BASEL III- PILLAR 3 REPORTING 2021

Capital Adequacy and Risk Management

NBB, ABU DHABI BRANCH

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1. About the Bank

National Bank of Bahrain BSC - Abu Dhabi Branch (the "Bank" or the "Branch") is registered in the Emirate of Abu Dhabi since 17 March 1992 under commercial License number CN-1002015 as a branch of National Bank of Bahrain BSC (the "Head Office"), a public shareholding company incorporated in the Kingdom of Bahrain. The registered office of the Bank is situated at Al Otaiba Tower, located on Sheikh Hamdan Street, P.O. Box 46080 Abu Dhabi, United Arab Emirates.

2. Introduction

This report provides Pillar 3 disclosures for National Bank of Bahrain Abu Dhabi Branch. The disclosures consist of both quantitative and qualitative information in compliance with the requirements of Central Bank of UAE (CBUAE). The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types and/or to cover other risks. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

The report is prepared as per the enhanced Pillar 3 Disclosure requirements guidelines issued by CBUAE in November 2020 and are effective for the year ended 31st December 2021. The enhanced Pillar 3 disclosures focus on regulatory measures required under Pillar 1 of the Basel framework for measuring credit, market and operational risks and their associated resulting risk-weighted assets (RWA) and capital requirements. In some instances, Pillar 3 also requires supplementary information to be disclosed to improve the understanding of underlying risks.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer -maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

In November 2020, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk.

Following are the changes in the revised standards, which have been, adopted either prior to or during 2021:

- The Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar 2 Standard: Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investment in Funds, Securitization, Counterparty Credit Risk, Leverage Ratio

In addition, Credit Value Adjustment (CVA) for Pillar 1 and 3 will be effective from 30 June 2022. CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward-looking view of, but not limited to, Credit, Market and Operational Risk Capital.

The purpose of Pillar 3 - Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the Bank.

The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Bank, and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.

In compliance with the CBUAE Basel III standards and guidelines, these disclosures include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes, capital management and capital adequacy.

The management has appropriately reviewed the Pillar 3 Disclosures for the year 2021.

3. Overview of Risk Management and RWA

3.1 Key metrics (at branch level)

		AED 000's
	Available capital (amounts)	**Dec-21**
1	Common Equity Tier 1 (CET1)	321,249
1a	Fully loaded ECL accounting model	321,249
2	Tier 1	321,249
2a	Fully loaded ECL accounting model Tier 1	321,249
3	Total capital	325,043
3a	Fully loaded ECL accounting model total capital	325,043
	Risk-weighted assets (amounts)	
4	Total risk-weighted assets (RWA)	421,141
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	76.28%
5a	Fully loaded ECL accounting model CET1 (%)	76.28%
6	Tier 1 ratio (%)	76.28%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	76.28%
7	Total capital ratio (%)	77.18%
7a	Fully loaded ECL accounting model total capital ratio (%)	77.18%
	Additional CET1 buffer requirements as a percentage of RWA	
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 (%)	66.68%
	Leverage Ratio	
13	Total leverage ratio measure	695,823
14	Leverage ratio (%) (row 2/row 13)	46.17%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	46.17%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	46.17%
	Liquidity Coverage Ratio	
15	Total HQLA	NA
16	Total net cash outflow	NA
17	LCR ratio (%)	NA

	Net Stable Funding Ratio	
18	Total available stable funding	NA
19	Total required stable funding	NA
20	NSFR ratio (%)	NA
	ELAR	
21	Total HQLA	207,456
22	Total liabilities	160,512
23	Eligible Liquid Assets Ratio (ELAR) (%)	129%
	ASRR	
24	Total available stable funding	433,946
25	Total Advances	237,442
26	Advances to Stable Resources Ratio (%)	55%

4. Risk Management Approach

4.1 Credit Risk

The risk management philosophy of the Bank is focused on effectively identifying, measuring, controlling, monitoring and reporting on the various dimensions of risks facing the Bank. This is done with the primary objective of protecting asset values and income streams such that the interests of the Bank's depositors and stakeholders are safeguarded at all times. An appropriate balance between risk and reward to the Bank is achieved by relying on the following set of key principles that underpin the risk management framework:

a. Promotion of a robust risk culture.
b. Independent central risk oversight by Credit Risk Head - UAE
c. Hierarchical levels of responsibility incorporated in the organization structure, with a clear emphasis on maintaining adequate checks and balances across functions
d. Ensuring that risks are clearly identified, measurable and manageable
e. Well-documented credit policies and procedures for assessment and monitoring of the Bank's risks
f. An independent audit function to review compliance of the actual practices and processes followed with credit policies and procedures
g. Constant review and upgrading of credit systems and staff skills so that the Bank remains at the forefront of development and implementation of credit risk management techniques.

To achieve above objectives, a 'three lines of defense' model has been adopted at the Bank to actively manage its risks and achieve the required balance between risk and reward. The overall authority for risk management in the Bank is vested in the Board of Directors (BoD) and is managed through the Board Risk

and Compliance Committee (BRCC). Through this structure, the BoD approves risk management policies based on the recommendations of management. Approval authorities are accordingly delegated within the Bank in line with such policies.

NBB Abu Dhabi Branch has its own separate Credit Risk Policy (approved by Banks Board of Directors) which contains the essence of the global credit policy (of the Parent entity) but is tailor-made for the UAE operations based on local market practices and CBUAE requirements. It establishes the framework for a robust, unified and consistent credit culture within the Bank, thereby:

- Enabling the Bank to grow in a controlled environment and within a well- defined risk appetite that is aligned to the Bank's overall strategic objectives.
- Providing a common understanding and clear communication of risk objectives across the Bank
- Clearly assigning the ownership and demarcating the roles and responsibilities to respective units and the appropriate levels of authority within them, wherever necessary.

NBB Abu Dhabi Branch Credit Policy covers policies for the credit business, including credit risk appetite, governance, products, limits, monitoring, portfolio risk management, regulatory compliance etc. as well as specific policies related to the non-retail lending businesses of the Bank across UAE, and Bahrain.

Non-retail businesses handled by NBB Bahrain (Head office) includes:

(1) Corp. & Institutional Investment Banking division, with following business lines:

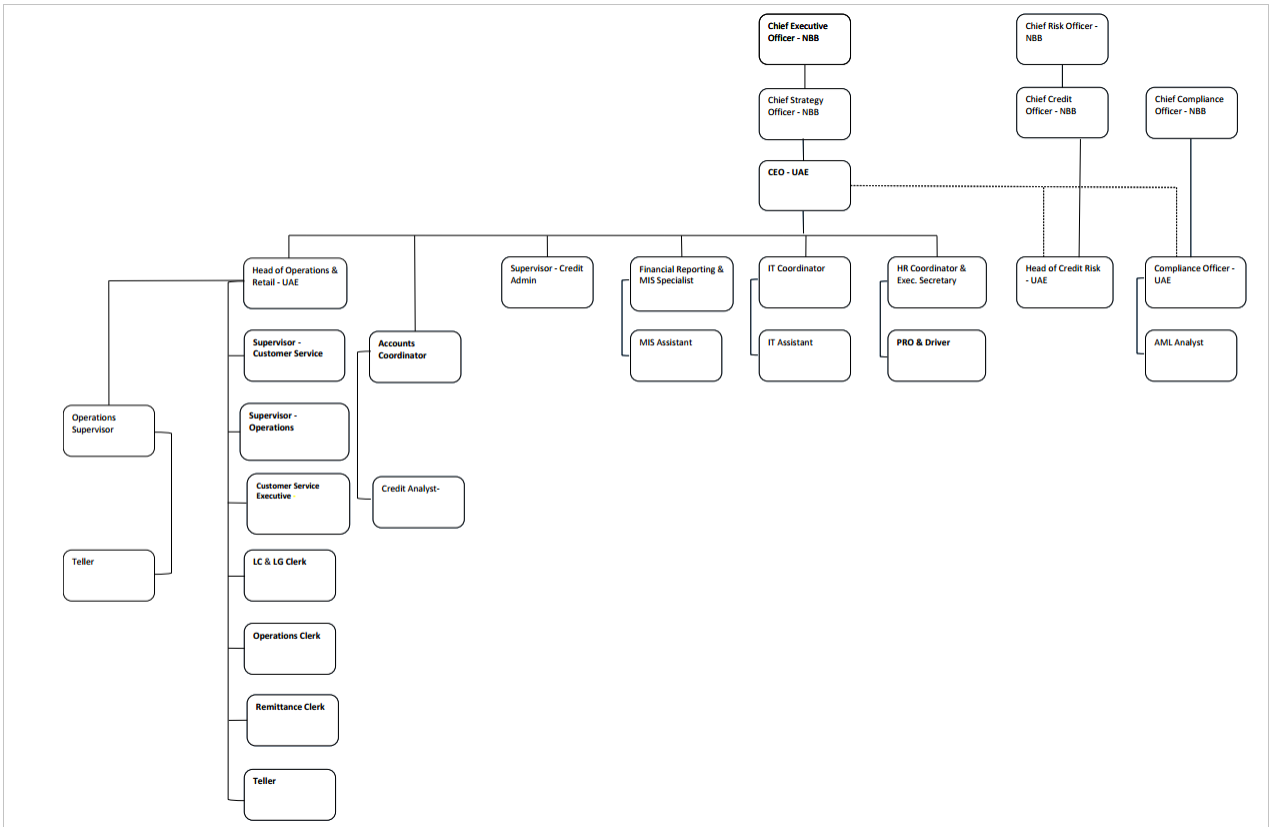
- Structured Finance and Transaction Banking (Trade Finance)
- Debt Capital Markets (DCM) and Syndications
- Coverage (Corporate and Financial Institutions)

(2) Commercial & SME

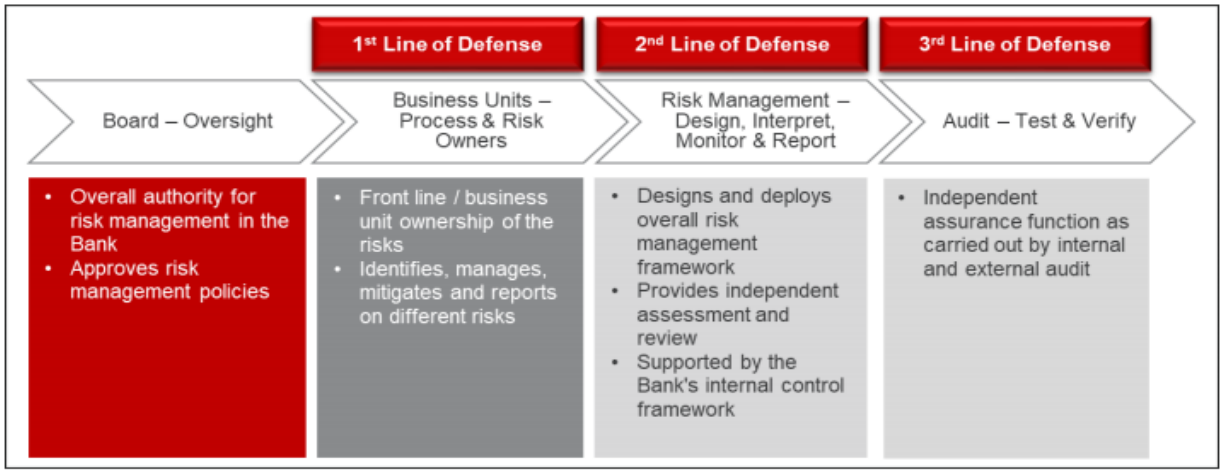
Adherence to the Credit Policy is mandatory, and any exceptions requires explicit approval from Board-approved approval authorities. In addition, Bank follows a conservative approach & follow the more stringent guideline between the Policy and CBUAE / Central Bank of Bahrain (CBB) rules and regulations.

Apart from monitoring geographic concentrations, NBB Abu Dhabi Branch also sets & monitors sector wise maximum appetite/exposures.

Organizational structure of NBB Abu Dhabi Branch is as under:



'Three lines of defense' model has been adopted at the Bank to actively manage its risks and achieve the required balance between risk and reward.



The roles and responsibilities related to credit risk management of various stakeholders and committees are described below.

Board Risk and Compliance Committee (BRCC)

A. The mandate and authorities (specific to credit risk management in the Bank) vested in this committee by the Board are:

a. Identifying, assessing, monitoring, reporting, and advising the Board on credit risk-related matters that the Bank is exposed to

b. Ensuring that appropriate mitigation of risks within the framework of the credit risk appetite is established by the Board, including reviewing and reporting its conclusions and recommendations to the Board on:

   i. The Bank's current and future credit risk appetite i.e. in relation to the extent and categories of credit risk which the Board regards as acceptable for the Bank.

   ii. The Bank's credit risk management framework (principles, policies, methodologies, systems, procedures, processes and people) including a credit risk strategy in line with the risk appetite of the Bank

c. Performing an annual review of the Bank's credit risk strategy, business asset underwriting standards, TM and RAC.

d. Reviewing comprehensive reporting on credit risk profile measured against approved risk appetite and assessing exceptions where needed for Board approval.

e. Reviewing and recommending for Board approval portfolio threshold limits relating to country, sector, tenor or other applicable parameters.

f. Monitoring and reviewing the non-performing portfolio of the Bank and related credit losses, as well as writing-off delinquent accounts outside the authority of management's discretion.

Audit Committee

The primary role of the Audit Committee is to provide on behalf of the Board, independent monitoring and oversight of the adequacy and effectiveness of the Bank's credit risk management framework, and compliance with the applicable regulations.

Management Credit Committee (MCC)

The primary credit-related responsibilities of the MCC shall be to approve:

- CAs presented by the relationship managers in line with defined credit risk appetite and in

conformity with the DoA

- Exceptions to Policy wherever the Committee deems fit and in conformity with the DoA

The MCC shall also convene regularly (at least quarterly) to review the overall risk performance of the Bank, including (but not limited to):

a. Credit portfolio review and trend analysis
b. Utilization of country limits and any proposed changes in country limits
c. Performance of Bank on various credit risk appetite metrics, limit management parameters, including oversight of corrective action plans for breaches therein
d. Proposed revisions (including addition of new sections) to the LCP post-risk commentary by CRH-UAE and CRMD
e. Breaches in covenants, documentation gaps, overdue review statistics, etc.

5. Overview of RWA

AED 000's

		a	b	c
		RWA		Min capital requirements
		Dec-21	Sep-21	T
1	Credit risk (excluding counterparty credit risk)	303,488	308,927	31,866
2	Of which: standardised approach (SA)	303,488	308,927	31,866
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	0	0	0
7	Of which: standardised approach for counterparty credit risk	0	0	0
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	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0
14	Equity investments in funds - fall-back approach	0	0	0

15	Settlement risk	0	0	0
16	Securitisation exposures in the banking book	0	0	0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0
20	Market risk	76,644	76,442	8,048
21	Of which: standardised approach (SA)	76,644	76,442	8,048
22	Of which: internal models approach (IMA)			
23	Operational risk	41,009	41,009	4,306
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**421,141**	**426,378**	**44,220**

6. Main sources of differences between regulatory exposure amounts and carrying values in financial statements.

AED 000's

		a	b	c	d	e
			Items subject to:			
		Total	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	474,393	607,857			
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation					
4	Off-balance sheet amounts	140,542	140,542			
5	*Differences in valuations*					
6	*Differences due to different netting rules, other than those already included in row 2*					

7	*Differences due to consideration of provisions*					
8	*Differences due to prudential filters*					
9	**Exposure amounts considered for regulatory purposes (Total)**	**614,935**	**748,399**			

7. Composition of capital

7.1 Composition of regulatory capital

AED 000's

	a	b
	Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
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	242,500	Same as (h) from CC2 template
Retained earnings	58,694	
Accumulated other comprehensive income (and other reserves)	20,055	
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)		
Common share capital issued by third parties (amount allowed in group CET1)		
Common Equity Tier 1 capital before regulatory deductions	321,249	
Common Equity Tier 1 capital regulatory adjustments		
Prudent valuation adjustments	0	
Goodwill (net of related tax liability)	0	CC2 (a) minus (d)
Other intangibles including mortgage servicing rights (net of related tax liability)	0	CC2 (b) minus (e)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0	
Cash flow hedge reserve	0	
Securitisation gain on sale	0	

Gains and losses due to changes in own credit risk on fair valued liabilities	0	
Defined benefit pension fund net assets	0	
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0	
Reciprocal cross-holdings in CET1, AT1, Tier 2	0	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	
Amount exceeding 15% threshold	0	
Of which: significant investments in the common stock of financials	0	
Of which: deferred tax assets arising from temporary differences	0	
CBUAE specific regulatory adjustments	0	
Total regulatory adjustments to Common Equity Tier 1	0	
Common Equity Tier 1 capital (CET1)	321,249	
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	CC2 (i)
OF which: classified as equity under applicable accounting standards	0	
Of which: classified as liabilities under applicable accounting standards	0	
Directly issued capital instruments subject to phase-out from additional Tier 1	0	
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	0	
Of which: instruments issued by subsidiaries subject to phase-out	0	
Additional Tier 1 capital before regulatory adjustments	0	
Additional Tier 1 capital: regulatory adjustments	0	
Investments in own additional Tier 1 instruments	0	

Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
CBUAE specific regulatory adjustments	0	
Total regulatory adjustments to additional Tier 1 capital	0	
Additional Tier 1 capital (AT1)	0	
Tier 1 capital (T1= CET1 + AT1)	321,249	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus		
Directly issued capital instruments subject to phase-out from Tier 2		
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
Of which: instruments issued by subsidiaries subject to phase-out		
Provisions	3,794	
Tier 2 capital before regulatory adjustments	3,794	
Tier 2 capital: regulatory adjustments		
Investments in own Tier 2 instruments		
Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
CBUAE specific regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	3,794	
Tier 2 capital (T2)	3,794	
Total regulatory capital (TC = T1 + T2)	325,043	
Total risk-weighted assets	421140.95	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	76.28%	
Tier 1 (as a percentage of risk-weighted assets)	76.28%	
Total capital (as a percentage of risk-weighted assets)	77.18%	
Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher	2.50%	

loss absorbency requirement, expressed as a percentage of risk-weighted assets)		
Of which: capital conservation buffer requirement	2.50%	
Of which: bank-specific countercyclical buffer requirement	0.00%	
Of which: higher loss absorbency requirement (e.g. DSIB)	0.00%	
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	66.68%	
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%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital and other TLAC liabilities of other financial entities	0	
Significant investments in common stock of financial entities	**0**	
Mortgage servicing rights (net of related tax liability)	**0**	
Deferred tax assets arising from temporary differences (net of related tax liability)	**0**	
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	**5,546**	
Cap on inclusion of provisions in Tier 2 under standardised approach	**3,794**	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
Current cap on CET1 instruments subject to phase-out arrangements	**0**	
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**0**	
Current cap on AT1 instruments subject to phase-out arrangements	**0**	
Amount excluded from AT1 due to cap (excess after redemptions and maturities)	**0**	
Current cap on T2 instruments subject to phase-out arrangements	**0**	
Amount excluded from T2 due to cap (excess after redemptions and maturities)	**0**	

7.2 Reconciliation of Regulatory Capital to Balance Sheet

AED 000's

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	207,456	207,456	
Items in the course of collection from other banks		-	
Due from other Banks	476	476	
Due from Head Office	79,135	79,135	
Trading portfolio assets		-	
Other Assets	1,715	10,037	
Financial assets designated at fair value		-	
Derivative financial instruments		-	
Loans and advances to banks		-	
Loans and advances to customers	185,197	310,089	
Reverse repurchase agreements and other similar secured lending		-	
Available for sale financial investments (Includes FVOCI)		-	
Current and deferred tax assets		-	
Prepayments, accrued income and other assets		-	
Investments in associates and joint ventures		-	
Goodwill and other intangible assets		-	
Of which: goodwill		-	(a)
Of which: intangibles (excluding MSRs)		-	(b)
Of which: MSRs		-	(c)
Property, plant and equipment	414	664	
Total assets	474,393	607,857	
Liabilities			
Deposits from banks			
Due to Head Office and Branches	36,036	36,036	
Items in the course of collection due to other banks	660	660	
Customer accounts	112,906	112,906	

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	3,542	10,910	
Current and deferred tax liabilities			
Of which: DTLs related to goodwill			(d)
Of which: DTLs related to intangible assets (excluding MSRs)			(e)
Of which: DTLs related to MSRs			(f)
Subordinated liabilities			
Provisions		126,096	
Retirement benefit liabilities			
Total liabilities	153,144	286,608	
Shareholders' equity			
Paid-in share capital	242,500	242,500	
Of which: amount eligible for CET1	242,500	242,500	(h)
Of which: amount eligible for AT1		-	(i)
Retained earnings	58,694	58,694	
Accumulated other comprehensive income	20,055	20,055	
Total shareholders' equity	321,249	321,249	

7.3 Main features of regulatory capital instruments

Template CCA is not applicable.

7.4 Geographical distribution of credit exposures used in the countercyclical capital buffer

Template CCyB1 is not applicable.

8. Leverage ratio

8.1 Leverage ratio common disclosure template

AED 000's

		31 Dec 2021	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	599,286	NA

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)**	599,286	NA
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		
9	Add-on amounts for PFE associated with *all* derivatives transactions		
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)**		
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	140,542	NA
20	(Adjustments for conversion to credit equivalent amounts)	(44,005)	NA
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)**	96,537	NA
Capital and total exposures			
23	**Tier 1 capital**	321,363	NA
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	695,823	NA
Leverage ratio			

25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	46%	
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	46%	
26	CBUAE minimum leverage ratio requirement	3%	
27	**Applicable leverage buffers**	43%	

9. Liquidity Risk Management

- Group Asset and Liability Committee ("**GALCO**") has the responsibility of implementing the Asset and Liability Management framework of the National Bank of Bahrain. A core part of this framework relates to the management of liquidity and the planning of contingency funding across the Bank's operating network.
- NBB (Head office) has separate Bank's Liquidity Risk Management Guidelines ("**LRMG**") in relation to Overseas Branches (including Abu Dhabi branch).
- Banks Liquidity Management Framework has the following objectives:

  - Ensure compliance with the Bank's Risk Appetite;
  - Ensure compliance with the BCBS and Central Bank regulations at the Head Office and Overseas Branches;
  - Provide adequate planning for balance sheet growth through:
    - Liquidity Stress Testing and Contingency Funding Plans;
    - Funds Transfer Pricing;
  - Manage Structural Stability by:
    - Promoting diversification of funding sources;
  - Ensuring the viability of the Recovery and Resolution Plan

- The LRMF establishes key principles for liquidity management in the normal course of business as well as outline the approach to stress testing and scenario analysis, and contingency funding plans. The Treasury and ALM unit of the Bank is the owner of Liquidity Risk and is responsible for active day-to-day management of liquidity. The Liquidity and Market Risk Unit and the Financial Planning and Controls Division are responsible for monitoring and reporting of the liquidity metrics including the Liquidity Buffers.

9.1 Liquidity Coverage Ratio (LCR)

Template LIQ1 is not applicable.

9.2 Net Stable Funding Ratio (NSFR)

Template LIQ2 is not applicable.

9.3 Eligible Liquid Assets Ratio

AED 000's

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	207,456	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	207,456	207,456
1.3	UAE local governments publicly traded debt securities		
1.4	UAE Public sector publicly traded debt securities		
	Subtotal (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	**207,456**	**207,456**
2	Total liabilities		160,512
3	**Eligible Liquid Assets Ratio (ELAR)**		**1.29**

9.4 Advances to Stables Resource Ratio

AED 000's

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	108,733
	1.2	Lending to non-banking financial institutions	
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	52,531
	1.4	Interbank Placements	76,178
	1.5	**Total Advances**	237,442

2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	326,795
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	664
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	**Total deduction**	664
	2.2	**Net Free Capital Funds**	326,131
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	10,186
	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	97,629
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	**Total other stable resources**	107,815
	2.4	**Total Stable Resources (2.2+2.3.7)**	433,946
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	54.72

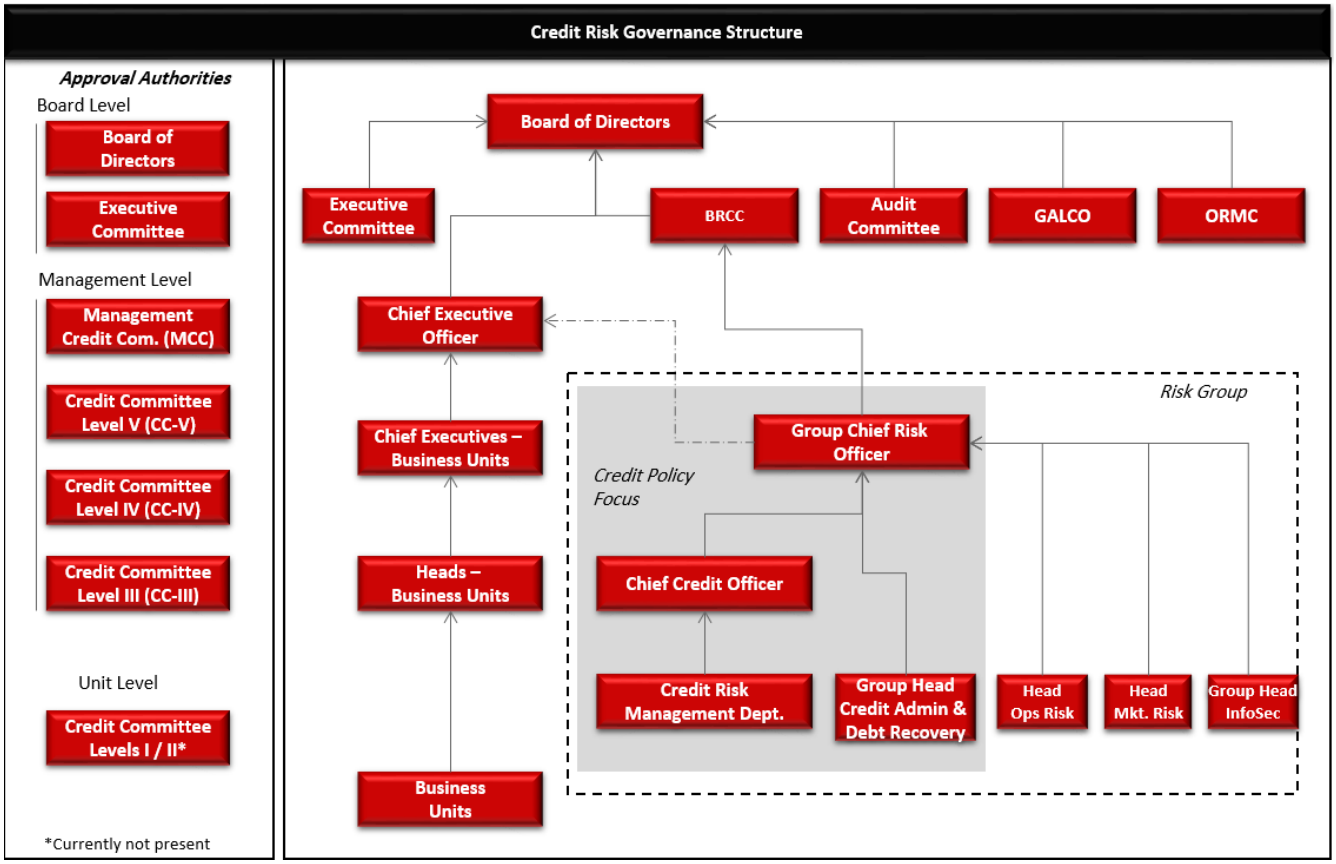
10. Credit risk:

10.1 General Qualitative Information about Credit Risk

Credit risk is the most materially significant and prevalent risk. Credit risk arise from the risk that the counterparty dealing with financial institutions will fail to honor / discharge their obligation causing bank to incur a financial loss. Credit risk underwriting, credit risk monitoring and control are jointly performed by Credit and Risk department.

Credit reviews and approvals are a crucial and integral aspect of the overall credit decision process, and the procedures highlighted herein cover the responsibilities of the stakeholders involved in these functions:

The overall credit risk organization is depicted in the diagram below:



Management Level Approval Authorities

The management level approval authority operates at four levels as defined below:

a. Management Credit Committee (MCC): Chaired by the Chief Executive Officer (CEO) and comprising Group Chief Risk Officer (GCRO), and Chief Executives of Business Units

b. Credit Committee Level 5 (CC-V): Comprising the CEO (approving authority) and the CRO (recommending and concurring authority)

c. Credit Committee Level 4 (CC-IV): Comprising the Chief Executives of Business Units (approving authority) and the CCO (recommending and concurring authority)

d. Credit Committee Level 3 (CC-III): Comprising the Heads of Business Lines (approving authority) and the CCO (recommending and concurring authority).

The approval authorities have the following responsibilities in relation to credit:

a. Adjudicate on individual CAs within the framework of authorities [reflected in the Delegation of Authority (DoA)] vested in them by the CEO

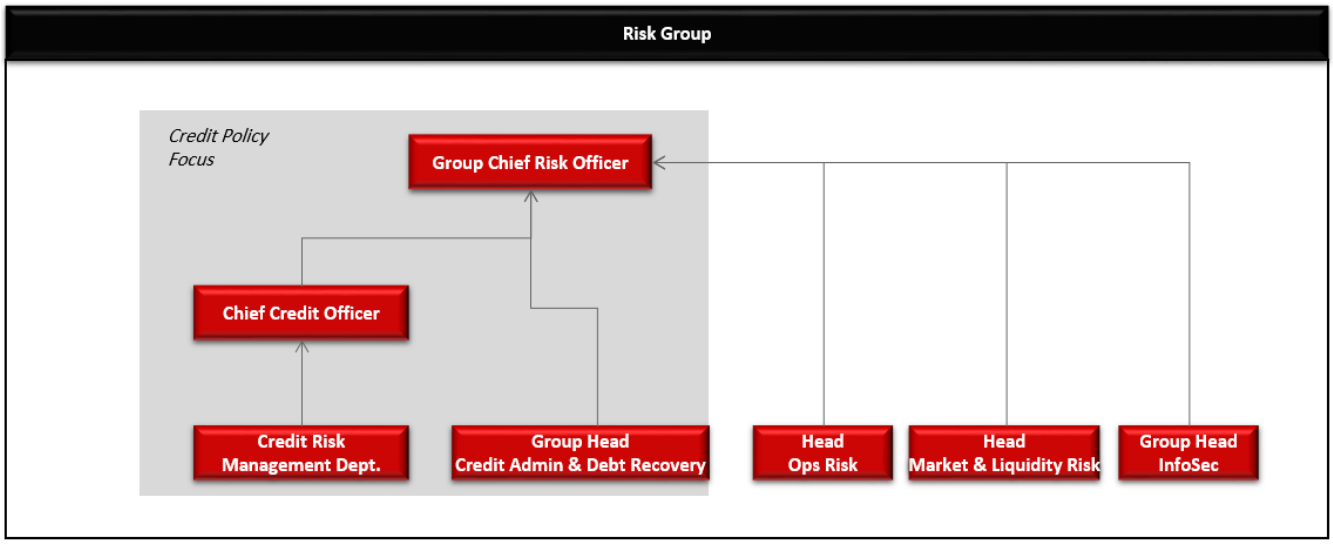
b. Review and approve, or as the case may be, provide recommendations on write-backs (release of provisions) and write-offs, within its delegated authorities.

c. Approve waivers and exceptions as considered permissible by the Bank, within its delegated authorities

Risk Group (RG): The risk management activities of the Bank are centralized and controlled through the Risk Group, headed by the Group Chief Risk Officer (GCRO). The Risk Group is supported by departments which handle Credit

Review (responsible for pre-sanction review and credit appraisal), Credit Administration (responsible for post-sanction disbursement, monitoring and compliance with approval conditions), Operational & Market Risk (responsible for review and monitoring of operational risk and market risk), and Information Security. The Credit Risk Head United Arab Emirates reports directly to the CCO and administratively to the CEO-UAE.

The structure of the Risk Group is depicted below.



Credit risk evaluation and monitoring process at NBB Abu Dhabi branch (summarized): Credit risk constitutes the most significant category of risk for the NBB Abu Dhabi branch. The branch manages credit risk by ensuring satisfactory compliance with the 5 'P's. I.e. Person (borrower), Purpose of facility, Payment capability of the borrower, Protection for the Bank (in terms of collateral) and Perspective (business prospects). The Bank has an independent Credit Department for evaluating credit and investment proposals with respect to all material risks. This department monitors risk elements on a regular basis and ensures that risk containment processes are in place. The Bank has implemented an internal risk - scoring model based on the borrower's financial parameters, qualitative aspects and the collateral available. For capital market instruments, limits are set with respect to borrower rating, instrument tenor and product type. Comprehensive systems and procedures are in place to monitor exposures against limits, review exceptions and ensure that corrective action is initiated when the first

signs of counterparty difficulty emerge.

The Bank defines limits on specific credit exposures and maximum concentration across various dimensions of the portfolio, in terms of exposure and capital consumption, through the limit management framework. This includes large exposures, single party exposures, country limits, sector limits, tenor limits etc.

Bank also has a well-defined Credit Risk Rating (CRR) framework providing a consistent approach for measurement of credit risk across the Bank. Rating is based on a 22-point scale (a 10-point scale including modifiers) which reflects the Bank's assessment of the degree of risk in a given credit exposure. All credit exposures in the Bank's portfolio must be covered by the CRR process and be assigned an internal CRR grade by the RM and reviewed by CRH-UAE (for further review and approval by CEO-UAE, CSO and CRMD) as per the framework approved by the BRCC. Review of assigned CRRs is carried out at least on an annual basis by the BU-UAE responsible for the account in coordination with / with inputs from CRH- UAE. The Bank has zero tolerance for any breaches of law, regulations or of the Bank's policies and standards. The principal responsibility of regulatory compliance including credit-related compliance within the Bank shall rest with Compliance-UAE.

10.2 Credit quality of assets

AED 000's

		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	121,210	188,880	115,067	110,724	4,343	195,023
2	Debt securities						
3	Off-balance sheet exposures	-	140,542	1,203	-	1,203	139,339
4	**Total**	**121,210**	**329,422**	**116,270**	**110,724**	**5,546**	**334,362**

10.3 Changes in stock of defaulted loans and debt securities

		AED 000's
		a
1	**Defaulted loans and debt securities at the end of the previous reporting period**	117,592
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	
4	Amounts written off	457
5	Other changes	4,075
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**121,210**

10.4 Additional disclosure related to the credit quality of assets

Definition of Default / Impairment

Default definition and impairment in the context of credit risk exposure of an obligor as per IFRS 9 is considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

a. The bank considers that the obligor is unlikely to pay its credit obligations in full (i.e. principal, interest, fees or any other amount), without taking actions such as realising security (if held).

b. The obligor is past due for 90 days or more on any credit obligation to the bank. In case of overdrafts, the customer will be considered as being past due once an advised limit has been breached or the customer has been advised of a limit smaller than the current outstanding amount.

B. The elements to be taken as indications of unlikeliness to pay must include, but not be limited to, the following

a. The bank puts the interest on the credit obligation on non-accrual status;

b. The bank makes a charge-off or account-specific provision resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure;

c. The bank sells the credit obligation at a material credit-related economic loss;

d. The bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of repayment instalments;

e. The bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the bank; or

f. The obligor has sought or has been placed in bankruptcy or similar protection where this would avoid, or delay repayment of the credit obligation to the bank.

C. For the purpose of above clause, distressed restructuring refers to situations when the Bank grants a concession that it would not otherwise consider, irrespective of whether the concession is at the discretion of the Bank or otherwise. Forgiveness means reduction in repayment amount or interest. Postponement could include grace periods or changes in instalments leading to delayed maturity

a. Based on the criteria above, the BU shall ensure that 'non-performing' status is automatically assigned to an account in the Bank's internal systems, and that such classification is not be contingent upon manual submission of a classification memo by the RM

b. Non-performing' status may also be assigned manually to an account by BU post-concurrence by MCC based on management judgment of increase in credit risk e.g. If the bank has initiated legal proceedings against the borrower, in case of known default with other lenders, bankruptcy or insolvency, breach of covenants, cease of business, imminent probability of foreclosure of the facility, disputes on pledged securities etc.

NBB Abu Dhabi Branch is in compliance with IFRS9 - The provisioning is carried out for Stage 1 & Stage 2 in line with the Bank's ECL policy and any potential red flags, including the need for possible enhanced provisioning (if any) is brought to the management's attention at an early stage. The staging classification should normally apply to the entire balance of an outstanding facility because if a problem exists with one credit, it normally applies to the whole facility and not just the payment or individual credit which may be overdue. This is a conservative approach, which will alert bank management and the Board to the full extent of a potential problem

Measurement Requirements

- The credit impairment assessment under IFRS 9 is based on an expected loss approach, i.e. it is not necessary for a loss event to occur before an ECL is recognised. As a result, all financial assets are generally expected to attract an ECL.

- IFRS 9 requires a three-stage approach to recognise and measure ECL at each reporting date, which is based on changes observed in credit quality of financial assets since origination. The standards prescribe two measures of ECL to be carried by the bank.

  a. Twelve-month ECL: The expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period, but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months; and

b. Life-time ECL: The expected credit losses that result from all possible default events over the life of the financial instrument.

Staging	Description	ECL Measure
Stage 1	Performing assets with no significant deterioration in credit risk since origination or with very low credit risk.	12-month ECL
Stage 2	Performing assets that have exhibited significant increase in credit risk since origination.	Life-time ECL
Stage 3	Non-performing assets that are considered credit impaired.	Life-time ECL

Restructured Facilities:

Restructuring involves modification of terms of the credit facility which may be based on certain factors and to address an existing payment Restructured credits. Restructuring of existing credit facilities is considered to address an existing payment default or rehabilitate delinquent debt. Restructuring is considered a better alternative than acceleration towards legal redress.

Restructured credits include both Performing (Standard) and Non-performing (NPL) accounts.

a. Credits which are Non-performing immediately prior to being restructured (renegotiated) will be Risk Rated 20 or worse

b. Credits which are performing immediately prior to being restructured will be Risk Rated 17-19 (Watch-list) or worse

c. Non-performing (NPL) credits that have been restructured will be categorized as Risk Rating 20 or worse and monitored for a period as defined in Chapter 4 – Risk Identification and Measurement , after which the account must be either upgraded or downgraded depending upon the performance of the credit in line with the new (renegotiated) terms

d. For clarification, it is not mandatory to categorize a restructured account that has been otherwise Performing (prior to restructuring), as Risk Rating 20 or worse

Any credit proposal requiring a change in the structure of a facility (generally in terms of availability, drawdown, or grace period, collectively called repayment terms), so as to make these more liberal for the borrower, will generally include:

a. A reduction in the interest rate or principal amount payable at maturity under the original contract

b. Extended time for usage of a facility (tenor)

c. Restructuring of payments, principal installments or interest due to a borrower's inability to settle in full on time in line with the original terms at a lower than current market rate

d. Weakened financial covenants or conditions

e. Overall economic profitability to the Bank is lower than that in the original approval

Existing credit facilities which are considered for restructuring may have one or more of the following features:

a. Interest payments are more than 90 days past due

b. Principal payments are more than 90 days past due

c. The borrower is in serious financial difficulties

d. Source(s) of repayment or the ability to repay or service the debt is uncertain

e. Value or recoverability of supporting security is in doubt

f. The Bank's capital is at serious risk of loss.

It is the prime responsibility of the RM / BU to highlight the borrower as a restructured in the credit application for identification and onward reporting to Central Bank, however the responsibility of flagging the account in the system as a restructured account remains with Credit Admin.

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

AED 000's

		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**
1	Sovereigns and their central banks	288,262		288,262		40,403	14%
2	Public Sector Entities						
3	Multilateral development banks						

4	Banks	79,611		79,611		77,752	98%
5	Securities firms						
6	Corporates	96,727	140,492	93,368	88,790	182,158	100%
7	Regulatory retail portfolios	11,346	50	360	25	385	100%
8	Secured by residential property						
9	Secured by commercial real estate						
10	Equity Investment in Funds (EIF)						
11	Past-due loans	121,210		660		660	100%
12	Higher-risk categories						
13	Other assets	2,130		2,130		2,130	100%
14	**Total**	**599,286**	**140,542**	**464,391**	**88,815**	**303,488**	

10.6 Standardized approach - exposures by asset classes and risk weights

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)**
1	Sovereigns and their central banks	207,456			80,806					288,262
2	Public Sector Entities									-
3	Multilateral development banks									-
4	Banks		476		2,957		76,178			79,611
5	Securities firms									-
6	Corporates						182,158			182,158
7	Regulatory retail portfolios						385			385
8	Secured by residential property									-

9	Secured by commercial real estate									-
10	Equity Investment in Funds (EIF)									-
11	Past-due loans						660			660
12	Higher-risk categories									-
13	Other assets						2,130			2,130
14	**Total**	**207,456**	**476**	**-**	**83,763**	**-**	**261,511**	**-**	**-**	**553,206**

11. Market risk: General qualitative disclosure requirements related to market risk

- Market risk is defined as the potential for change in the market value of trading and investment positions. Risk can arise from adverse changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities.
- NBB (Head office) has a set of guidelines pertaining to the measurement, management, and control of market risk of trading activities, FVTOCI investments, and management of Interest Rate and Fx Risks in the Banking Book (including overseas branches).
- The primary objective of Market Risk Management is to ensure that business units do not expose the Bank to unacceptable losses outside of risk appetite. To achieve this objective, Market Risk Management works closely together with the business units and other control and support groups.
- The Board of Directors are responsible for the overall direction, supervision, and control of the Bank and its international branches. Specific responsibilities related to Risk have been delegated to BRCC which includes continual review and approval of the Bank's Risk Policies and Limits, and the Annual Risk Strategy/Appetite, within which business strategy, objectives and targets are formulated.
- The BRCC has delegated the GALCO to be the Senior Management Committee overseeing market risk. GALCO's overall responsibility is to define long-term strategic plans and short-term tactical initiatives to prudently direct asset and liability allocation for the achievement of the Bank's strategic goals. GALCO monitors the Bank's liquidity and market risks, economic developments, market fluctuations, and the Bank's risk profile to ensure ongoing activities are compatible with the risk/reward guidelines approved by the BRCC. GALCO is chaired by the Chief Executive Officer and draws membership from relevant Senior Management.
-

- The Front Office is considered the first line of defense against unexpected market fluctuations. Accordingly, the Front Office is equipped with necessary systems and analytical tools to assess market news/events and take precautionary measures as and when needed.
- NBB (Head office) has a separate Market Risk Vertical (under LMR) with following key objectives/responsibilities:
  - Daily monitoring, measurement, control, and interpretation of Treasury activities and all associated Treasury Investment Limits and price-risk exposures. It is this vertical's responsibility to ensure that Treasury activities are assigned the appropriate price-risk limits and risk measurement criteria.
  - Provide analysis and insight, giving assurance to team head and the Bank's senior management that all Market Risks are being measured accurately and managed in line with the Bank Risk Appetite Framework.
  - Produce full suite of Market Risk reports at appropriate intervals (daily, weekly etc.), incorporating all relevant measures including Value-at-Risk ("VaR"), Factor Sensitivity Measures such as DV01, Earning-at-Risk, and limit monitoring around same.
  - Provide meaningful insight and comment, in a clear and transparent way, of reported risk numbers.
  - Ensure full back testing of Value-at-Risk measures and validating VaR models and approach.
  - Produce regular reports of key markets relating to the Treasury investments and of the key factors influencing movements in rates/spreads.
  - Support the model validation of all revaluation tools.

NBB Abu Dhabi Branch processes capture price risk, interest rate risk, liquidity risk and Foreign Exchange risk in the Banking books. Comprehensive limits are set with the approval of the Board of Directors covering maximum exposures to currencies, daylight and overnight positions, liquidity gaps, fixed and floating rate instruments, tenors, product types, sectors and rating criteria.

The Bank uses Standardised approach to calculate Risk Weighted Assets for market risk as per CBUAE guidelines and has set limits to monitor maximum exposure to different risk elements in the Banking books.

11.1 Market risk under the standardised approach

Below is the snapshot of the Market RWA calculation as of 31 Dec 2021.

		AED 000's
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	76,644
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**76,644**

11.2 Interest rate risk in the banking book (IRRBB)

- Interest Rate Risk (IRRBB) refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. When interest rates change, it affects a bank's earnings by altering interest rate-sensitive income and expenses, affecting its net profits. Excessive IRR can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.
- The Bank's exposure to interest rate risk arises from the following sources:
  - Gap Risk: This risk arises from the timing of instrument rate changes or, the term structure of banking book instruments.
  - Optionality Risk: Risk arising from price movements in instruments that are either automatic or behavioral to changes in interest rates, resulting in non-linear responses to interest rates.
  - Basis Risk: The risk from impacts of relative changes in interest rates for financial instruments that have either:
    - Similar tenors but priced using different reference curves (reference rate basis risk) or,
    - Different tenors but the same reference curve (tenor basis risk) or,
    - Similar tenors and reference curves but in different currencies (currency basis risk).
- The UAE Branch manages and monitors Interest rate risk (over short to medium term using NII approach) in the Banking Book through gap analysis of interest rate sensitive assets, liabilities and off-balance sheet instruments. The peak, cumulative, negative impact over a 1-year period of a rate shock of 200 bps is assessed. For this purpose, the assets and liabilities of the branch are bucketed as follows:
- Up to 1 month; 1 month - 3 months; 3 months - 6 months; 6 months - 1 year.
- Impact on the asset liability interest rate gap are tested for a 2% parallel shift in the yield curve and

considered to assess the impact on the branch's earnings of an interest rate shift.

- In addition, the Bank considers the Economic Value of Equity ("EVE") approach to monitor its interest rate risk in the long term. This approach is adopted in line with Basel IRRBB guidelines.

11.3 Quantitative information on IRRBB

AED 000's

In reporting currency (AED)	ΔEVE	ΔNII
Period	**T**	**T**
Parallel up	5,617	6,386
Parallel down	(3,190)	(6,386)
Steepener	(6.17)	
Flattener	1,605	
Short rate up	2,533	
Short rate down	2,195	
Maximum	5,617	
Period	**T**	**T**
Tier 1 capital	321,249	321,249

12. Operational risk

12.1 General qualitative information on a bank's operational risk framework

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or external events.
- Operational risk management is an integrated part of the NBB's overall risk management activities. It is the responsibility of the Board of Directors to establish a comprehensive and robust operational risk management framework. In addition, they define Bank's risk appetite for operational risk and ensure that the operational risks at NBB Abu Dhabi branch are adequately and effectively managed.
- The Operational Risk Management Committee (ORMC) is responsible for the Operational risk of the Bank and oversees the Operational Risk Management Department (ORMD).
- The Bank adopts a three-line of defense as a design of its controls: Business Units are the first line of defense, ORMD is the second line of defense, and Internal Audit is the third line of defense.
- The key responsibilities of ORMD are as under:
  - Guide the Business Units to identify, monitor, and mitigate operational risk.
  - Guide the Business Units to enable them to develop their own KRIs and RCSAs.

- Receive operational risk incidents; analyze root causes and the rectification measures addressed in each reported incident.
- Create, maintain and update the operational loss database to record and classify operational loss events.

- The GCRO submits an operational risk-reporting package to the ORMC every month. The GCRO also submits an operational risk reporting report to the Board Risk and Compliance Committee at every BRCC Meeting.

13. Remuneration policy

13.1 Remuneration policy

Scope of application of the remuneration policy

The remuneration policy has been adopted on a Group-wide basis and shall apply to its overseas branches and subsidiaries.

Our philosophy

NBB (Head office) has adopted a total rewards philosophy which translates its vision, strategy and values into a framework that guides its decision making when it comes to all elements of its reward. We aim through this adoption to:

1. Attract and retain the best performers.
2. Provide incentive variable pay based on the attainment of specific organizational performance goals as well as the attainment of individual performance goals in a manner which is completely aligned to our organizational values.
3. Develop industry leaders who positively impact the performance of the bank and act as catalyst for growth within the economies in which we operate.

In its elements, our philosophy encompasses the following:

1. Encourage competency building by better linking career development, performance management and rewards.
2. Support a performance-driven work culture that generates organizational growth.
3. Reward (in the form of fixed and variable compensation) performance, skills and competencies,

development and growth, and effective visible commitment to the organization.

4. Generate opportunities for individuals' growth through career development, training, and succession planning and talent development.
5. Support a work environment which is governed by our values, sound leadership, and a culture conducive to success through team-based oriented work relationships and a balanced work life mix.

This translation of this philosophy has been implemented through compliance with a strong corporate governance framework, one which is both in adherence with regulatory requirements and aligned with industry benchmarks and best practices. In terms of oversight, the NRGSC (Nomination, Remuneration, and Governance & Sustainability Committee) is responsible for ensuring adherence to policy and regulations.

The bank's Remuneration Policy ensures that all employees, particularly the Approved Persons and material risk takers, are remunerated fairly and responsibly.

To ensure alignment between what we pay the employees and the bank's business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also considers adherence to the bank's values, risk, compliance measures and, above all, the need to act with integrity. Altogether, performance is judged not only on what is achieved over the short and long- term but also importantly on how it is achieved, as the bank believes the latter contributes to the long-term sustainability of the business.

NRGSC (Nomination, Remuneration, Governance & Sustainability Committee) **role and focus**

The NRGSC has oversight of all compensation policies for the bank's employees. The NRGSC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGSC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the bank.

The responsibilities of the NRGSC with regards to the variable compensation policy of the bank, as stated in its mandate, include, but are not limited to, the following:

Approve, monitor and review the remuneration system to ensure the system operates as intended.

Approve the remuneration policy and amounts for each Senior Position,

Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGSC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.

Ensure that for approved persons in risk management, human resources, strategy, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.

- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of Bahrain's Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.
- The Board of Directors has established the NRGSC to address the above-mentioned objectives. Details of the committee, including its meeting dates, are included within the Corporate Governance Report.

Variable remuneration for staff

- Variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to individuals' contributions towards the attainment of NBB goals and targets working within a value-based culture, in the context of a highly efficient, pragmatic and delivery-oriented environment.
- The bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRGSC aims to balance the distribution of the bank's profits between shareholders and employees.
- The key performance metrics at the bank level include a combination of short- and long-term measures and include profitability, solvency, liquidity and growth indicators.
- The NRGSC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGSC demonstrates that its decisions are consistent with the assessment of the bank's financial condition and prospects.
- The bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the

bank's objective to pay out bonuses out of realized and sustainable profits. Based on the quality of earnings, the bonus base could be adjusted based on the discretion of the NRGSC.

- For the bank to have any funding for distribution of bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced where subdued or negative financial performance occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.
- As mentioned above, the total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 7% to 9% of the net profit before the bonus.
- **Remuneration of control and support functions**
- The remuneration level of staff in the control and support functions allows the bank to employ qualified and experienced personnel in these functions. The bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.
- The bank's performance management system plays a major role in deciding the performance of the support and control units based on the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance, and ethical considerations as well as the market and regulatory environment other than value adding tasks which are specific to each unit.

Variable compensation for business units

- Variable compensation for the business units is primarily decided by the key performance objectives set through the bank's performance management system. Such objectives contain financial and non-financial targets, including risk control, compliance, and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

- The purpose of the risk linkages is to align variable remuneration to the risk profile of the bank. In seeking to

do so, the bank considers both quantitative measures and qualitative measures in the risk assessment process. Quantitative measures and human judgement play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy is designed to reduce employees 'incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

The NRGSC considers whether the variable remuneration policy is in line with the bank's risk profile and ensures that through the bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments consider all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to the distribution of the annual bonus. The bank ensures that the total variable remuneration does not limit its ability to strengthen its capital base.

The NRGSC keeps itself abreast of the bank's performance against the risk management framework. The NRGSC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the bank suffers material losses in its financial performance, the risk adjustment framework includes several adjustments. The NRGSC carefully examines the results of stress tests and back tests conducted on the variable remuneration policy framework and makes necessary corrections to the staff bonus by reduction of bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

The NRGSC, with Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ decrease the ex-post adjustment.
- Consider additional deferrals or increase in the quantum of share awards.
- Recovery through malus and clawback arrangements.

Malus and Clawback framework

The bank's malus and clawback provisions allow the bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the bank during the concerned performance year.

Any decision to take back an individual's award can only be taken by the bank's Board of Directors.

The bank's malus and clawback provisions allow the bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include (i) reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year, and (ii) the employee deliberately misleads the market and/or shareholders in relation to the financial performance of the bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has the following main components

Upfront cash	The portion of the variable compensation awarded and paid out in cash on conclusion of the performance evaluation process
Deferred cash	The portion of variable compensation awarded and paid in cash on a pro-rata basis over three years.
Upfront share awards	The portion of variable compensation awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation awarded and paid in the form of shares on a pro-rata basis over three years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the bank's share price as per the rules of the bank's share incentive scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

Employees in the grade of senior manager and above and those earning total annual compensation of AED 974,141/-** as on 31 Dec 2021 and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GM's and above	5 highest paid business emp.	SMs and AGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

Note: * The deferral vests on a pro-rata basis over a three-year period.

The NRGSC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees subject to deferral arrangements.

**Equivalent to BHD 100,000/-