BASEL III- PILLAR 3 REPORTING Q2-2023

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:

- 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/BSD/N/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 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/BSD/N/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.

CBUAE has placed regulatory thresholds 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, which 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 Disclosures 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 NBB UAE. 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 as of Q2/2023**.

3. Overview of Risk Management and RWA

3.1 Template KM1: Key metrics (at Branch level)

				AED 000'S	
		a	**b**	**c**	**d**
		T	**T-1**	**T-2**	**T-3**
	Available capital (amounts)	**Jun-23**	**Mar-23**	**Dec-22**	**Sep-22**
1	Common Equity Tier 1 (CET1)	753,290	753,330	753,330	747,956
1a	Fully loaded ECL accounting model*	753,290	753,330	753,330	747,956
2	Tier 1	753,290	753,330	753,330	747,956
2a	Fully loaded ECL accounting model Tier 1	753,290	753,330	753,330	747,956
3	Total capital	764,869	764,500	760,963	755,394
3a	Fully loaded ECL accounting model total capital	764,869	764,500	760,963	755,394
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	1,042,670	1,099,445	781,161	945,348
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	72.25%	68.52%	96.44%	79.11%
5a	Fully loaded ECL accounting model CET1 (%)	72.25%	68.52%	96.44%	79.11%
6	Tier 1 ratio (%)	72.25%	68.52%	96.44%	79.11%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	72.25%	68.52%	96.44%	79.11%
7	Total capital ratio (%)	73.36%	69.54%	97.41%	79.90%
7a	Fully loaded ECL accounting model total capital ratio (%)	73.36%	69.54%	97.41%	79.90%
	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 (%)	62.86%	59.04%	86.91%	69.40%
	Leverage Ratio				
13	Total leverage ratio measure	1,859,401	1,508,383	1,256,910	1,014,590
14	Leverage ratio (%) (row 2/row 13)	40.51%	49.94%	59.92%	73.72%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	40.51%	49.94%	59.92%	73.72%

14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	40.51%	49.94%	59.92%	73.72%
	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	414,412	73,859	58,207	175,663
22	Total liabilities	917,647	589,400	353,941	104,281
23	**Eligible Liquid Assets Ratio (ELAR) (%)**	45%	13%	16%	168%
	ASRR				
24	Total available stable funding	1,396,994	1,170,577	991,462	818,500
25	Total Advances	1,158,128	1,123,158	931,199	419,309
26	**Advances to Stable Resources Ratio (%)**	83%	96%	94%	51%

** "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".*

3.2. Template OV1: Overview of RWA

			AED 000's	
		a	**b**	**c**
		RWA		**Minimum capital requirements**
		Jun-23	Mar-23	**T**
1	Credit risk (excluding counterparty credit risk)	926,312	893,613	97,263
2	Of which: standardised approach (SA)	926,312	893,613	97,263
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	85,870	175,344	9,016
21	Of which: standardised approach (SA)	85,870	175,344	9,016
22	Of which: internal models' approach (IMA)			
23	Operational risk	30,488	30,488	3,201
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)**	1,042,670	1,099,445	109,480

**The minimum capital requirements applied is 10.5%*

4 Composition of capital

4.1 Template CC1: 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	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*		
5	Common share capital issued by third parties (amount allowed in group CET1)	(195)	

6	**Common Equity Tier 1 capital before regulatory deductions**	**753,290**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	-	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
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)	-	
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)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	0	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	**Total regulatory adjustments to Common Equity Tier 1**	-	
25	**Common Equity Tier 1 capital (CET1)**	753,290	
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC2 (i)
27	OF which: classified as equity under applicable accounting standards	-	

28	Of which: classified as liabilities under applicable accounting standards	-	
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-	
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)	-	
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-	
32	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	-	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
36	CBUAE specific regulatory adjustments	-	
37	Total regulatory adjustments to additional Tier 1 capital	-	
38	**Additional Tier 1 capital (AT1)**	-	
39	**Tier 1 capital (T1= CET1 + AT1)**	753,290	
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
41	*Directly issued capital instruments subject to phase-out from Tier 2*	-	
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	*Of which: instruments issued by subsidiaries subject to phase-out*	-	
44	Provisions	11,579	Capped at 1.25% of CRWA
45	Tier 2 capital before regulatory adjustments	11,579	
	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	11,579	
51	Tier 2 capital (T2)	11,579	
52	Total regulatory capital (TC = T1 + T2)	764,869	
	The CBUAE Minimum Capital Requirement		
53	Total risk-weighted assets	1,042,670	
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	72.25%	
55	Tier 1 (as a percentage of risk-weighted assets)	72.25%	
56	Total capital (as a percentage of risk-weighted assets)	73.36%	
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.	62.86%	
	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)	14,581	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	11,579	
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	*Current cap on CET1 instruments subject to phase-out arrangements*	-	
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	
75	*Current cap on AT1 instruments subject to phase-out arrangements*	-	
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	-	
77	*Current cap on T2 instruments subject to phase-out arrangements*	-	
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	-	

4.2 Template CC2: Reconciliation of Regulatory Capital to Balance Sheet

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

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	414,412	414,412	
Items in the course of collection from other banks	-	-	
Due from other Banks	6,229	6,229	
Due from Head Office	129,351	129,351	
Trading portfolio assets	-	-	
Other Assets	10,382	10,382	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	-	
Loans and advances to banks	-	-	
Loans and advances to customers	1,103,440	1,116,380	
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	-	-	
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	16929	16,929	
Total assets	1,680,743	1,693,683	
Liabilities			
Deposits from banks	-	-	
Due to Head Office and Branches	528,568	528,568	
Items in the course of collection due to other banks	24	24	
Customer accounts	364,351	364,351	
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	16,890	14,461	
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	-	14,581	
Specific Provisions	-	688	
Interest in Suspense		100	
Retirement benefit liabilities	-	-	
Total liabilities	909,833	922,773	
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	79,391	79,391	
Accumulated other comprehensive income	20,419	20,419	
Total shareholders' equity	770,910	770,910	

***Provisional unaudited figures**

4.3 Main features of regulatory capital instruments

Template CCA is not applicable.

4.4 Geographical distribution of credit exposures used in the countercyclical capital buffer.

Template CCyB1 is not applicable.

5 Leverage ratio

5.1 Template LR2: Leverage ratio common disclosure template

	AED 000's	a	b
		Jun-23	Mar-23
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,693,683	1,360,607
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)**	1,693,683	1,360,607
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	326,183	289,914
20	(Adjustments for conversion to credit equivalent amounts)	(160,271)	(142,139)
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)**	165,913	147,775
Capital and total exposures			
23	**Tier 1 capital**	753,290	753,330
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	1,859,596	1,508,382
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	41%	50%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	41%	50%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	**Applicable leverage buffers**	38%	47%

7 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.

7.1 Liquidity Coverage Ratio (LCR)

Template LIQ1 is not applicable for UAE Branches.

7.2 Net Stable Funding Ratio (NSFR)

Template LIQ2 is not applicable for UAE Branches.

7.3 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	414,412	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	414,412	414,412
1.3	UAE local governments publicly traded debt securities	-	
1.4	UAE Public sector publicly traded debt securities	-	

	Subtotal (1.3 to 1.4)	-	-
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	**Total**	414,412	414,412
2	Total liabilities		917,647
3	**Eligible Liquid Assets Ratio (ELAR)**		**45%**

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

7.4 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)	1,115,591
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	42,537
	1.4	Interbank Placements	-
	1.5	**Total Advances**	**1,158,128**
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	785,491
		Deduct:	**-**
	2.1.1	Goodwill and other intangible assets	-
	2.1.2	Fixed Assets	16,929
	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**	16,929
	2.2	**Net Free Capital Funds**	768,562
	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	315,938
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	-
	2.3.5	Customer Deposits	312,494
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	**Total other stable resources**	628,432
	2.4	Total Stable Resources (2.2+2.3.7)	**1,396,994**
3		**ADVANCES TO STABLE RESOURCES RATIO (1.5/ 2.4*100)**	**83%**

8. Credit risk

8.1 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.

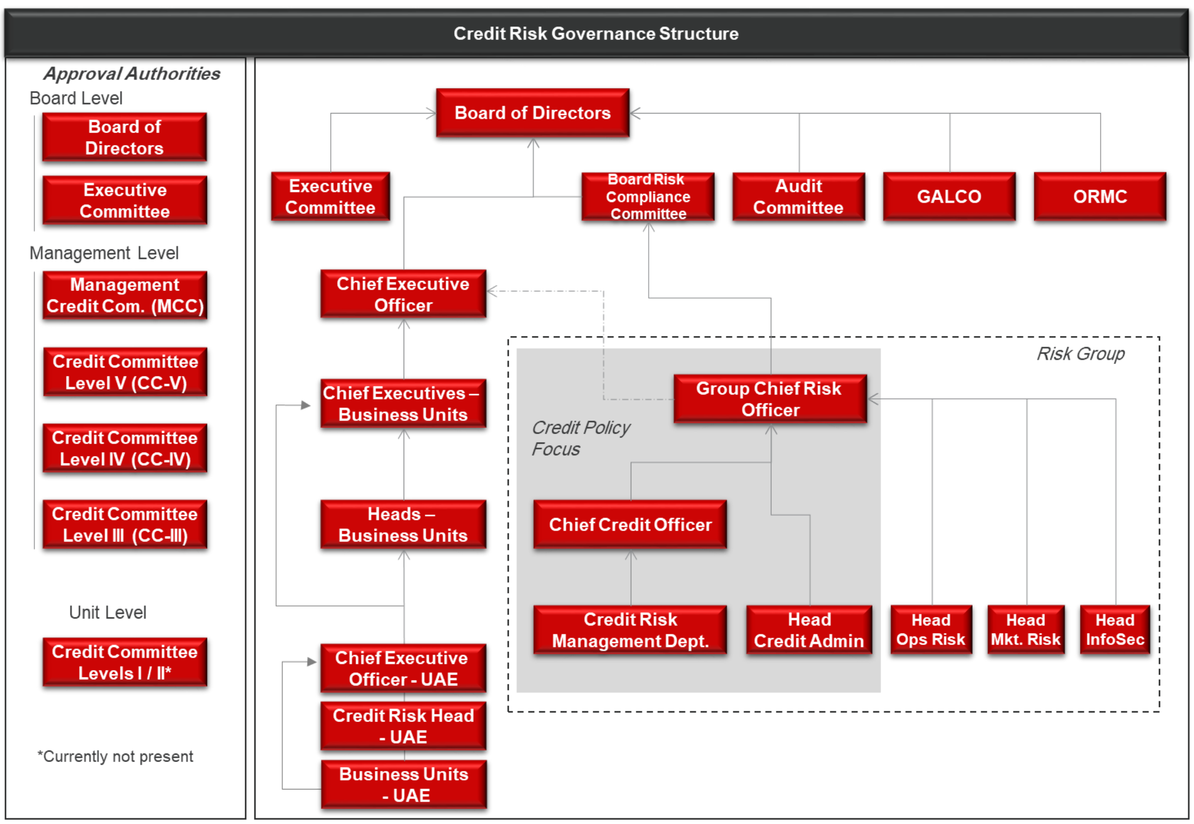
NBB Overseas Branches are required to adhere to GCP. Simultaneous to adhering with the GCP, NBB-UAE adheres to UAE-Credit Policy (UAE-CP 'or the Policy ') which acts as an appendix to the Global Credit Policy (GCP) and is tailor-made for the UAE operations based on local market practices and CBUAE requirements. 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:



8.1 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	789	1,115,591	12,840	688	12,152	1,103,540
2	Debt securities	-	-	-	-	-	-
3	Off-balance sheet exposures	-	326,183	2,429	-	2,429	323,754
	Total	**789**	**1,441,774**	**15,269**	**688**	**14,581**	**1,427,294**

8.2 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**	2,424
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	(944)
5	Other changes	(691)
	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	789

8.3 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

<u>Restructured Facilities:</u>

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.

8.3 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	770,693	-	770,693	-	-	0%
2	Public Sector Entities	183,650	-	183,650	-	91,825	50%
3	Multilateral development banks		-	-	-	-	-
4	Banks	135,580	-	135,580	-	65,921	49%
5	Securities firms		-	-	-	-	
6	Corporates	564,445	326,181	564,445	176,557	741,002	100%
7	Regulatory retail portfolios	11,215	2	252	1	253	100%
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-
11	Past-due loans	789	-	-	-	-	0%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	27,311	-	27,311	-	27,311	100%
	Total	**1,693,683**	**326,183**	**1,681,931**	**176,558**	**926,312**	

8.4 Standardized approach - exposures by asset classes and risk weights

		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	770,693	-	-	-	-	-	-	-	770,693
2	Public Sector Entities	-	-	-	183,650	-	-	-	-	183,650
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	6,229	-	129,351	-	-	-	-	135,580
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	741,002	-	-	741,002
7	Regulatory retail portfolios	-	-	-	-	-	253	-	-	253
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	-	-	-	-	-	27,311	-	-	27,311
	Total	**770,693**	**6,229**	**-**	**313,001**	**-**	**768,566**	**-**	**-**	**1,858,489**

9 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 ("Vary"), 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.

9.1 Market risk under the standardised approach

Below is the snapshot of the Market RWA calculation as of 30th June 2023.

		AED 000's
		RWA
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	85,870
4	Commodity risk	-
5	Options	**-**
6	Simplified approach	-
7	Delta-plus method	-
8	Scenario approach	-
9	Securitisation	-
	Total	**85,870**