

BASEL III- PILLAR 3 REPORTING 2022

Capital Adequacy and Risk Management

NBB, UAE

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1 About the Bank

National Bank of Bahrain BSC - United Arab Emirates Branches (the “Bank” or “the Branch”) is registered as a Foreign Branch and is regulated by the Central Bank of the United Arab Emirates (“CBUAE”). The bank is engaged in commercial banking activities as a branch of National Bank of Bahrain BSC (the “Head Office”), a public shareholding company incorporated in the Kingdom of Bahrain. The registered addresses of each of the branches in the UAE are as follows.

- Dubai Branch: P.O. Box 120009, Building 3, Emaar Square, Dubai, UAE.
- Abu Dhabi Branch: P.O. Box 46080, Landmark Tower, Corniche, Abu Dhabi.

2 Introduction

1. The Bank assesses its Capital Adequacy based on the updated Basel III regulations published by the CBUAE notice no. CBUAE/BSN/2022/5280 in December 2022. The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars:

- Pillar 1 - Measuring minimum capital requirements for Credit, Market, and Operational Risks.
- Pillar 2 – Supervisory Review process and ICAAP (Internal Capital Adequacy Assessment Process).
- Pillar 3 – Market Disclosures.

2. During 2011, Basel Committee on Banking Supervision (BCBS) officially announced the final set of revised regulatory capital rules known as “Basel III”, which are being phased in globally. Subsequent to Basel III consultation paper issued by CBUAE in 2016, the CBUAE published the "Regulations re Capital Adequacy" (the "Basel III Regulations"), which were effective from 1st Feb 2017. The Basel III Regulations are supported by the accompanying standards entitled "Standards for Capital Adequacy of Banks in the UAE" which were updated by the UAE Central Bank in December 2022 by virtue of Notice No. CBUAE/BSN/2022/5280 (the "Accompanying Standards"). The accompanying Standards elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements.

The regulatory thresholds put in by CBUAE for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. In addition to the minimum capital requirement, CBUAE has mandated additional capital buffers (Capital Conservation Buffer and Countercyclical).

Min. Capital requirements	Thresholds
Minimum Common Equity Tier 1 Ratio	7.0%
Minimum Tier 1 Capital Ratio	8.5%
Minimum Capital Adequacy Ratio	10.5%
Capital Conservation Buffer	2.5%

(Mandated Capital including buffers is 13% of Total RWA.)

3. CBUAE requires the Pillar 2 - Supervisory Review Process to focus on 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.
4. 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.
5. 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.
6. This report provides Pillar 3 disclosures for the Branch. The disclosures consist of both quantitative and qualitative information as per regulations and standards set by requirements of Central Bank of UAE (CBUAE).

The 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. 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.

7. The management has appropriately reviewed the Pillar 3 Disclosures for the year 2022.

3. Overview of Risk Management and RWA

3.1 Key metrics (at Branch level)

				AED 000'S	
		a	b	c	d
		T	T-1	T-2	T-3
	Available capital (amounts)	Dec-22	Sep-22	Jun-22	Mar-22
1	Common Equity Tier 1 (CET1)	753,330	747,956	747,251	319,995
1a	Fully loaded ECL accounting model*	753,330	747,956	747,251	319,995
2	Tier 1	753,330	747,956	747,251	319,995
2a	Fully loaded ECL accounting model Tier 1	753,330	747,956	747,251	319,995
3	Total capital	760,963	755,394	750,798	322,670
3a	Fully loaded ECL accounting model total capital	760,963	755,394	750,798	322,670
	Risk-weighted assets (amounts)				

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4	Total risk-weighted assets (RWA)	781,161	945,438	467,958	320,896
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	96.44%	79.11%	159.68%	99.72%
5a	Fully loaded ECL accounting model CET1 (%)	96.44%	79.11%	159.68%	99.72%
6	Tier 1 ratio (%)	96.44%	79.11%	159.68%	99.72%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	96.44%	79.11%	159.68%	99.72%
7	Total capital ratio (%)	97.41%	79.90%	160.44%	100.55%
7a	Fully loaded ECL accounting model total capital ratio (%)	97.41%	79.90%	160.44%	100.55%
	Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	86.91%	69.40%	149.94%	90.05%
	Leverage Ratio				
13	Total leverage ratio measure	1,256,910	1,014,590	1,130,326	633,253
14	Leverage ratio (%) (row 2/row 13)	59.92%	73.72%	66.11%	50.53%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	59.92%	73.72%	66.11%	50.53%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	59.92%	73.72%	66.11%	50.53%
	Liquidity Coverage Ratio				
15	Total HQLA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA
	Net Stable Funding Ratio				
18	Total available stable funding	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA
	ELAR				
21	Total HQLA	58,207	175,663	756,585	309,559
22	Total liabilities	353,941	104,281	237,885	223,341
23	Eligible Liquid Assets Ratio (ELAR) (%)	16%	168%	318%	139%
	ASRR				
24	Total available stable funding	991,462	818,500	933,003	518,585

25	Total Advances	931,199	419,309	180,705	194,180
26	Advances to Stable Resources Ratio (%)	94%	51%	19%	37%

* "Fully Loaded" means bank's regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

4 Risk Management Approach

4.1 Credit Risk

Bank's Business Model & Risk Profile

Bank's business model focuses on non-retail banking activities which include:

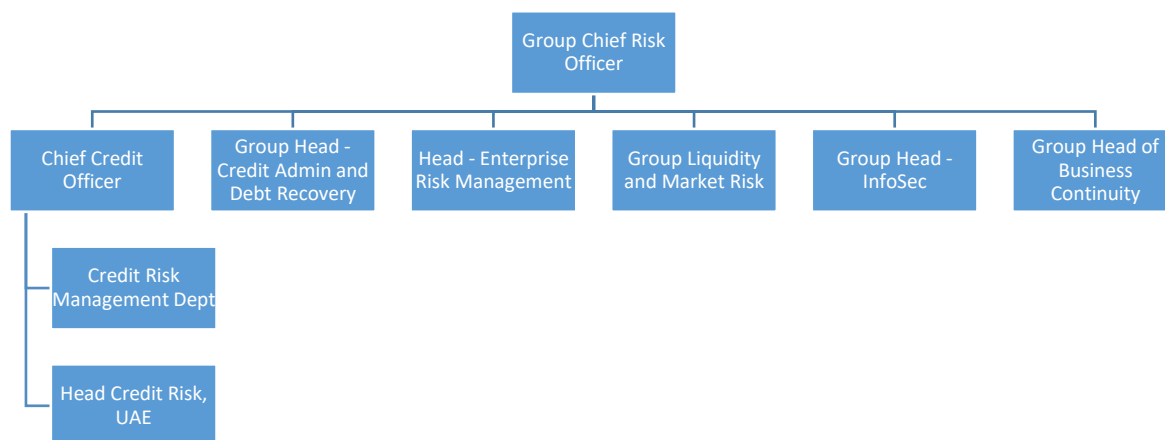
- (i) Corporate & Institutional Investment Banking
 - Structured Finance and Transaction Banking (Trade Finance)
 - Debt Capital Markets (DCM) and Syndications
 - Coverage (Corporate and Financial Institutions)
- (ii) Commercial & Small and Medium Enterprises.

Risk Governance:

In line with the Bank's overall risk philosophy, the fundamental principles that govern the Bank's credit risk governance structure include an emphasis on clear definition and demarcation of roles, responsibilities, and reporting lines, while ensuring independence and no conflict of interest in the pursuit of business objectives.

The risk management activities of the Bank are carried out by 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.

Risk Governance Structure as depicted below:



The overall authority for risk management (including credit risk) in the Bank is vested in the Board of Directors (BoD or 'the Board') and is supervised through the Board Risk Compliance Committee (BRCC). Through this structure, the BoD approves all risk management policies including credit risk based on the recommendations of senior management. Credit approval authorities are delegated to different functionaries in the hierarchy depending on the exposure. In general, the Bank follows a committee approach in deciding on all underwriting credit decisions and delegated authorities are structured such that the joint of at least 2 officers are required for a valid approval (post review and recommendation from Head of Credit Risk, UAE (HCR-UAE) and Chief Executive Officer (CEO-UAE)).

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

- Business Unit – United Arab Emirates (BU-UAE) comprising credit originating personnel/ relationship managers act as the 'first line of defence' and are accountable for results of their respective businesses, which includes the responsibility for maintaining an appropriate balance between risk and reward.
- CRMD, UAE/HCR-UAE is part of the 'second line of defense', has functional and management authority over risk control throughout the Bank. Provide independent oversight of credit risk and is responsible for implementing credit risk control processes. This includes establishing methodologies to measure and assess credit risk and developing and operating an appropriate credit risk control infrastructure.
- Compliance function - assess bank-wide adherence to requirements to –

- i. Develop and communicate compliance policies and procedures; and
 - ii. Monitor and report on compliance with laws, corporate governance rules, regulations, regulatory codes and policies to which the bank is subject.
- Internal Audit - Third line of defense which independently assures that the bank is managing risks effectively and the adequacy & effectiveness of the Internal Control, Risk Management, Governance, Systems & Processes.

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, Target Market and Risk Acceptance Criteria.
- 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.

Management Credit Committee (MCC)

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

- Credit Applications presented by the relationship managers in line with defined credit risk appetite and in conformity with the Delegation of Authority (DoA) as approved by the board,
- 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 Local Credit Policy post-risk commentary by HCR-UAE and CRMD
- e. Breaches in covenants, documentation gaps, overdue review statistics, etc.

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.

5 Overview of RWA

		AED 000's		
		a	b	c
		RWA		Minimum capital requirements
		Dec-22	Sep-22	T
1	Credit risk (excluding counterparty credit risk)	610,679	595,077	64,121
2	Of which: standardised approach (SA)	610,679	595,077	64,121
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)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)			
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	141,580	321,459	14,866
21	Of which: standardised approach (SA)	141,580	321,459	14,866
22	Of which: internal models' approach (IMA)			
23	Operational risk	28,902	28,902	3,035
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)	781,161	945,438	82,022

*The minimum capital requirements applied is 10.5%

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

AED 000's

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,121,233	1,121,233	-	-	-
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	292,423	292,423	-	-	-
5	<i>Differences in valuations</i>					
6	<i>Differences due to different netting rules, other than those already included in row 2</i>					
7	<i>Differences due to consideration of provisions</i>					
8	<i>Differences due to prudential filters</i>					
9	Exposure amounts considered for regulatory purposes	1,413,656	1,413,656	-	-	-

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			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	671,100	Same as (h) from CC2 template
2	Retained earnings	61,966	
3	Accumulated other comprehensive income (and other reserves)	20,419	
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>		
5	Common share capital issued by third parties (amount allowed in group CET1)	(155)	
6	Common Equity Tier 1 capital before regulatory deductions	753,330	
Common Equity Tier 1 capital regulatory adjustments			
7	Prudent valuation adjustments	0	
8	Goodwill (net of related tax liability)	0	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	0	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0	
11	Cash flow hedge reserve	0	
12	Securitisation gain on sale	0	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
14	Defined benefit pension fund net assets	0	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	0	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	0	

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17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	
20	Amount exceeding 15% threshold	0	
21	Of which: significant investments in the common stock of financials	0	
22	Of which: deferred tax assets arising from temporary differences	0	
23	CBUAE specific regulatory adjustments	0	
24	Total regulatory adjustments to Common Equity Tier 1	0	
25	Common Equity Tier 1 capital (CET1)	753,330	
Additional Tier 1 capital: instruments			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	CC2 (i)
27	Of which: classified as equity under applicable accounting standards	0	
28	Of which: classified as liabilities under applicable accounting standards	0	
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	0	
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	0	
31	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	0	
32	Additional Tier 1 capital before regulatory adjustments	0	
Additional Tier 1 capital: regulatory adjustments			
33	Investments in own additional Tier 1 instruments	0	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
36	CBUAE specific regulatory adjustments	0	
37	Total regulatory adjustments to additional Tier 1 capital	0	

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38	Additional Tier 1 capital (AT1)	0	
39	Tier 1 capital (T1= CET1 + AT1)	753,330	
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus		
41	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>		
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
43	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
44	Provisions	7,633	Capped at 1.25% of CRWA
45	Tier 2 capital before regulatory adjustments	7,633	
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments		
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
49	CBUAE specific regulatory adjustments		
50	Total regulatory adjustments to Tier 2 capital	7,633	
51	Tier 2 capital (T2)	7,633	
52	Total regulatory capital (TC = T1 + T2)	760,963	
	The CBUAE Minimum Capital Requirement		
53	Total risk-weighted assets	781,161	
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	96.44%	
55	Tier 1 (as a percentage of risk-weighted assets)	96.44%	
56	Total capital (as a percentage of risk-weighted assets)	97.41%	
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.50%	
58	Of which: capital conservation buffer requirement	2.50%	
59	Of which: bank-specific countercyclical buffer requirement	0.00%	
60	Of which: higher loss absorbency requirement (e.g., DSIB)	0.00%	

61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	86.91%	
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
Amounts below the thresholds for deduction (before risk weighting)			
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	0	
66	Significant investments in common stock of financial entities	0	
67	Mortgage servicing rights (net of related tax liability)	0	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	
Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12,047	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	7,633	
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
72	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)			
73	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>	0	
74	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	0	
75	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>	0	
76	<i>Amount excluded from AT1 due to cap (excess after redemptions and maturities)</i>	0	
77	<i>Current cap on T2 instruments subject to phase-out arrangements</i>	0	
78	<i>Amount excluded from T2 due to cap (excess after redemptions and maturities)</i>	0	

7.2 Reconciliation of Regulatory Capital to Balance Sheet

The following table enables users to identify the differences between the scope of accounting balance sheet and the scope of regulatory balance sheet, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template.

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	47,293	47,293	
Items in the course of collection from other banks		-	
Due from other Banks	4,196	4,196	
Due from Head Office	1,400	1,400	
Trading portfolio assets		-	
Other Assets	11,878	21,951	
Financial assets designated at fair value		-	
Derivative financial instruments		-	
Loans and advances to banks		-	
Loans and advances to customers	878,706	890,434	
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 measured at amortised cost	141,249	141,250	
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	11,432	14,709	
Total assets	1,096,154	1,121,233	
Liabilities			
Deposits from banks			
Due to Head Office and Branches	229,367	229,367	
Items in the course of collection due to other banks	120	120	

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Customer accounts	103,949	103,949	
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	9,233	20,505	
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			
Impairment Provisions		12,047	
Specific Provisions		1,023	
Interest in Suspense		737	
Retirement benefit liabilities			
Total liabilities	342,669	367,748	
Shareholders' equity			
Paid-in share capital	671,100	671,100	
Of which: amount eligible for CET1	671,100	671,100	(h)
Of which: amount eligible for AT1		-	(i)
Retained earnings	61,966	61,966	
Accumulated other comprehensive income	20,419	20,419	
Total shareholders' equity	753,485	753,485	

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	a	b
		Dec-22	Sep-22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,107,884	854,357
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)	1,107,884	854,357
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		
9	Add-on amounts for PFE associated with <i>all</i> 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 <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions		
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		

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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	292,423	320,441
20	(Adjustments for conversion to credit equivalent amounts)	(143,397)	(160,208)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	Off-balance sheet items (sum of rows 19 to 21)	149,026	160,233
Capital and total exposures			
23	Tier 1 capital	753,330	747,956
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,256,910	1,014,590
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	60%	74%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	60%	74%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	Applicable leverage buffers	57%	71%

9 Liquidity Risk Management

- Liquidity risk is the risk that a bank will be unable to meet its obligations, including financing commitments as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including an over reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.
- 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 has Group-wide Liquidity Risk Management Framework (“**LRMF**”) which sets and governs the Liquidity Risk Management Practices at the bank and sets out the detailed Liquidity Risk Management, Measurement, and Monitoring Program for the Bank and its international branches. In instances where there are domestic regulatory requirements and/or practices, the branches comply with those domestic requirements and practices as defined in the “Liquidity Risk Management Guidelines of Overseas Branches”.
- Liquidity Management Framework has the following objectives:
 - Ensure compliance with the Bank's Risk Appetite.
 - Ensure compliance with the Basel Committee on Banking Supervision (BCBS) guidelines 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.

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9.1 Liquidity Coverage Ratio (LCR)

Template LIQ1 is not applicable for UAE Branches.

9.2 Net Stable Funding Ratio (NSFR)

Template LIQ2 is not applicable for UAE Branches.

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	47,293	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	47,293	47,293
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	141,250	10,914
1.6	Total	141,250	58,207
2	Total liabilities		353,941
3	Eligible Liquid Assets Ratio (ELAR)		16%

(As per CBUAE regulation, min ELAR of 10% to be maintained at all times)

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)	888,674
	1.2	Lending to non-banking financial institutions	
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	42,525
	1.4	Interbank Placements	0
	1.5	Total Advances	931,199
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	765,532
		Deduct:	
	2.1.1	Goodwill and other intangible assets	

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	2.1.2	Fixed Assets	14,709
	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	14,709
	2.2	Net Free Capital Funds	750,823
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	
	2.3.2	Interbank deposits with remaining life of more than 6 months	150,608
	2.3.3	Refinancing of Housing Loans	
	2.3.4	Borrowing from non-Banking Financial Institutions	
	2.3.5	Customer Deposits	90,031
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	Total other stable resources	240,639
	2.4	Total Stable Resources (2.2+2.3.7)	991,462
3		ADVANCES TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	94%

10.1 General Qualitative Information about Credit Risk

Credit risk is one of the most materially significant and prevalent risks. Credit risk arises from the risk that the counterparty dealing with financial institutions will fail to honor / discharge their obligation causing bank to incur a financial loss. The magnitude of the credit risk depends on the likelihood of default by the counterparty, and on the potential value of the bank's contracts with the customer at the time of default. Credit risk largely arises in assets shown on the balance sheet, but it can also show-up off the balance sheet in a variety of contingent obligations.

NBB's Approach to Management of Credit Risk

Group has established Global Credit Policy (GCP) for robust, unified and consistent credit culture within the bank to (a) enable 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, (b) provide a common understanding and clear communication of risk objectives across the Bank, (c) assign the ownership and demarcating the roles and responsibilities to respective units and the appropriate levels of authority within them, wherever necessary.

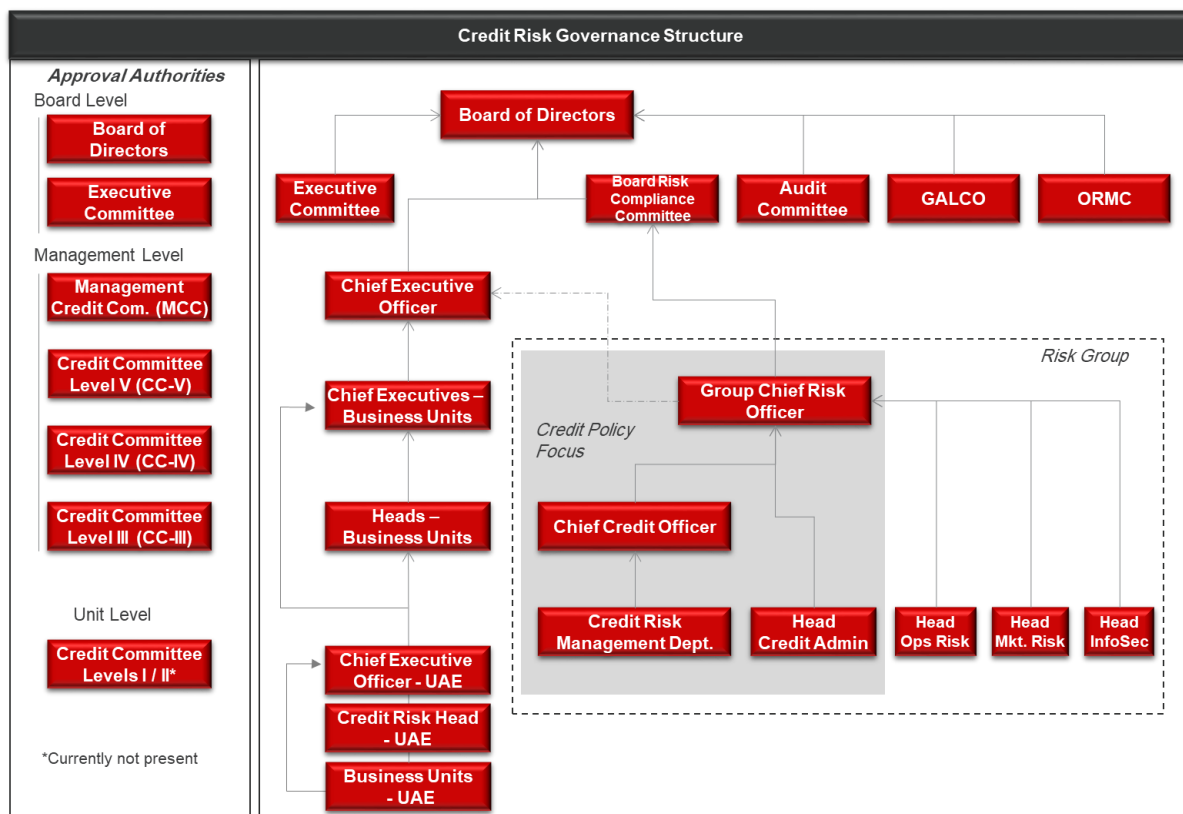
NBB Overseas Branches are required to adhere to GCP. Simultaneous to adhering with the GCP, NBB-UAE adheres to UAE-Credit Policy (UAE-CP 'or the Policy ') which acts as an appendix to the Global Credit Policy (GCP) and is tailor-made for the UAE operations based on local market practices and CBUAE requirements. UAE CP which covers additional policies for the credit business, including governance, products, limits, monitoring, reporting, provisioning etc. based on the Central Bank of the United Arab Emirates (CBUAE) regulations as well as specific policies related to the non-retail lending businesses of the Bank across UAE and Bahrain.

Credit reviews and approvals are a crucial and integral aspect of the overall credit decision process. Credit risk identification and assessment is carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of Assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the Risk Group that assesses the risk on a customer and facility level and ensures proper documentation of customer, facility and security documents along with Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Group. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

Credit Risk Head United Arab Emirates (HCR-UAE) reports directly to the Chief Credit Officer and administratively to the CEO-UAE.

Credit Risk Governance Structure of the group is depicted below:



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**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	2,424	888,010	10,993	1,023	9,970	879,441
2	Debt securities						
3	Off-balance sheet exposures	-	292,423	2,077	-	2,077	290,346
	Total	2,424	1,180,433	13,070	1,023	12,047	1,169,787

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	121,210
2 Loans and debt securities that have defaulted since the last reporting period	-
3 Returned to non-default status	
4 Amounts written off	(109,618)
5 Other changes	(9,168)
Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	2,424

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 a borrower as per IFRS 9 is considered to have occurred with regard to a particular borrower when either or both of the following events have taken place:

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

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.

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 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.

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.
- As per IFRS 9 an exposure is to be categorized in one of the three stages (defined below) to recognize 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. Lifetime ECL: The expected credit losses that result from all possible default events over the life of the financial instrument.
 - c. The below staging classification must represent migration in credit quality and dictates the level of ECL to be recognized.

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:

Credit facilities may sometimes require modification due to commercial reasons or credit related stress reasons. Rescheduling refers to modification in the Credit facilities where such modification doesn't result in a present value loss to the Bank, whereas restructuring refers to the modification in credit facilities that results in present value loss to the bank as a result of reduced interest rate and/or principal amount.

The Bank distinguishes between restructured loans and rescheduled loans where no concessions have been granted to a performing customer in response to changes in market conditions provided that at the time of rescheduling the loans have been serviced normally, the ability of the borrower to service is not in doubt and where there is reasonable assurance that the borrower will be able to service all future principal and interest payments on the loans in accordance with the revised repayment terms.

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	544,824	-	544,824	-	-	0%
2	Public Sector Entities	183,650	-	183,650	-	91,825	50%
3	Multilateral development banks		-	-	-		
4	Banks	5,596	-	5,596	-	1,539	28%
5	Securities firms		-	-	-	-	-
6	Corporates	336,762	292,371	332,894	160,757	493,651	100%
7	Regulatory retail portfolios	11,317	52	328	26	354	100%
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-
11	Past-due loans	2,424	-	-	-	-	0%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	23,310	-	23,310	-	23,310	100%
	Total	1,107,883	292,423	1,090,602	160,783	610,679	

10.6 Standardized approach - exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i
	Risk weight	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
	Asset classes									
1	Sovereigns and their central banks	544,824								544,824
2	Public Sector Entities				183,650					183,650
3	Multilateral development banks									-
4	Banks		4,196		1,400					5,596
5	Securities firms									-
6	Corporates						493,651			493,651
7	Regulatory retail portfolios						354			354
8	Secured by residential property									-
9	Secured by commercial real estate									-
10	Equity Investment in Funds (EIF)									-
11	Past-due loans									-
12	Higher-risk categories									-
13	Other assets						23,310			23,310
	Total	544,824	4,196	-	185,050	-	517,979	-	-	1,251,385

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

Overview

- Market risk is defined as risk that the bank's income or capital will fluctuate due to change in the market value of financial instruments because of movement in market factors such as 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 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.

Governance

- 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 Group Asset and Liabilities Committee (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 Group Chief Executive Officer and draws membership from relevant Senior Management.
- Front Office- Treasury & Capital Markets 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 has a Liquidity & Risk Management Department (LMR) which is an independent governance unit composed of three verticals- Market Risk, Liquidity Risk and Market Data & Treasury Monitoring.

▪ Market risk vertical under LMR has 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 UAE 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 December 31, 2022.

		AED 000's
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	141,580
4	Commodity risk	
5	Options	
6	Simplified approach	
7	Delta-plus method	
8	Scenario approach	
9	Securitisation	
	Total	141,580

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.

Three main sub-types of IRRBB are:

- Gap Risk** arising from the term structure of banking book instruments- the risk arising from the timing of instruments' rate changes, which depends on changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk)
- Basis Risk** is the impact of relative changes in interest rates for the financial instruments that have similar tenors but are priced using different interest rate indices,
- Option Risk** is the risk arising from optional elements embedded in group's assets, liabilities, or off-balance sheet items if the bank or its customer alter the level and timing of the cash flows.

The UAE Branch manages and monitors Interest rate risk (over short to medium term using NII approach) in the

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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

In reporting currency (AED 000's)	ΔEVE	ΔNII
Period	31-Dec-22	31-Dec-22
Parallel up	28,603	16,845
Parallel down	(15,757)	(16,845)
Steeper	(3,117)	
Flattener	9,625	
Short rate up	13,755	
Short rate down	(12,705)	
Maximum	28,603	
Period	31-Dec-22	31-Dec-22
Tier 1 capital	753,330	753,330

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, it defines Bank's risk appetite for operational risk and ensure that the operational risks at NBB 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.
- Capital Requirement for Operational Risk In accordance with the Central Bank of UAE guidelines, Bank has adopted The Standardized Approach for computing capital charge for Operational Risk.

The remuneration policy has been adopted on a parent-wide basis and shall apply to the overseas branches and subsidiaries of NBB.

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/-** 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	Claw back
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes

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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.

* The above table is applicable to all NBB Parent and any determinations of 5 highest business employees takes into consideration the overall NBB population.

**Equivalent to BHD 100,000/-