Arab African International Bank – UAE Branches

Pillar 3 Disclosure – 31 December 2021

البنك العربي الافريقي الدولي
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1 Overview

1.1 Introduction

Arab African International Bank – United Arab Emirates Branches (the “Branches” of the “Bank”) -referred to as AAIBUAE within this document, unless the context requires otherwise-operates in the United Arab Emirates (“UAE”) through its two branches located in the Emirates of Dubai and Abu Dhabi which are registered under a banking license issued by the Central Bank of United Arab Emirates (“CBUAE”). Arab African International Bank (the “Head Office”) is an Egyptian Joint Stock company incorporated in Cairo, Egypt. The Branches are a segment of the Head Office. AAIB UAE provides a full range of services primarily comprising corporate and retail banking activities.

AAIBUAE is regulated by the CBUAE and follows the Pillar 3 disclosure requirements as stated under the Notice No. CBUAE/BSD/N/2020/4980 dated November 2020 and CBUAE/BSD/N/2021/5508 dated November 2021 on the implementation of Pillar 3 standards.

1.2 Purpose of the Report

The Pillar 3 disclosures complement the Pillar 1 Minimum Capital Requirements and Pillar 2 Supervisory Review and Evaluation Process (SREP) with an aim to encourage market discipline by allowing market participants to assess key pieces of qualitative and quantitative information on risk exposures and risk management processes, and hence the capital adequacy of the Bank.

2 Overview of Risk Management & RWAs

Capital Adequacy (KM1)

The Branches objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the Central Bank of UAE;
- To safeguard the Branches ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2020, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2020 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs)
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.
- Capital conservation buffer (CBB) of 2.5%.

The assets of the Branch are risk weighted as to their relative Credit, Market, and Operational risk.

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The objective of below table is to provide an overview of bank's prudential regulatory metrics which covers the key prudential metrics related to regulatory capital, leverage ratio and liquidity standards. Accordingly, the Bank has disclosed all applicable metric values using the standards specified for the reporting period.

	Key Risk Metrics	AED'000
1	Common Equity Tier 1 (CET1)	1,525,536
1a	Fully loaded ECL accounting model	1,525,536
2	Tier 1	1,525,536
2a	Fully loaded ECL accounting model Tier 1	1,525,536
3	Total capital	1,571,142
3a	Fully loaded ECL accounting model total capital	1,571,142
4	Total risk-weighted assets (RWA)	4,071,090
5	Common Equity Tier 1 ratio (%)	37.47%
5a	Fully loaded ECL accounting model CET1 (%)	37.47%
6	Tier 1 ratio (%)	37.47%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	37.47%
7	Total capital ratio (%)	38.59%
7a	Fully loaded ECL accounting model total capital ratio (%)	38.59%
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%
9	Countercyclical buffer requirement (%)	0.00%
10	Bank D-SIB additional requirements (%)	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	26.97%
13	Total leverage ratio measure	7,863,714
14	Leverage ratio (%) (row 2/row 13)	19.40%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	19.40%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	19.40%
15	Total HQLA	N/A
16	Total net cash outflow	N/A
17	LCR ratio (%)	N/A
18	Total available stable funding	N/A
19	Total required stable funding	N/A
20	NSFR ratio (%)	N/A
21	Total HQLA	1,068,539
22	Total liabilities	5,753,692
23	Eligible Liquid Assets Ratio (ELAR) (%)	18.57%
24	Total available stable funding	5,810,033
25	Total Advances	2,773,511
26	Advances to Stable Resources Ratio (%)	47.74%

As per CBUAE regulations, Branch is not required to report LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). Branch reports ELAR (Eligible Assets Ratio) and LSRR (Lending to Stable Resources Ratio) as an alternate.

Risk Management and Governance

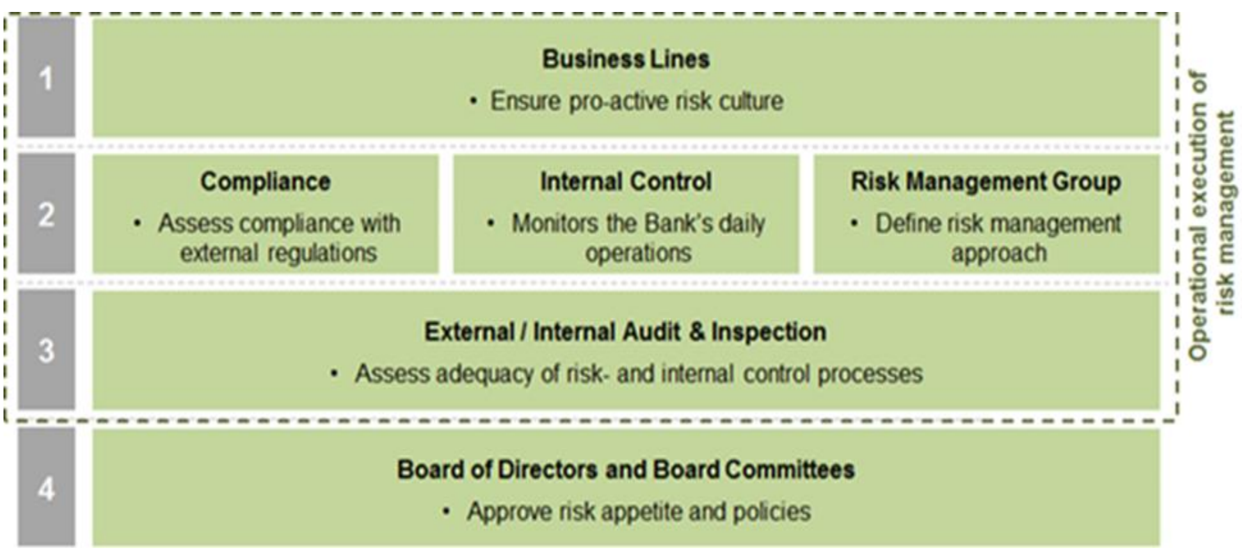
Risk management at AAIBUAE is an independent function reporting functionally to the Board Risk Committee (BRC), which in turn reports to the Board of Directors (BoD). The Compliance Department reports to the Board Audit Committee (BAC) with a dotted line to the MD/VC. On the other hand, Internal Audit works as an independent assurance function and exclusively reports to the BAC.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture with the purpose of keeping risk within the targeted levels and providing a balanced approach to achieve the bank's strategic objectives.

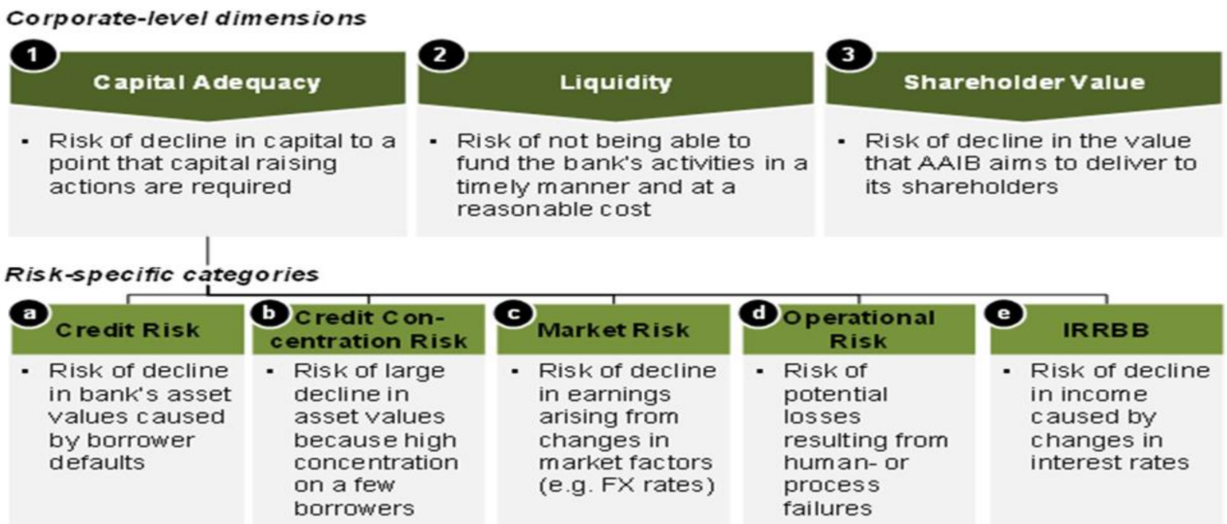
The Bank has a structured risk governance process in place to identify, measure, manage, control and report (risk) to assist in risk-based decision-making and oversight across all operations of the bank.

The BoD plays a critical role in overseeing a bank-wide approach to risk management and conducts its oversight through board level committees that are further trickled down through Management level committees, internal forums, and respective Business and Risk Control units.

To ensure risk management is properly executed throughout all operational levels, AAIBUAE has organized its risk management execution along different lines of defense. This includes the regular business lines, specialized risk departments, compliance, and internal audit departments. Risk management throughout operational level follows below.



Currently, AAIBUAE has defined its corporate-level risk appetite along three dimensions: capital adequacy, liquidity and shareholder value. To allow for steering by risk type, AAIB has translated its overall risk appetite into specific metrics by risk-type. For each of these metrics, four stages of risk appetite are defined, ranging from high appetite to low appetite, with a regulatory breach as the ultimate limit.



Overall, for all its branches, AAIB aims to balance risk taking with its objectives for growth and return. The Bank will accept moderate risks in pursuit of generating shareholder value and consistent with its corporate and line of business strategies. However, AAIB will not accept risks that jeopardize safety, soundness, or a strong capital position. Risks will be accepted considering capital required to manage through the business cycle and avoid severe earnings volatility. AAIB's inherent risks will be managed to remain within acceptable levels through risk management programs, practices and controls.

AAIB is centrally steered with risk functions centralized in the headquarters and limited authority in the Egyptian and foreign branches. The Bank has set out a clear governance structure including reporting lines, approval processes, and frequent performance / update reports.

Board Committees
The Board is assisted in its oversight function by the following Board committees:

- **The Board Audit Committee**

The Board Audit Committee is responsible for:

i. the quality and integrity of the Bank's financial statements and financial disclosures
ii. compliance of the Bank with legal and regulatory requirements
iii. the qualifications and independence of the external auditors, and
iv. the performance and independence of the internal audit function

- **The Board Risk Committee**

The Board Risk Committee is responsible for ensuring the effectiveness of the Bank's risk management and control framework, including the adequacy of the risk and control policies and the compliance with these policies.

The Board Risk Committee also considers the Bank's overall appetite for risk and monitors whether the Bank's risk profile is consistent with this risk appetite. This includes reviewing the risks associated with certain strategic endeavors, such as acquisitions or disposals. Moreover, the risk committee will advise the Remuneration Committee on alignment of remuneration with risk appetite.

- **The Corporate Governance Committee**

The Corporate Governance Committee ensures the effectiveness of the Bank's corporate governance system, including the development of policies and guidelines and monitoring the compliance therewith. The committee bears in mind the interests of a wide set of Bank stakeholders, including shareholders, depositors, employees, etc.

To achieve these tasks, the corporate governance committee develops or updates the corporate governance guidelines applicable to the bank and ensures that they are in line with best practices. This includes reviewing the organizational chart at least every two years to ensure that decision-making authorities are well-defined, and that accountability and responsibility are aligned.

With respect to the board of directors, the corporate governance committee informs new members of their responsibilities and proposes annual plans for the continuous knowledge enhancement of board members. In case of a change in status, affiliation, or potential conflict of interest of any board member, the corporate governance committee can recommend a remediation. Finally, the corporate governance committee assists the Chairman of the Board in conducting a regular self-assessment of the performance of the board and the board committees, as well as individual board members.

- **The Remuneration Committee**

The Remuneration Committee ensures that the compensation packages of the CEO/Managing Director and other key executive officers are appropriately incentivized to enhance the Bank's performance. This includes checking that these senior executives are rewarded for their individual contribution to this performance.

Risk Culture

We seek to promote a strong risk culture throughout our organization. Our aim is to help reinforce our resilience by encouraging a holistic approach to the management of risk and return throughout our organization as well as the effective management of our risk, capital and reputational profile. We actively take risks in connection with our business and as such the following principles underpin risk culture within our Bank:

- Risk is taken within a defined risk appetite
- Every risk taken needs to be approved within the relevant risk policy/precedure
- Risk taken needs to be adequately compensated, and
- Risk should be continuously monitored and managed

Employees at all levels are responsible for the management and escalation of risks. We expect employees to exhibit behaviors that support a strong risk culture.

Capital Assessment

AAIBUAE ensures that it has a comprehensive mechanism for assessing the capital adequacy in accordance with its risk profile, and a strategy for maintaining an adequate and amount of capital during all phases of the economic cycle.

The Internal Capital Adequacy Assessment Process in AAIBUAE (ICAAP) aims at ensuring the availability of capital that is appropriate to the bank's risk profile, taking into consideration how effective are the risk management procedures, how sufficient are the internal control systems, and how powerful is the strategic planning.

ICAAP is an integral part of the organizational management, where various stakeholders across the bank are engaged and involved in the process, and the ICAAP results are taken into consideration as inputs to the bank's planning activities to provide more prudent direction in the bank's business as part of the use test.

The ICAAP comprises the policies and procedures of all the activities, and ensures the following:

- All Risk identification, measurement, tracking and control.
- Availability of an adequate capital appropriate to the bank's risk profile.
- Soundness and effectiveness of risk tracking and management methods.
- Conformity of the risk appetite with the strategy, capital, liquidity planning and management, and the results of the stress test.

As part of the internal capital assessment, and in addition to the regulatory capital assessment, AAIBUAE developed an economic capital approach to allow for a more risk-driven perspective on its capital adequacy while managing its levels to fall below the available capital by certain buffers held with the purpose of supporting the capital demand of future business (e.g. new business, acquisitions) as well as the normal cyclicality of capital demand due to exogenous effects.

Economic capital crucially depends on the chosen level of confidence for the determination of unexpected losses. The confidence level of the economic capital model reflects the bank's risk appetite and target credit rating. The confidence level for the economic capital model is set at 98%, equivalent to a rating of BB.

The bank's economic capital relies on a classification of the key risk types that the Bank is exposed to. This involves risk types beyond the Pillar 1 risks (i.e. credit, market and operational risk), i.e. Pillar 2 risk types.

AAIB has identified several key risk types as relevant for the Bank, which are explained in the following Table.

Risk types	Explanation	High level approach
Pillar I		
Credit risk	The risk of losses arising from a borrower or counterparty's failure to meet its debt obligations	Loss simulation
Market risk	The risk of losses resulting from changes in market factors that impact trading book positions such as equity, forex and interest rate positions	VaR extrapolation
Operational risk	The risk of losses due to a failure or insufficiency of internal procedures, human- or system errors or external fraud events	Standardized approach
Pillar II		
Concentration risk	As a subset of credit risk, this is the risk of large losses because the Bank's exposure is concentrated on a small amount of borrowers	Herfindahl approach (CBE prescribed)
IRRBB	The risk of related to all positions (on- and off-balance) in the banking book due to adverse changes in interest rates	Sophisticated yield curve shifting approach
Funding risk	The risk of not being able to raise sufficient capital to quickly face risks when necessary *(also called capital risk)*	VaR estimation
Business risk	The risk of not being able to maintain an adequate and permanent profit rate *(also called profit risk)*	VaR estimation
Strategic risk	The risk of a decline in income or profits due to a failing strategy (e.g. wrong business decisions or incorrect implementation of taken decisions)	'Set-back to history' approach
Liquidity risk	The risk of not being able to fund the Bank's activities and / or meet the Bank's obligations in a timely manner and at a reasonable cost	Qualitative assessment

It is important to note that some risk types cannot be mitigated or controlled by a provision of capital. Instead, they require suitable processes and contingency plans established within the institution in order to be mitigated. Within its ICAAP framework, AAIBUAE considers liquidity risk as a risk type that is not capital-based. To mitigate this risk, the bank has incorporated a series of policies and actions in order to ensure sufficient control over its liquidity situation.

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Key Prudential Metrics and RWA (OV1)

Following metrics and RWA is calculated based on latest applicable CBUAE Capital Adequacy regulations for Banks operating in the UAE.

OV1 - Overview of RWA		RWA	Minimum capital requirements
		AED'000	
1	Credit risk (excluding counterparty credit risk)	3,648,445	383,087
2	Of which: standardised approach (SA)	3,648,445	383,087
3			
4			
5			
6	Counterparty credit risk (CCR)	0	0
7	Of which: standardised approach for counterparty credit risk	0	0
8			
9			
10			
11			
12	Equity investments in funds - look-through approach	0	0
13	Equity investments in funds - mandate-based approach	0	0
14	Equity investments in funds - fall-back approach	0	0
15	Settlement risk	0	0
16	Securitisation exposures in the banking book	0	0
17			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0
20	Market risk	574	60
21	Of which: standardised approach (SA)	574	60
22			
23	Operational risk	422,071	44,317
24			
25			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**4,071,090**	**427,464**

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3 Linkage Between Financial Statements and Regulatory Exposures (LI2)

	AED'000				
	a	b	c	d	e
		Items subject to:			
	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	7,345,250	7,345,250	-	-	-
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
Total net amount under regulatory scope of consolidation	7,345,250	7,345,250	-	-	-
Off-balance sheet amounts	533,887	533,887	-	-	-
Differences in valuations	-	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
Differences due to consideration of provisions	334,555	334,555	-	-	-
Differences due to prudential filters	-	-	-	-	-
Exposure amounts considered for regulatory purposes	8,213,692	8,213,392	-	-	-

Composition of Capital

Capital Allocation

The Branches's regulatory capital is analyzed in two tiers. CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under CBUAE guidelines. Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

Table: Composition of Capital CC1

	AED'000
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	686,437
Retained earnings	711,528
Accumulated other comprehensive income (and other reserves)	127,571
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	0
Common share capital issued by third parties (amount allowed in group CET1)	0
Common Equity Tier 1 capital before regulatory deductions	**1,525,536**
Common Equity Tier 1 capital regulatory adjustments	
Total regulatory adjustments to Common Equity Tier 1	0
Common Equity Tier 1 capital (CET1)	**1,525,536**
Additional Tier 1 capital: instruments	
Additional Tier 1 capital: regulatory adjustments	
Additional Tier 1 capital (AT1)	**0**
Tier 1 capital (T1= CET1 + AT1)	**1,525,536**
Tier 2 capital: instruments and provisions	
Provisions	45,606
Tier 2 capital before regulatory adjustments	**45,606**
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	**0**
Tier 2 capital (T2)	**45,606**
Total regulatory capital (TC = T1 + T2)	**1,571,142**
Total risk-weighted assets	**4,071,090**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	37.47%
Tier 1 (as a percentage of risk-weighted assets)	37.47%
Total capital (as a percentage of risk-weighted assets)	38.59%
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	26.97%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.00%
Tier 1 minimum ratio	8.50%
Total capital minimum ratio	10.50%

Table: Composition of Capital CC2

	AED'000	
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period-end	As at period-end
Assets		
Cash and balances at central banks	868,694	868,694
Derivative financial instruments	-	-
Loans and advances to banks	4,016,355	4,016,355
Loans and advances to customers	1,789,620	1,789,620
Available for sale financial investments (Includes FVOCI)	18,401	18,401
Financial investments (HTM)	527,217	527,217
Current and deferred tax assets	64,542	64,542
Prepayments, accrued income and other assets	46,584	46,584
Investments in associates and joint ventures	-	-
Goodwill and other intangible assets	-	-
Property, plant and equipment	13,837	13,837
Total assets	**7,345,250**	**7,345,250**
Liabilities		
Deposits from banks	773,105	773,105
Items in the course of collection due to other banks	-	-
Customer accounts	4,902,120	4,902,120
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	109,816	109,816
Current and deferred tax liabilities	-	-
Subordinated liabilities	-	-
Provisions	-	-
Retirement benefit liabilities	5,013	5,013
Total liabilities	**5,772,979**	**5,772,979**
Shareholders' equity		
Paid-in share capital	686,437	686,437
Of which: amount eligible for CET1	686,437	686,437
Of which: amount eligible for AT1	-	-
Retained earnings	711,528	711,528
Accumulated other comprehensive income	157,231	157,231
Total shareholders' equity	**1,555,196**	**1,555,196**

Leverage Ratio (LR2):

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the 2010 Basel III package of reforms. Basel III leverage ratio framework and disclosure requirements followed in January 2014 with detailed specification of the leverage ratio framework (the “framework”).

Main features of the framework

Leverage ratio is associated with both on- and off-balance sheet exposures. It also aims to make use of accounting measures to the greatest extent possible, while at the same time addressing concerns that (i) different accounting frameworks across jurisdictions raise level playing field issues and (ii) a framework based exclusively on accounting measures may not capture all risks. The leverage ratio is defined as the capital measure divided by the exposure measure, expressed as a percentage:

Leverage Ratio= Capital measure / Exposure measure

The minimum requirement is set at 3%.

		31-Dec-2021
		AED'000
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	7,679,805
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-
6	(Asset amounts deducted in determining Tier 1 capital)	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	7,679,805
Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	766
9	Add-on amounts for PFE associated with *all* derivatives transactions	19,999
10	(Exempted CCP leg of client-cleared trade exposures)	0
11	Adjusted effective notional amount of written credit derivatives	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
13	**Total derivative exposures (sum of rows 8 to 12)**	20,765
Securities financing transactions		
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
16	CCR exposure for SFT assets	0
17	Agent transaction exposures	0
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	0
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	465,085
20	(Adjustments for conversion to credit equivalent amounts)	(301,941)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0
22	**Off-balance sheet items (sum of rows 19 to 21)**	163,145
Capital and total exposures		
23	**Tier 1 capital**	1,525,536
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	7,863,714
Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	19.40%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	19.40%

4 Liquidity Risk

Liquidity risk is the risk that AAIBUAE will face difficulty in meeting its financial obligations associated with delivering cash or another financial asset. This includes for example the risk of facing higher funding costs, the inability to liquidate assets within a certain timeframe, or on reasonable terms, in order to meet obligations when they fall due and support the business growth aspirations along with the inherent risks associated with them. Exposure to liquidity risk is measured by considering the maturity profile of assets relative to liabilities and mitigate the balance sheet gap that may arise for each of the maturity buckets.

In terms of economic capital, liquidity risk is partly covered by the assessment for Interest Rate Risk in the Banking Book (IRRBB) and funding risk. At AAIBUAE, liquidity risk is managed in two ways. First, the net gap positions are closely monitored and mitigated, through hedging positions and balance sheet management. Second, management ensures enough diversification of funding sources. AAIBUAE maintains a portfolio of short-term liquid assets, largely made of interbank placements. Liquidity requirements from business units are met through funding from head office and pose no liquidity risk for the UAE branches. Furthermore, it needs to be highlighted that AAIBUAE may at any point in time revert back to Head Office for funding, to cover any shortfall, with no limits put in place.

4.1 Liquidity Risk Qualitative Requirements

All management practices, roles & responsibilities and reports aim at applying best practice that meets our shareholders' expectations. These practices include:

- Ensure adequate corporate governance and ongoing supervision from ALCO and BoD for the Bank's overall ALM profile
- Ensure that all documentation relating to the management of the ALM profile is in place and updated on a regular basis. This includes the set of all Policies and Procedures, Contingency Funding Plan, and any other required documents

4.2 Liquidity Risk Quantitative Requirements

AAIBUAE Liquidity Management mechanism relies heavily on quantitative analytics and risk models. The Bank will have sets of limits such as the following:

- Internal limits set by the bank as a tool for risk identification and mitigation
- Liquidity Gapping

Liquidity Gapping

A key issue that ALCO focuses on is the maturity of all its assets and liabilities in different tenors ensuring acceptable risks and the ability to cover any short-term funding. The ALCO reviews the liquidity gapping report on a periodic basis; the bucketing process for termed products will be based on valid contractual maturities.

Ratio Analysis

AAIB will use Risk Analytics techniques in order to illustrate the bank's liquidity profile, such as Weighted Average Remaining Maturity (WARM), The following ratios will be applied for local currency and all foreign currencies separately:

- Stable Core Deposits / Total Core Deposits
- Stable Deposits / Total Deposits
- Loans to Deposits Ratio
- Liquid Assets / Total Liabilities
- Liquid Assets / Volatile Deposits
- Highly Liquid Assets / Top 10 Deposits, &
- Available Long-Term Funding / Required Long Term Funding

These ratios will be included in the Liquidity Gap report and will be regularly reviewed by the ALCO and BRC.

4.3 Stress Testing

Liquidity stress tests help us to understand and mitigate risks, and inform our decision about liquidity levels to meet the regulatory requirements and our own internal requirements.

The Bank's Liquidity Stress test methodology is based on:

- Revised Liquidity Gap Report where we assume that parts of the Balance Sheet can be liquidated; therefore, liquid assets are slotted according to the time required to liquidate each single item
- Following negative financial rumors on AAIB an immediate and unexpected deposit withdrawal will occur over a time span of one month
- Surviving the Stress test means the Stress 1 Month Gap does not turn negative, however, if the bank does not hold enough liquid assets to cover its Deposits run off for 1Month, the ALCO needs to be notified and decide accordingly

4.4 The Contingency Funding Plan

The Contingency Funding Plan (CFP) sets out the framework for addressing liquidity in times of crisis in a quick, organized and well-prepared manner. Liquidity crises can occur both from internal as well as external events and our plan addresses both contingencies, and due to the fact that in a crisis situation, management has little time to plan its strategy, hence AAIB is committed to have clearly defined and well communicated CFP to help management to monitor liquidity risk, ensure that an appropriate amount of liquid assets is maintained, measure and project funding requirements during various scenarios, and manage access to funding sources; all in a timely manner.

It is extremely critical to monitor and control the communication with all Bank's stakeholders and counterparties.

Eligible Liquid Assets Ratio (ELAR)

Eligible Liquid Assets Ratio is a measure to ensure banks hold minimum buffers of liquid assets. The ratio requires the bank to hold an amount equivalent to 10% of its total balance sheet liabilities (excluding those included in regulatory capital) in high quality liquid assets. Central Bank reporting for BRF 8 details the requirements of the ratio.

As of December 31, 2021, branch's ELAR is 18.57% which is more than the required minimum of 10%.

		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	1,068,539	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,068,539	1,068,539
1.3	UAE local governments publicly traded debt securities	0	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**1,068,539**	**1,068,539**
2	Total liabilities		5,753,692
3	**Eligible Liquid Assets Ratio (ELAR)**		**18.57%**

Advances to Stable Resources Ratio (ASRR)

The Advances to Stable Resources Ratio (LSRR) is a measure that recognizes both the actual uses as well as the likely uses of funds in terms of the contractual maturity and behavioural profile of the sources of funds available to the bank, to ensure that there are limited maturity mismatches and cliff effects. Central Bank reporting for BRF 7 details the requirements of the ratio.

LSRR should not exceed 100%. The branch's ratio is 47.74%, this is the equivalent percentage of the total advances being funded by stable resources (i.e., customer deposits).

		Items	AED'000
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	1,763,945
	1.2	Lending to non-banking financial institutions	8,902
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	0
	1.4	Interbank Placements	1,000,664
	1.5	**Total Advances**	2,773,511
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	1,583,231
		Deduct:	
	2.1.1	Goodwill and other intangible assets	0
	2.1.2	Fixed Assets	14,230
	2.1.3	Funds allocated to branches abroad	0
	2.1.5	Unquoted Investments	0
	2.1.6	Investment in subsidiaries, associates and affiliates	0
	2.1.7	**Total deduction**	14,230
	2.2	**Net Free Capital Funds**	1,569,001
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	121,640
	2.3.5	Customer Deposits	4,119,392
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	4,241,032
	2.4	**Total Stable Resources (2.2+2.3.7)**	5,810,033
3		**Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)**	47.74

5 Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Credit Structures

All granted corporate facilities must have a legitimate purpose. AAIB will monitor that granted facilities under any type of credit facility or product program are used specifically for the purpose of the granted facility.

- AAIB will not enter into underwriting commitments above the Bank's appetite and legal lending limit unless difference is pre-sold or pre-underwritten.
- Silent participations - generally represent a higher than normal risk in that they do not permit direct recourse to the obligor except via an intermediate. They also do not offer any relationship benefit vis-à-vis the ultimate obligor who would be unaware of the silent participant's involvement in a transaction. These are, therefore, discouraged and when undertaken, must be confined to the best credits and for higher than normal returns. The institution selling the risk to the Bank must be externally rated Investment Grade by at least 2 external rating agencies (Moody's, S&P &/or Fitch). In addition, all such silent participation must be subject to a portfolio limit under an approved Product Program.
- As a general rule, inferior lending is strongly discouraged. AAIB would be deemed to be in an "inferior situation" where other lenders have been offered collateral security or guarantees for facilities similar to those offered by AAIB on a clean basis, or any other mechanism providing preferred treatment to another creditor. Exceptions are to be rare and are to be approved by the Executive Committee that will take into account the following:-
- The length of relationship and Risk Rating.
- Limit size.
- Materiality of the exception.
- Rationale and mitigates for the exception.
- It is AAIB's policy not to extend credit in any form for tenors exceeding ten (10) years. Exceptions are to be rare and must be approved by the Executive Committee with notification to the Board Risk Committee.
- All initial credit approvals will carry a validity date of one hundred and twenty (120) days within which an approved transaction must either be committed or booked that may be extended by an OT by no more than another sixty (60) days. Beyond that, the facility will be deemed to have lapsed and will, therefore, require to be freshly approved.

- Certain transactions will not be entertained by the Bank in compliance with the Equator Principles to which the Bank is committed and fall into the category of prohibited transactions.
- Certain other transactions such as providing finance to political parties fall into the restricted category because of franchise or reputational risk issues.

Risks and Mitigates

Business risks associated with the CA presentation would have been depicted already from the industry/business analysis section. The financial ones would have been depicted from the outcome of financial analysis especially when exerting focus on the cash flow indicators. By all means, this section relies on the skillfulness of the RM in depicting the most probable risks and by order of weights traced throughout the CA sections coverage. As a general guideline, the common risks reside in market/industry adverse conditions, competition and/or substitution, regulatory or governmental directives that could negatively impact industry especially strategic commodities, financial risk derived from a corporate own gearing... etc. Last risk but not the least relies in the company's sponsors integrity, competence and proper staffing to undertake the enormous challenges facing the successful implementation of a sound business plan. The risks associated with the Borrower and the transaction will be listed and explained, and the RM would explain mitigates for each type of risk explained.

Credit Quality of Assets (CR1)

AED'000		a	b	c	d	e	f
		Gross carrying values of		Allowances / Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	470,157	1,648,248	328,785	311,338	17,447	1,789,620
2	Debt securities	-	550,555	4,937	-	4,937	545,618
3	Off-balance sheet exposures	68,802	465,085	36,035	34,190	1,845	497,852
4	**Total**	**538,959**	**2,663,888**	**369,757**	**345,528**	**24,229**	**2,833,090**

Credit Quality of Assets (CR2)

		AED'000
1	**Defaulted loans and debt securities at the end of the previous reporting period (i.e. 30 June 2021)**	471,710
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	-
5	Other changes	(1,553)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	470,157

Breakdown of exposures by industry

AED' 000	Due from Central bank of the UAE	Due from Banks	Due from HO and other branches	Loan and advances	Investments	TOTAL
Concentration by						
Industry sector:						
Manufacturing	-	-	-	356,846	-	356,846
Construction	-	-	-	317,245	-	317,245
Real estate	-	-	-	384,689	-	384689
Trading	-	-	-	407,756	-	407,756
Transport/aviation	-	-	-	85,703	-	85703
Banks and financial institutions	852,815	3,772,123	244,767	61,646	-	4,931,351
Services	-	-	-	287,391	-	287,391
Personal loans for consumption	-	-	-	2,253	-	2,253
Government	-	-	-	214,871	550555	765426
Others	-	-	-	5	-	5
Total	852,815	3,772,123	244,767	2,118,405	550,555	7,538,665

Breakdown of exposures by geographical location

AED' 000	Due from Central bank of the UAE	Due from Banks	Due from HO and other branches	Loan and advances	Investments	TOTAL
Concentration by Geographical location:						
United Arab Emirates	852,815	450,300	-	1,437,174	-	2,740,289
Europe	-	939,629	-	52,744	-	992,373
Arab Countries	-	1,370,282	244,767	147,667	550,555	2,313,271
United States of America	-	54,162	-	-	-	54,162
Africa	-	923,764	-	480,820	-	1,404,584
Asia	-	33,986	-	-	-	33,986
Total	852,815	3,772,123	244,767	2,118,405	550,555	7,538,665

Ageing analysis based on residual maturity

AED' 000	Up to 3 Months	3 months to 1 year	1 year to 5 years	Over 5 years	TOTAL
Residual Maturity:					
Due from Central bank of the UAE	852,815	-	-	-	852,815
Due from Banks	2,771,459	1,000,664	-	-	3,772,123
Due from HO and other branches	244,767	-	-	-	244,767
Loan and advances	762,575	324,896	952,118	78,816	2,118,405
Investments	81,333	199,845	269,377	-	550,555
Total	4,712,949	1,525,405	1,221,495	78,816	7,538,665

Additional disclosure related to credit quality of assets

Expected Credit Loss:

Adaptation of the Expected Credit Loss (ECL) requires the groupings of the financial assets of the Bank into segments and sub-segments wherever applicable. Going forward, the Bank may segment its portfolio to ensure that each segment has homogenous characteristics and are captured by respective models.

This is done to account for the differences in risk between segments and sub-segments. The feasibility of the above segmentation is based upon the number of borrowers and default count in each of the segments stated above and will be analyzed annually.

For CBUAE, segregation of SME's exposure to be classified based on sales turnover of the entities and industries

Staging and Significant Increase in Credit Risk (SICR).

- The determination of the IFRS 9 expected credit loss results from Facilities allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has defaulted.
- Assessment of whether there has been a significant increase in credit risk is required to be carried out at each reporting date.
- An asset can move into and out of the lifetime expected credit losses categories (stage 2 and 3) based on a predefined pattern obtained from the historical default rates or delinquency status of account across various internal rating grades, products or sectors.
- The assessment of whether there has been a significant increase in credit risk should be made for a specific instrument rather than for a counterparty since the quantum of change in credit risk may be different for different instruments transacted with the same party. Also, different instruments issued by the same counterparty may have had a different credit risk at initial recognition.
- Under the general approach of IFRS 9 Impairment, the financial assets are to be classified into 3 stages. Each stage indicates the credit quality of the particular financial asset under consideration

Counterparty Credit Risk

Counterparty Credit Exposure of Derivatives Counterparty credit exposure of derivatives is a measure of the amount lost in the event of counterparty default prior to the expiration of the contract. Only contracts that are privately negotiated between counterparties, i.e.(OTC) derivatives, are subject to counterparty credit risk. Contracts that are traded on an exchange are not affected by counterparty risk, because the exchange guarantees the cash flows promised by the derivative to the counterparties. Counterparty risk is similar to other forms of credit risk in the economic loss incurred, however, it is different from more traditional credit risk in the uncertainty of exposure at risk. Exposure profiles of derivatives securities cannot be set to a constant value as loans or fixed coupon bonds, the exposure is time dependent and stochastic or random. The assessment is based on the realization of several possible scenarios and the value of the derivative is then recorded, noting that the process of modeling the uncertainty is a very difficult task, since the realized might differ significantly from the expected. Credit Exposure consists of a current value, the replacement cost (MtM) computed in the previous section, which is observable in the market, and the Potential Future Exposure (PFE) which is random in nature. The PFE is the estimated value of the asset replacement value at given percentile levels, therefore, we need to model the distribution of risk factor, and evaluate its probability density function, a mechanism similar somehow to VaR.

Counterparty Credit Exposure= Max (MtM,0) + PFE, MtM values will be capped at zero, only if they are positive, (i.e. contract is In The Money for AAIB). Otherwise, and the Counterparty Credit Exposure will only be the PFE. Market Risk will provide the PFE to the Dealing Room, BackOffice, and FI, for the Back Office to compute and affect the existing Counterparty limits with the Counterparty Credit Exposures.

PFE Computation: MRM will be using regulatory Add-on factor.

Ageing analysis of accounting past-due exposure

AED' 000	Less than 30 days	30 - 90 days (exclusive)	90 - 120 days (exclusive)	120– 180 days (exclusive)	Over 180 days	Total past dues
Corporates	5,247	-	5,500	-	448,916	459,663
HNI	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
SME	-	-	-	-	-	-
Total	5,247	0	5,500	0	448,916	459,663

Breakdown of restructured exposures between impaired and not impaired exposures

AED' 000	Not Impaired	Impaired	Total
Outstanding Exposure	81,965	276,244	358,209
Allowance for Impairment	(4,534)	(198,770)	(203,304)
Total	77,431	77,474	154,905

Standardized Approach - Credit Risk Exposures & CRM Impact (CR4)

The Branches has in place group standards, regulations of the U.A.E. Central Bank and policies and procedures dedicated to monitor and manage risk from such activities.

AED' 000	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	1,618,241	-	1,618,241	-	350,710	22%
Public Sector Entities	85,703	-	85,703	-	85,703	100%
Multilateral development banks	-	-	-	-	-	0%
Banks	4,016,890	-	4,016,890	-	1,413,051	35%
Securities firms	-	-	-	-	-	0%
Corporates	1,345,421	465,085	1,218,079	163,145	1,381,224	76%
Regulatory retail portfolios	2,253	-	2,253	-	2,253	100%
Secured by residential property	-	-	-	-	-	0%
Secured by commercial real estate	-	-	-	-	-	0%
Equity Investment in Funds (EIF)	-	-	-	-	-	0%
Past-due loans	470,157	68,802	193,431	-	193,431	36%
Higher-risk categories	-	-	-	-	-	0%
Other assets	141,140	-	141,140	-	222,074	157%
Total	**7,679,805**	**533,887**	**7,275,737**	**163,145**	**3,648,445**	**44%**

Standardized Approach - Exposures by Asset Classes & Risk Weights (CR5)

AED 000's	a	b	c	d	e	f	g	h	i
Risk weight / **Asset classes**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
Sovereigns and their central banks	1,267,531	-	-	-	-	350,710	-	-	1,618,241
Public Sector Entities	-	-	-	-	-	85,703	-	-	85,703
Multilateral development banks	-	-	-	-	-	-	-	-	-
Banks	-	1,984,647	-	2,032,243	-	-	-	-	4,016,890
Securities firms	-	-	-	-	-		-	-	-
Corporates	-	-	-	-	-	1,381,224	-	-	1,381,224
Regulatory retail portfolios	-	-	-	-	-	2,253	-	-	2,253
Secured by residential property	-	-	-	-	-		-	-	-
Secured by commercial real estate	-	-	-	-	-		-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-		-	-	-
Past-due loans	-	-	-	-	-	193,431	-	-	193,431
Higher-risk categories	-	-	-	-	-		-	-	-
Other assets	15,879	-	-	-	-	60,719	-	64,542	141,140
Total	**1,283,410**	**1,984,647**	**-**	**2,032,243**	**-**	**2,074,040**	**-**	**64,542**	**7,438,882**

6 Market Risk

Market risk is the risk of loss of income or adverse changes in the market value of the bank's assets and liabilities due to fluctuations in market variables to which the UAE banking operations are exposed. It also comprises the impact from foreign exchange risk on positions in the whole balance sheet.

Market risk limits are subject to regular review, moreover, ad hoc reviews take place whenever there are major changes warranting their review.

Market risk in the trading book at AAIBUAE is carefully monitored by risk management through assessing and reporting the 99%-VaR based on a 1-day time period. AAIB Bank has set VaR limits for all trading portfolios, which are fully applicable to the trading book of the UAE branches. However, only a small proportion of these limits are consumed used for each portfolio. This internally estimated VaR will also form the basis for the economic capital calculations. AAIB Bank's Market risk policy covers for further details on limit-setting and other Market risk management processes.

Pillar 1 Capital for Market Risk

The standardized Pillar 1 capital approach prescribes a building block approach to estimating the capital for the trading book. This implies that capital requirements are assessed for each trading portfolio separately and then aggregated to reach the total capital requirement for market risk.

Economic Capital for Market Risk

This Pillar 1 approach is highly standardized and may not reflect the full risk profile of the trading portfolio. As such, an internal economic capital approach is applied to estimate the economic capital required for market risk. This economic capital approach for market risk reflects the loss that the trading portfolio could experience in a year with where a shock occurs with a 2% probability. To estimate this, the internally developed VaR model is used as the basis. This VaR model applies Monte Carlo simulations to estimate the P&L distribution from the 20 currency risks in the foreign exchange portfolio to derive a 1-day VaR estimate.

To reflect the loss that the portfolio could bear within a year, the observed 1-day VaR is extrapolated into a full-year risk VaR, using the standard square root of time method. Specifically, the 1-day VaR for the market risk positions is multiplied by the square root of 252 (number of trading days in a year). The economic capital amount is then the capital amount to cover a full-year VaR at the target confidence level (i.e. 98%).

Market risk under the standardised approach (MR1)

	AED 000's
	RWA
General Interest rate risk (General and Specific)	0
Equity risk (General and Specific)	0
Foreign exchange risk	574
Commodity risk	0
Options	**0**
Simplified approach	0
Delta-plus method	0
Securitisation	0
Total	**574**

7 Interest Rate Risk

Interest Rate Risk (IRR) is defined as the potential loss from unexpected changes in interest rates, which can significantly alter the bank's profitability and economic value of equity. Exposure to interest rate mismatching re-pricing gap risks is a normal part of banking procedures and can be an important source of profitability and risk to AAIBUAE earnings and capital.

The Bank carries out a monthly review of interest rate risk and submit an Interest Rate Re-pricing Risk Analysis report detailing the interest rate risk exposure of AAIBUAE.

7.1 Interest Rate Risk Quantitative Requirements

AAIBUAE relies heavily on statistical and risk analytics techniques, in order to manage and identify potential interest rate threats and opportunities. AAIBUAE will have two sets of limits; firstly, a limit that will ensure that the Interest Rate mismatch does not expose the bank’s future earnings to excessive fluctuations, and secondly, a limit that will not expose the Shareholders’ Equity to an unnecessary risk.

Interest Rate Gapping

Static Interest Rate re-pricing gap reports will be used to measure risk arising from the mismatching of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) over different time buckets. The bucketing process for RSA and RSL will be based on their re-pricing not their maturities. Static Interest Rate re-pricing gap will be used in order to measure Earnings at Risk and Economic Value of Equity.

Interest Rate gap reports will be prepared for the AED, USD, EUR and GBP currencies. Treasury & Capital Markets (TCM) are responsible of managing the bank's IRR while ensuring not to expose AAIB to excessive risk. TCM division should analyse and propose IR limits for the selected currencies and submit their proposal to the Market Risk Department, ALCO, BRC and Finally BoD for approval.

Earning at Risk (EaR) Limits
EaR method aims at measuring the sensitivity of the bank's profitability following a paralleled +1% upward change in rates on RSA and RSL simultaneously, on an annualized basis.
A limit on the EaR / Budgeted Net Profits is set and in case of breaches of this limit, ALCO needs to be notified and approve the breach.

Economic Value of Equity (EVE) Limits
EVE is the change in present value of the expected cash flow of assets minus the change in present value of the expected cash flows of liabilities when interest rates moves upward by 1%.
A limit on the Duration of Equity (DOE), which is the -EVE/Shareholders' Equity, is set and in case of breaches of this limit, ALCO needs to be notified and approve the breach.

Stress testing
In order to stress test our IRR, AAIB has developed three common yield curve shapes:

- +2% Parallel shift
- Change in the slope of curvature
- Inverted Scenario

The previous three selected scenarios are applied on the IRR exposure of the bank, and transmitted to the TCM, ALCO, and BRC on periodic basis.

7.2 Interest rate risk in the banking book (IRRBB)

Interest rate risk arises from differences in interest rate sensitivity between assets and liabilities on the balance sheet of the UAE branches, such that a squeeze on margins can arise in case interest rate expenses rise more than income. In mitigating IRRBB, the focus is on all the interest-bearing assets and liabilities, including interest rate derivatives and held-to-maturity T-bills.

The management of IRRBB is operationalized by decentralized functions in the AAIB Group, whereby the UAE branch manages interest rate risk of the UAE banking book autonomously. The guiding principle behind IRRBB management is the management of gaps between interest income-bearing and interest expense-bearing positions, i.e. Asset Liability Management (ALM).

In scope for an IRRBB assessments are Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) within the banking book of the UAE branches. The respective positions are recorded within a group-wide standardized template, clustering the RSA and RSL according to a predefined buckets.

Positions are aggregated from separately in seven currency denominations, i.e. AED, USD, EUR, GBP, EGP, CHF and JPY. Hence, IRRBB for the UAE branches is related to receivable and payable interest rates for assets and liabilities in these currencies. As such, the respective market yield curves represent the main risk drivers.

Quantitative information on IRRBB

In reporting currency (AED)	∆EVE		∆NII	
Period	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Parallel up	-8,940	-12,336	1,281	11,030
Parallel down	9,121	12,584	-1,281	-11,030
Steepener	-6,119	-9,873		
Flattener	6,213	10,047		
Short rate up	-6,393	-4,588		
Short rate down	5,064	5,409		
Period	**31.12.2021**		**31.12.2020**	
Tier 1 capital	1,525,536		1,465,694	

8 Operational Risk

Consolidated Operational Risk Management is centralized in AAIB's Head Office, it reports to Head of Risk Management Group, Operational Risk Committee, Board Risk Committee and Board of Directors.

Operational Risk framework relies on tools and techniques to capture, detect and mitigate its ongoing operational risk, the main tools used are; loss data collection which provides actual losses resulting from failures in system, process, people or external factors which happens throughout the daily processing of the Bank's activities while the risk and control assessment tool offers periodic assessment or a future looking tool into potential operational risk and assessment of existing controls in the Bank hence providing the management with indicators on the control environment. The key risk indicator tool is designed to monitor risks and alert the bank once the thresholds are breached giving an early warning signs to the potential occurrence of risks at a set frequency, other tool used is the assessment of the new products, projects and outsourcing activities.

Operational Risk department cooperates with the Internal Control Division, Compliance and Governance Department and relevant control functions to ensure proper risk management of AAIB's operational Risk Profile, it also provides reports to external auditors and regulators upon request.

The Operational Risk Committee is in place to ensure adequacy of the Operational Risk Management framework within AAIB and ensures that effective triggers and controls are in place to mitigate identified and materialized risks. The Committee's scope extends to ensure that the Bank has an effective business Continuity in place.

Organizational & Governance Structure

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<tr><th colspan="2">Control Function</th></tr>
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Operational risk measurement system

AAIB follow a converged framework, by refreshing its risk universe with a standard risk register template and assessed the risk and controls using a common assessment methodology, identified its control enhancement opportunities benchmarked to best practices while aligning business and control functions to a consolidated operational risk profile, moreover follow up takes place to ensure corrective action plans implementation to mitigate potential risks.

Scope and main context of their reporting framework on operational risk to executive management and to the board of directors

Report Name	Description	Frequency	Recipients
Operational Risk Monthly Pack	Detailed statics of operational risk 4 function. ▪ Loss data collection ▪ Key Risk Indicators ▪ Risk and Control Assessment ▪ New Product Project Assessment	▪ Monthly	▪ Managing Director and Vice Chairman. ▪ Division and Group Heads. ▪ Operational Risk. Management Committee**.**
Operational Risk Quarterly Pack	**Detailed statics of operational risk 4 function.** ▪ **Loss data collection** ▪ **Key Risk Indicators** ▪ **Risk and Control Assessment** ▪ **New Product Project Assessment**	▪ **Quarterly**	▪ Board Risk Committee. ▪ Board of Directors.

Risk mitigation and risk transfer used in the management of operational risk

- Policies and Procedures manuals.
- Insurance Policies.
- Internal Committees.

9 Remuneration

AAIB remuneration mix is composed of fixed and variable remuneration items which is approved by AAIB's Board of Directors. On annual basis the fixed remuneration is compared with market through an independent salary survey provider and is amended when needed in order to maintain the desired salary position in the market. Also, AAIB embraces a performance related pay culture, where all remuneration items are directly linked to individual performance. All independent senior management performance is evaluated by their respective Board of Directors Committees to assure the independence in their annual performance appraisal review. Moreover, any amendments in their fixed remuneration must be approved by their relevant Board Committee.

UAE Senior Management and Material Risk Takers are defined as follows:

Senior Management are UAE senior executives responsible for UAE daily operations and are accountable to AAIB Egypt Executive management. They are identified as:

- UAE country Head
- UAE corporate Banking Head
- UAE Treasury Head
- UAE Head of Branches Network.

As for material risk takers, they are all employees that have an impact on UAE branches risk profile. They are identified as:

- Corporate Banking staff.
- Treasury trading staff.
- Department Heads.
- Corporate Credit Admin staff.

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Remuneration awarded during the financial year (REM1)

	Count in Numbers and Amount in AED 000		a	b
	Remuneration Amount		**Senior Management**	**Other Material Risk-takers**
1	**Fixed Remuneration**	Number of employees	4	15
2		Total fixed remuneration (3 + 5 + 7)	3,611	5,691
3		Of which: cash-based	3,611	5,691
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	**Variable Remuneration**	Number of employees	4	15
10		Total variable remuneration (11 + 13 + 15)	269	229
11		Of which: cash-based	269	229
12		Of which: deferred		
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	**Total Remuneration (2+10)**		3,880	5,920