'000 |
| 1 | Total consolidated assets as per interim reviewed financial statements | **21,279,676** | 20,989,970 |
| 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 | **42,627** | 46,133 |
| 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) | **6,016,050** | 5,888,686 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | **-** | - |
| 12 | Other adjustments | **52,787** | 21,017 |
| **13** | **Leverage ratio exposure measure** | **27,391,140** | 26,945,806 |

## 2.2 Leverage ratio common disclosure template

| | | 31-Mar-2024 | 31-Dec-2023 |
|---|---|---|---|
| **On-balance sheet exposures** | | **AED'000** | AED'000 |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | **21,354,128** | 21,038,933 |
| 2 | Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework | **-** | - |
| 3 | (Deductions of receivable assets for cash variation margin provided in derivatives transactions) | **-** | - |
| 4 | (Adjustment for securities received under securities financing transactions that are recognised as an asset) | **-** | - |
| 5 | (Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital) | **-** | - |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | **(21,665)** | (27,945) |
| 7 | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)** | **21,332,463** | 21,010,988 |
| **Derivative exposures** | | | |
| 8 | Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | **6,303** | 7,249 |
| 9 | Add-on amounts for PFE associated with *all* derivatives transactions | **36,324** | 38,884 |
| 10 | (Exempted CCP leg of client-cleared trade exposures) | **-** | - |
| 11 | Adjusted effective notional amount of written credit derivatives | **-** | - |
| 12 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | **-** | - |
| 13 | **Total derivative exposures (sum of rows 8 to 12)** | **42,627** | 46,133 |
| **Securities financing transactions** | | | |
| 14 | Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions | **-** | - |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | **-** | - |
| 16 | CCR exposure for SFT assets | **-** | - |
| 17 | Agent transaction exposures | **-** | - |
| 18 | **Total securities financing transaction exposures (sum of rows 14 to 17)** | **-** | - |
| **Other off-balance sheet exposures** | | | |
| 19 | Off-balance sheet exposure at gross notional amount | **12,187,121** | 11,365,248 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | **(6,171,071)** | (5,476,563) |
| 21 | (Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital) | **-** | - |
| 22 | **Off-balance sheet items (sum of rows 19 to 21)** | **6,016,050** | 5,888,685 |
| **Capital and total exposures** | | | |
| 23 | **Tier 1 capital** | **2,503,039** | 2,376,593 |
| 24 | **Total exposures (sum of rows 7, 13, 18 and 22)** | **27,391,140** | 26,945,806 |
| **Leverage ratio** | | | |
| 25 | **Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)** | **9.14%** | 8.82% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | **9.14%** | 8.82% |
| 26 | CBUAE minimum leverage ratio requirement | **3%** | 3% |
| 27 | **Applicable leverage buffers** | **0%** | 0% |

# 3. Liquidity

## 3.1 Eligible Liquid Assets Ratio

***31st Mar 2024***

**AED'000**

| **1** | **High Quality Liquid Assets** | **Nominal amount** | **Eligible Liquid Asset** |
|---|---|---|---|
| 1.1 | Physical cash in hand at the bank + balances with the CBUAE | **5,996,895** | |
| 1.2 | UAE Federal Government Bonds and Sukuks | **1,010,678** | |
| | Sub Total (1.1 to 1.2) | **7,007,574** | **7,007,574** |
| 1.3 | UAE local governments publicly traded debt securities | **-** | |
| 1.4 | UAE Public sector publicly traded debt securities | **-** | |
| | Sub total (1.3 to 1.4) | **-** | **-** |
| 1.5 | Foreign Sovereign debt instruments or instruments issued by their respective central banks | **-** | **-** |
| **1.6** | **Total** | **7,007,574** | **7,007,574** |
| **2** | Total liabilities | | **18,717,733** |
| **3** | **Eligible Liquid Assets Ratio (ELAR)** | | **37.44%** |

*31st Dec 2023*

AED'000

| 1 | High Quality Liquid Assets | Nominal amount | Eligible Liquid Asset |
|---|---|---|---|
| 1.1 | Physical cash in hand at the bank + balances with the CBUAE | 6,193,247 | |
| 1.2 | UAE Federal Government Bonds and Sukuks | 912,856 | |
| | Sub Total (1.1 to 1.2) | 7,106,103 | 7,106,103 |
| 1.3 | UAE local governments publicly traded debt securities | - | |
| 1.4 | UAE Public sector publicly traded debt securities | - | |
| | Sub total (1.3 to 1.4) | - | - |
| 1.5 | Foreign Sovereign debt instruments or instruments issued by their respective central banks | - | - |
| 1.6 | Total | 7,106,103 | 7,106,103 |
| 2 | Total liabilities | | 18,699,678 |
| 3 | Eligible Liquid Assets Ratio (ELAR) | | 38.00% |

## 3.2 Advances to Stable Resources Ratio

| | | Items | 31-Mar-2024 | 31-Dec-2023 |
|---|---|---|---|---|
| **1** | | **Computation of Advances** | **AED'000** | AED'000 |
| | 1.1 | Net Lending (gross loans - specific and collective provisions + interest in suspense) | **11,751,428** | 11,333,866 |
| | 1.2 | Lending to non-banking financial institutions | **-** | - |
| | 1.3 | Net Financial Guarantees & Stand-by LC (issued - received) | **820,448** | 808,680 |
| | 1.4 | Interbank Placements | **-** | - |
| | **1.5** | **Total Advances** | **12,571,876** | 12,142,546 |
| **2** | | **Calculation of Net Stable Resources** | | |
| | 2.1 | Total capital + general provisions | **2,761,387** | 2,633,068 |
| | | **Deduct:** | | |
| | 2.1.1 | Goodwill and other intangible assets | **3,730** | 2,893 |
| | 2.1.2 | Fixed Assets | **6,305** | 6,871 |
| | 2.1.3 | Funds allocated to branches abroad | **-** | - |
| | 2.1.5 | Unquoted Investments | **2,879** | 2,879 |
| | 2.1.6 | Investment in subsidiaries, associates and affiliates | **-** | - |
| | **2.1.7** | **Total deduction** | **12,914** | 12,643 |
| | **2.2** | **Net Free Capital Funds** | **2,748,473** | 2,620,425 |
| | **2.3** | **Other stable resources:** | | |
| | 2.3.1 | Funds from the head office | **-** | - |
| | 2.3.2 | Interbank deposits with remaining life of more than 6 months | **-** | - |
| | 2.3.3 | Refinancing of Housing Loans | **-** | - |
| | 2.3.4 | Borrowing from non-Banking Financial Institutions | **-** | - |
| | 2.3.5 | Customer Deposits | **15,517,170** | 15,265,576 |
| | 2.3.6 | Capital market funding/ term borrowings maturing after 6 months from reporting date | **-** | - |
| | **2.3.7** | **Total other stable resources** | **15,517,170** | 15,265,576 |
| | **2.4** | **Total Stable Resources (2.2+2.3.7)** | **18,265,643** | 17,886,001 |
| **3** | | **Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)** | **68.83** | 67.89 |