NATIONAL BANK OF FUJAIRAH
PILLAR 3 DISCLOSURES
Q2 2022

Contents

1. Executive Summary 4

2. Table KM1: Key metrics (at consolidated group level) 6

3. Bank Risk Management Approach 10

4. Table OV1: Overview of RWA 14

6. Table CC1: Composition of regulatory capital 15

7. Table CC2: Reconciliation of regulatory capital to balance sheet 19

8. Main features of regulatory capital instruments 20

9. Table CCyB1 : Geographical distribution of credit exposures used in the countercyclical capital buffer 22

10. Liquidity risk management 23

11. Table LR1: Summary comparison of accounting assets vs leverage ratio exposure 26

12. Table LR2: Leverage ratio common disclosure template 27

13. Eligible Liquid Assets Ratio 28

14. Advances to Stables Resource Ratio 28

15. General qualitative information about credit risk 29

16. Table CR1: Credit quality of assets 30

17. Table CR2: Changes in stock of defaulted loans and debt securities 31

18. Additional disclosure related to the credit quality of assets 31

19. Qualitative disclosure requirements related to credit risk mitigation techniques 32

20. Table CR3: Credit risk mitigation techniques - overview 33

21. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk 33

22. Table-CR4:-Standardised-approach - Credit risk exposure and Credit Risk Mitigation (CRM) effects 34

23. Table CR5: Standardised approach - exposures by asset classes and risk weights 35

24. Qualitative disclosure related to counterparty credit risk 35

25. Table CCR1: Analysis of counterparty credit risk (CCR) exposure by approach 36

26. Table CCR2: Credit valuation adjustment (CVA) capital charge 36

27. Table CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk weights . 36

28. Table CCR5: Composition of collateral for CCR exposure 37

29. Table CCR6: Credit derivative exposures 37

30. Table CCR8: Exposures to central counterparties 38

31. General qualitative disclosure requirements related to market risk 38

32. Table MR1: Market risk under the standardised approach (SA) 40
33. Interest Rate Risk in Banking Book (IRRBB) risk management objectives and policies 40
33. Qualitative information on a bank's operational risk framework 42
34. Authorisation of Publication 44

1. Executive Summary

The National Bank of Fujairah's ("NBF" or the "Bank") Basel Pillar 3 disclosures have been prepared in accordance with the guidelines prescribed by the Central Bank of the UAE (CBUAE) and the Formal Disclosure Policy of the Bank. The Bank and its subsidiaries are together referred to as 'the Group' in this document.

The purpose of this report is to inform market participants of the key components, scope and effectiveness of the Bank's risk measurement processes, risk profile and capital adequacy. This is accomplished by providing consistent and understandable disclosures of the Bank's risk profile in a manner that enhances comparability with other financial institutions.

Risk and Capital management are important parts of the Bank's strategy formulation process and are reflected in the Bank's long term objectives. The primary objective of the Group's risk management strategy is to protect the financial strength of the Bank, ensure its sustainability and safeguard its reputation, whilst recognizing that prudent risk-taking remains an integral part of NBF's business. The Group's risk management strategy applies across all its businesses and risk categories and is founded on:

- Transparency, assessment and responsiveness, and
- Management accountability

Capital Management

For comparison purposes, the Bank's Capital Position as at 31st December 2021

CAPITAL ADEQUACY ASSESSMENT SUMMARY - AED'000			
Particulars	Regulatory Capital Pillar I	Risk Capital Pillar I + Pillar II	Stressed Scenario
Risk Weighted Assets (RWA)	30,481,161	34,641,092	43,048,262
Mandated Capital @ 13%*	3,962,551	4,503,342	5,596,274
Available Capital	5,825,370	5,825,370	5,825,370
Capital Adequacy Ratio	19.11%	16.82%	13.53%
CBUAE Minimum Requirement	13.00%	13.00%	13.00%
Surplus / (Shortfall)	6.11%	3.82%	0.53%

*Mandated Capital including buffers is 13% of Total RWA.

CET-1 CAPITAL ADEQUACY ASSESSMENT SUMMARY - AED'000			
Particulars	Regulatory Capital Pillar I	Risk Capital Pillar I + Pillar II	Stressed Scenario
Risk Weighted Assets (RWA)	30,481,161	34,641,092	42,987,743
Mandated CET1 @ 9.5% (Incl. buffers)	2,895,710	3,290,904	4,089,585
Available Capital	4,194,954	4,194,954	4,194,954
CET-1 Ratio	13.76%	12.11%	9.74%
CBUAE Minimum Requirement	9.50%	9.50%	9.50%
Surplus / (Shortfall)	4.26%	2.61%	0.24%

The results of the Pillar 1, ICAAP risk analysis and stress testing at 31 December 2021 indicate that the targets and triggers employed by the Bank to manage capital adequacy are appropriate.

The Management Risk Committee reviews the level of capital resources in relation to the changing risk profile, analyses of stress testing and business and operating expenses of a capital nature each month. If required, the Committee makes appropriate recommendation to the Board Risk Committee and the Board of Directors regarding additional capital requirements.

The recommendations to the Board Risk Committee and Board may include altering the Bank's risk profile by reducing its risk weighted assets including:

- Sell-down of assets,
- Changing the prevailing mix of the asset book encouraging repayment of assets requiring large risk capital,

or through generating additional capital resources through

- Reviewing the dividend policy,
- Reviewing the capital generation plan if required.

Risk Management

The Board provides a clear operational structure for the Group to manage risk in a manner that ensures establishment of appropriate controls consistent with the Bank's risk appetite, risk profile and capital strength. These controls, via the Enterprise-wide Risk Management Framework (ERMF) are understood by and regularly cascaded down by NBF's management to the relevant staff.

The ERMF promotes continuous monitoring and the integrated evaluation of different risk types and their interaction, to assess the enterprise–wide overall risk profile.

NBF examines its risk profile from a regulatory capital and economic capital perspective to ensure its capital base remains above the minimum regulatory threshold, adequate to withstand certain defined stress scenarios and are sufficient to support NBF's strategic objectives and operational goals.

This Pillar 3 Report provides details on the Bank's risk profile by risk asset classes, which form the basis for the calculation of its capital requirement. Numbers are stated in AED thousands unless stated otherwise.

2. Table KM1: Key metrics (at consolidated group level)

		Jun'2022	Mar'2022	Dec'2021	Sep'2021	Jun'2021
		a	B	C	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)*					
1	Common Equity Tier 1 (CET1) (with IFRS9 transitional prov)	4,479,302	4,320,560	4,194,954	4,192,189	4,458,079
1a	Fully loaded ECL accounting model	4,270,035	4,219,547	4,176,216	4,124,599	4,094,829
2	Tier 1 (with IFRS9 transitional prov)	5,764,852	5,606,110	5,480,504	5,477,739	5,743,629
2a	Fully loaded ECL accounting model Tier 1	5,555,585	5,505,097	5,461,766	5,410,149	5,380,379
3	Total capital (with IFRS9 transitional prov)	6,147,819	5,969,703	5,825,370	5,816,527	6,095,664
3a	Fully loaded ECL accounting model total capital	5,938,552	5,868,690	5,806,632	5,748,937	5,732,414
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	33,602,816	31,976,558	30,481,161	30,126,223	31,172,947
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio	13.3%	13.5%	13.8%	13.9%	14.3%
5a	Fully loaded ECL accounting model CET1	12.7%	13.2%	13.7%	13.7%	13.1%
6	Tier 1 ratio	17.2%	17.5%	18.0%	18.2%	18.4%
6a	Fully loaded ECL accounting model Tier 1 ratio	16.5%	17.2%	17.9%	18.0%	17.3%
7	Total capital ratio	18.3%	18.7%	19.1%	19.3%	19.6%
7a	Fully loaded ECL accounting model total capital ratio	17.7%	18.4%	19.0%	19.1%	18.4%
	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%	2.50%
9	Countercyclical buffer requirement	0.01%	0.01%	0.01%	0.03%	0.03%
10	Bank D-SIB additional requirements	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (row 8 + row 9+ row 10)	2.51%	2.51%	2.51%	2.53%	2.53%
12	CET1 available after meeting the bank's minimum capital requirements	6.3%	6.5%	6.8%	6.9%	7.3%
	Leverage Ratio					
13	Total leverage ratio measure	53,026,558	51,483,578	51,747,319	50,013,498	50,374,027
14	Leverage ratio (%) (row 2/row 13)	10.87%	10.89%	10.59%	10.95%	11.40%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	10.48%	10.69%	10.55%	10.82%	10.68%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-	-	-	-
	Liquidity Coverage Ratio (LCR)					
15	Total HQLA	-	-	-	-	-
16	Total net cash outflow	-	-	-	-	-
17	LCR ratio (%)	-	-	-	-	-
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding	-	-	-	-	-
19	Total required stable funding	-	-	-	-	-
20	NSFR ratio (%)	-	-	-	-	-

		T	T-1	T-2	T-3	T-4
	Eligible liquid assets ratio (ELAR)					
21	Total High Quality Liquid Assets	6,532,469	7,034,305	9,735,105	7,078,650	7,918,467
22	Total liabilities	37,896,690	36,834,848	37,182,548	34,909,898	35,237,315
23	Eligible Liquid Assets Ratio (ELAR) (%)	17.2%	19.10%	26.18%	20.28%	22.47%
	Advances to Stable Resources Ratio (**ASRR)**					
24	Total available stable funding	34,780,040	34,567,966	34,628,801	33,053,286	33,627,778
25	Total Advances	28,330,765	28,100,533	26,503,401	26,332,740	26,657,971
26	Advances to Stable Resources Ratio (%)	81.46%	81.29%	76.54%	79.67%	79.27%

** CBUAE Pillar 3 explanatory notes - Fully Loaded means bank's regulatory capital compared with a situation where the transitional arrangement had not been applied.*

The Bank's lead regulator, the CBUAE, sets and monitors regulatory capital requirements. The requirements of capital for subsidiaries, NBF Financial Services FZC and NBF Markets (Cayman) Limited, are determined by the Free Zone Authority of Fujairah and Cayman Island Government General Registry respectively.

The Group's objectives and strategy when managing capital are:

- To safeguard the Group's ability to continue as a going concern and to optimise returns for shareholders;
- To maintain adequate level and achieve an optimum structure for the Group's capital commensurate to its strategy, risk profile and relative positioning in the market;
- To comply with regulatory capital requirements set by the Central Bank of the UAE;
- To efficiently allocate capital to various businesses and optimal risk reward;
- To ensure effective internal organisation and processes and to assess and manage material risks on an ongoing basis; and
- To provide for any unforeseen losses.

The Group's capital management is carried out centrally and determines the level of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth.

In implementing capital requirements, the bank calculates its capital adequacy ratio in accordance with the 'Capital Adequacy Regulations' issued by the Central Bank of the UAE. The Central Bank of the UAE introduced the implementation of Basel III reporting which the Group has adopted and has also developed and implemented risk management measurement tools and robust practices to become a Basel III Foundation Internal Rating Based Approach (FIRB) compliant bank. The Central Bank of the UAE places considerable emphasis on the Internal Capital Adequacy Assessment Process ("ICAAP") and the Group has aligned its policy framework and ICAAP in compliance with the Central Bank of the UAE requirements.

The Bank and its subsidiaries have complied with all regulatory capital requirements throughout the year.

Regulatory Capital

The Bank's risk weighted assets (RWA) are weighted on the basis of relative credit, market, and operational risks. Credit risk includes both on and off-balance sheet risks. In accordance with the Basel III Compliance – Standardized Approach, the Bank is following the standardized measurement approach for credit, market and operational risk, under the existing Pillar 1 of Basel III requirements with the addition of the respective changes pertinent to capital supply.

The quantitative requirements, based on the regulations and guidelines, have been detailed below:

i. Total regulatory capital (net of regulatory adjustments) – at least 10.5% of risk weighted assets (RWAs) – comprises of two tiers:

   a. Tier 1 capital – at least 8.5% of RWA, composed of:
      - Common equity Tier 1 (CET1) – at least 7.0% of RWA; and
      - Additional Tier 1 (AT1)

   Common equity Tier 1 (CET1) includes ordinary share capital, statutory reserve, special reserve, retained earnings and fair value reserves relating to unrealized gains on investments classified as FVOCI / available-for-sale with a hair-cut of 55%; and Additional Tier 1 (AT1) comprises of Tier 1 capital notes.

   b. Tier 2 capital

   It includes collective impairment provision and sub-ordinated facilities. Collective impairment provision, including Impairment Reserve - General, shall not exceed 1.25% of total credit risk weighted assets.

ii. Banks must maintain a Capital Conservation Buffer (CCB) of 2.5% of RWAs in the form of CET1 capital. CBUAE may also require banks to implement Countercyclical Buffer (CCyB), to protect the banks from periods of excess aggregate credit growth. CCyB must be met by using CET1 capital and the level may vary between 0 - 2.5% of RWAs.

Pursuant to the CBUAE standards pertinent to TESS issued on 16 December 2021, the Regulator allowed banks to utilize the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 30 June 2022.

Minimum capital requirements as per Central Bank of the UAE*:*

Capital element	**Basel III 2022**
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%**

Capital Stress Testing:

The Group carried out and submitted to the Central Bank of the UAE stress testing exercise in accordance with the macroeconomic and business scenarios prescribed by the Central Bank of the UAE through its guidelines on '2021 Stress Testing Guidance for Participating Banks' issued in June 2021. The results also included the mitigation plan / management action in response to the impact of the stress scenario on the capital adequacy of the Group.

The stress testing exercise achieves the following objectives:

- Provides a forward looking assessment of risk under a stressed scenario;
- Impact of various Macroeconomic Variables for UAE markets;
- Elaborates the methodologies, and the assumptions undertaken in the process;
- Assisting the Group in shaping its strategy, by gauging the capital impact due to stress scenarios;
- Enable the Group to assess extreme risk scenarios, along with contingency plan for such events; and
- Reporting results to the senior management and the Board of Directors for their review and approval to facilitate contingency planning.

The Group passed the Central Bank of the UAE stress test for 2021.

Capital Allocation:

The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as residual risk, concentration risk, liquidity risk, interest rate risk in banking book (IRRBB), settlement risk, reputational risk, strategic risk, and cyber risk form part of ICAAP quantification.

The Group also calculates Return on Capital (ROC) for credit applications that are priced on a risk-adjusted basis.

3. Bank Risk Management Approach

The NBF Group recognizes that risk exists in all of our activities and that we need to have a clear and ordered approach to identification, assessment, measurement, reporting and treatment of risks based on a clear statement of Risk Appetite. Our Board of Directors considers the context of our business strategy and internal and external drivers of risk and sets boundaries for acceptable risk taking in our Risk Appetite Statement. Management then seeks to implement the Business Strategy and Operational Plans within those boundaries. To do this effectively, we apply a "Three Lines of Defence" operating model in relation to the management of risk. The key principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line is:

First Line – Businesses own risks and obligations, and the controls and mitigation strategies that help manage them.

Second Line – Functionally segregated Risk Management and Compliance functions develop risk management frameworks, define the risk management principles in the bank's Polices, provide objective review and challenge regarding the effectiveness of risk management within the first line businesses, and execute specific risk management activities where the functional segregation of duties is required or a specific expertise is required.

Third Line – An independent Internal Audit function reporting to the Board, monitors the effectiveness of risk management in the first and second lines and compliance with the Enterprise wide Risk Management Framework and the bank's Policies.

We then apply a structured approach to risk measurement and reporting which is assessed against our Risk Appetite and is overseen by specialized risk governance committees to ensure transparency and that any position outside appetite or trending in that direction has appropriate remediation action plans approved and governed to finalization.

Risk governance is key to the successful risk taking. It involves a formal structure used to support risk-based decision making and oversight across all our operations.

The Board has established the Board Risk Committee, to assist it in carrying out its responsibilities that are set out in its Charter. It receives regular reporting from management and it provides guidance to management where required as well as consideration and approval of specific matters referred to it.

Management has a number of management committees focused on our Material Risk classes or categories comprised of Business, Risk Management and invitees that are tasked with decision making and oversight of remediation where required.

Our Material Risks are defined as:

Credit Risk

Credit Risk is defined within NBF as: The risk of loss arising from the non-performance by a customer, client or counterparty in any of its financial obligations towards NBF. The definition of Credit Risk includes country risk, concentration risk and related party risks.

NBF's detailed policies in respect of Credit Risk are set out in the NBF Credit Risk Management Framework ("CRMF") and supporting policies.

Treasury Risk

The risk of loss arising from activities undertaken in, or impacted by, financial markets generally. This includes both Market Price Risk as well as ancillary risk such as Liquidity, Funding (liability) and Interest Rate Risk in the Banking Book.

NBF's detailed policies in respect of Treasury Risk are set out in the NBF Group Market Risk Management Policy and Liquidity Risk Management Policy as well as the Treasury Risk Process Guidance.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

NBF's detailed policies in respect of Operational Risk are set out in the NBF Operational Risk Management Framework (ORMF). The ORMF aggregates the following additional elements of risks:

- Information Technology Risk
- Disaster Recovery and Business Continuity Management
- Human Resources/Personnel Risk
- Processing Risks
- Insurance Risk and
- Risks in new Businesses, products & systems.

Regulatory Compliance Risk

The risk of losses, fines or penalties resulting from the failure of people, or of the organization to comply with legislation or regulation.

NBF's policies in respect of compliance risk are set out in the Bank's Compliance Policy. Anti-Money Laundering and Counter Terrorist Financing ('AML/CTF') Risks are documented in the Bank's AML Policy, and Sanctions Risks are documented in the Sanctions Policy and supporting processes.

Information Security Risk

The potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the organization.

NBF's Information Security Risk Management Framework (ISRMF) will ensure that information security risks in the Group are identified, assessed, and evaluated, and that these risks are mitigated in accordance with the information security requirements and business objectives of the NBF.

NBF's detailed policies in respect to Information Security is defined in the Information Security Management System (ISMS) Framework. This ensures:

- NBF's Information resources in whatever form they exist both electronic and non-electronic are appropriately protected from compromise of their confidentiality, integrity and availability.
- Controls and protection requirements are accomplished in a manner consistent with the business and work flow requirements of NBF ISRMF and ISMS supports the general concepts specified in National Electronic Security Authority (NESA), National Cyber Risk Management Framework (NCRMF) and ISO/IEC 27001 and is designed to assist the satisfactory implementation of information security controls at NBF.

Shari'ah Compliance Risk

Whilst considered and reported as part of the overall Operational Risk Management Framework for capital purposes, Shari'ah Compliance has such significance that it has its own Framework, Governance processes and Assurance. We have an Internal Shari'ah Supervision Committee to provide guidance on and approval for matters pertaining to Islamic Shari'ah.

Country and Transfer Risk

Country Risk is defined as the risk of loss resulting from events in a foreign country, which may include changes in economic, social, political or regulatory conditions that affect obligors in that country and, potentially, obligations denominated in that country's currency.

Transfer Risk is defined as the risk that a borrower will not be able to convert local currency into foreign exchange and so be unable to make foreign currency debt service payments..

NBF is always committed to the implementation of best practices and governance standards.

The Board of Directors has overall responsibility for the establishment and oversight of the enterprise risk management framework. The Board sets the overall risk appetite and strategy in consultation with the senior management and approves all principal governance committee charters, policies and guidelines to manage the above mentioned risks. The Board has established committees, as detailed in the Corporate Governance Report (published on the NBF website), to enhance the oversight mechanism to carry out its responsibilities effectively.

Risk Appetite, Enterprise-wide Risk Management and the Internal Control Framework:

Risk Appetite is the degree of risk that it is prepared to accept in pursuit of its strategic objectives and strategic plan, giving considerations to the Bank's various stakeholders, including depositors, shareholders and other relevant parties. The Risk Appetite Statement (RAS) intends to document the Bank's willingness to undertake risk to achieve its strategic plan objectives. The RAS is used as the primary guiding document in the execution of the business strategy and therefore all strategic decisions are also considered in context of the defined RAS.

The RAS is a Board approved articulation of the aggregate level and types of risk that the Bank will accept or avoid in order to achieve its business objective. For each material risk, the Board has defined the maximum level of risk that the Bank is willing to operate within.

The Board sets the risk appetite, policies and has approved the Enterprise-wide Risk Management Framework. The Bank follows a three lines of defense structure, as explained above, with management control being the first, independent risk management oversight being the second and an independent audit assurance being the third. The principal responsibility for the execution and implementation of policies and procedures and internal controls rests with respective functions and departments in accordance with the approved framework. An independent Risk Management function carries out the oversight through independent review and approval of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, operational risk management, credit portfolio risk review and middle office activities for market and liquidity risks. This provides independent assurance to the Board.

The role of the Internal Audit Function within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the Senior Management. It is led by the Head of Internal Audit who reports to the Audit Committee of the Board. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

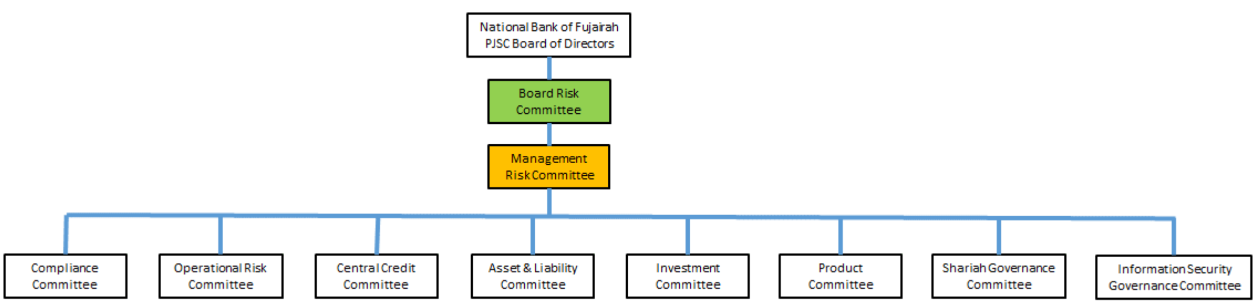
NBF has zero tolerance for non-compliance with its Risk Appetite, policies and procedures and strongly promotes a risk based culture across the Bank. The Bank reinforces it through various channels that include communication of Risk Appetite and risk policies annually to all staff for mandatory reading, a compulsory training program and quarterly compliance certification process. The Bank has also established robust operational risk program to report any error or process failure and, regular monitoring of Key Risk Indicators.

The Bank has well established mechanism to set and monitor operating limits, with any deviations from risk thresholds captured in the Breach register with clear delegation of authority for approval of remediation at management and board governance committees.

Responses to Risk Profile being outside our Appetite is based on whether there is a breach of a hard limit, a warning limit or a target range. These indicators are measured on a daily basis through management information systems and platforms developed by the Bank. Responses to risks that arise in our business will depend on the type and level of the risk. Risks can be Accepted, Avoided, Treated or Transferred.

All risks within appetite are deemed to be accepted. Risks outside our appetite require decision making.

Our Risk Governance Structure is set out below:



The Board Risk Committee and Management Risk Committee consider and govern all risk types across the Bank. Other committees are accountable for oversight of the following risks in consideration of the requirements of the named policies.

Committee	Risks	Policies
Central Credit Committee	Credit Risk Country and Transfer Risk	Credit Risk Management Framework Credit Policy Credit Underwriting Guidelines Delegated Authorities for Lending Classification and Provisioning Policy
Operational Risk Committee	Operational Risks	Operational Risk Management Framework Operational Risk Policy Business Continuity and Disaster Recovery Policy

		Crisis Management Policy Outsourcing Policy Reputational Risk Framework Fraud Risk Framework Information Security Risk Management Framework Insurance Risk Policy Legal Risk Policy
Asset and Liability Committee	Funding Risk Liquidity Risk Capital Adequacy Market Risk	Liquidity Risk Policy Market Risk Policy Treasury Risk Process Guidelines
Shari'ah Governance Committee	Shari'ah Compliance Risk	Shari'ah Governance Framework
Information Security Governance Committee	Technology Risk	ISMRF ISMS
Compliance Committee	Regulatory Compliance Risk AML/CTF Risk Sanctions Risk	Compliance Policy AML Policy Sanctions Policy
Product Committee	Operational Risk Strategic Risk Legal Risk Compliance Risk	Product Development and Management Policy
Investment Committee	Investment Risk Market Risk	Investment Risk Policy Market Risk Policy

Stress Testing

Stress testing is an important aspect of our challenge and validation activities within the Second Line of Defence. It allows us to model critical metrics after application of a range of extreme but plausible stress scenarios on Capital Adequacy, Liquidity and Funding.

We conduct a major Econometric Stress test each year using the stress scenarios set by our regulator which is approved by the Board of Directors and is reported to the Central Bank of the UAE.

In addition, we apply set internally determined stress scenarios on our Capital, Funding and Liquidity on a monthly basis and these metrics have visibility in ALCO, Management Risk Committee and Board Risk Committee.

4. Table OV1: Overview of RWA

	a	b	c
	RWA		Minimum capital requirements
	T	T-1	T
Credit risk (excluding counterparty credit risk)	30,528,727	29,076,793	-
Of which: standardised approach (SA)	30,528,727	29,076,793	3,205,516
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
Of which: supervisory slotting approach	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-

Counterparty credit risk (CCR)			
Of which: standardised approach for counterparty credit risk	-	-	-
Of which: Internal Model Method (IMM)	-	-	-
Of which: other CCR	-	-	-
Credit valuation adjustment (CVA)	98,969	-	10,392
Equity positions under the simple risk weight approach	-	-	-
Equity investments in funds - look-through approach	-	-	-
Equity investments in funds - mandate-based approach	9,654	10,617	1,014
Equity investments in funds - fall-back approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in the banking book	-	-	-
Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-
Market risk	114,871	38,553	-
Of which: standardised approach (SA)	114,871	38,553	12,062
Of which: internal models approach (IMA)	-	-	-
Operational risk	2,850,595	2,850,595	299,312
Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	**33,602,816**	**31,976,558**	-

NBF is principally exposed to credit risk which represent almost 90 per cent of the Bank's Risk Weighted Assets followed by operational risk which accounts for around 9% of Risk Weighted Assets. The Bank has a relatively small market risk exposure as reflected in its risk weighted assets.

6. Table CC1: Composition of regulatory capital

		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	2,000,000	(h) from CC2 template
2	Retained earnings	621,487	

3	Accumulated other comprehensive income (and other reserves)	1,857,815	
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)		
6	**Common Equity Tier 1 capital before regulatory deductions**	**4,479,302**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles including mortgage servicing rights (net of related tax liability)		
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		
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		
22	Of which: deferred tax assets arising from temporary differences		
23	CBUAE specific regulatory adjustments (IFRS 9 transitory adjustment)		
24	**Total regulatory adjustments to Common Equity Tier 1**		
25	**Common Equity Tier 1 capital (CET1)**	**4,479,302**	
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		

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)**	1,285,550	
39	**Tier 1 capital (T1= CET1 + AT1)**	**5,764,852**	
	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	382,967	1.25% of CRWA
45	**Tier 2 capital before regulatory adjustments**	382,967	
	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**		
51	**Tier 2 capital (T2)**	382,967	
52	**Total regulatory capital (TC = T1 + T2)**	6,147,819	
53	**Total risk-weighted assets**	33,602,816	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	13.33%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	17.16%	
56	**Total capital (as a percentage of risk-weighted assets)**	18.30%	
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)**	2.51%	
58	**Of which: capital conservation buffer requirement**	2.50%	
59	**Of which: bank-specific countercyclical buffer requirement**	0.01%	
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	6.33%	
	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		
66	Significant investments in common stock of financial entities		
67	Mortgage servicing rights (net of related tax liability)		
68	Deferred tax assets arising from temporary differences (net of related tax liability)		
	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)	382,967	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%	
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*	100%	
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)*		

7. Table CC2: Reconciliation of regulatory capital to balance sheet

	a	b	c
	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Ref**
	As at period-end	**As at period-end**	
Assets			
Cash and balances with the UAE Central Bank	5,680,082	5,680,142	
Due from banks and financial institutions	2,475,955	2,484,000	
Investments and Islamic instruments	5,125,044	5,139,358	
Loans and advances and Islamic financing receivables	27,724,678	28,664,243	a
Property and equipment and CWIP	418,675	418,675	
Other assets	2,290,176	2,114,969	b
Total assets	**43,714,610**	**44,501,387**	
Liabilities			
Due to banks	3,462,997	3,462,997	
Term borrowing from Banks	257,110	257,110	
Customer accounts	31,838,914	31,838,914	
Other liabilities	2,428,006	2,428,006	
Total liabilities	**37,987,027**	**37,987,027**	
Shareholders' equity			
Paid-in share capital	2,000,000	2,000,000	h
Of which: amount eligible for CET1	2,000,000	2,000,000	
Of which: amount eligible for AT1	-	-	

Retained earnings	772,005	981,272	c
Statutory reserve	947,578	947,578	
Special reserve	573,424	573,424	
Impairment reserve - Specific	171,998	-	d
Tier 1 capital securities	1,285,550	1,285,550	
Accumulated other comprehensive income	(22,972)	(22,972)	e
Total shareholders' equity	**5,727,583**	**5,764,852**	

Difference between carrying value reported in Financial statements and regulatory consolidation

(a) Exposures under scope of regulatory consolidation include accrued interest where as it is included in Other assets in the financial statements. General/ collective provision is netted from Loans and advances, Due from banks and Investments under Financials but not deducted for the purposes of Basel reporting where it is reported as Other Liabilities.
(b) Other assets in the financial statements include acceptances where as they are part of off-balance sheet exposure under Basel reporting.
(c) IFRS 9 transitional arrangement ECL is included in the Basel reporting.
(d) Impairment reserve forms part of Equity in the financial statements .
(e) Haircut of 55% is taken under Basel reporting for accumulated other comprehensive income.

8. Main features of regulatory capital instruments

		Quantitative / qualitative information
1	Issuer	**National Bank of Fujairah**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**XS2053350133**
3	Governing law(s) of the instrument	United Arab Emirates
	Regulatory treatment	
4	Transitional arrangement rules (i.e. grandfathering)	As per CBUAE notice CBUAE/BSD/N/2020/1733: Grandfathering Rules for Additional Tier 1 and Tier 2 26. The below two grandfathering rules apply only to instruments that were issued before the effective date of the Capital Regulation (being 1 February 2017). i. Instruments that are fully Basel III complaint will be grandfathered at 100% eligibility for 10 years starting from Jan 1, 2018 until 31 Dec 2027. ii. Instruments that are not Basel III compliant do no longer qualify as non-common equity Tier 1 capital or Tier 2 capital and will be phased out beginning 1st January 2018. 27. Fixing the base at the nominal amount of such instruments outstanding on 1 January 2018, their recognition is/was capped at 90% from 1 January 2018, with the cap reducing by 10 percentage points in each subsequent year. 28. This cap is applied to Additional Tier 1 and Tier 2 Instruments on an individual instrument base and refers to the

		amount of that instrument outstanding that no longer meets the relevant entry criteria. 29. If an instrument is repaid in separate tranches, the cap is applied to the reduced amount in all circumstances.
5	Post-transitional arrangement rules (i.e. grandfathering)	Same as above
6	Eligible at solo/group/group and solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Callable
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 1,285,550,000
9	Nominal amount of instrument	AED 1,285,550,000
9a	Issue price	AED 1,285,550,000
9b	Redemption price	100
10	Accounting classification	Equity under IFRS
11	Original date of issuance	24 September 2019
12	Perpetual or dated	Perpetual with 5 Year Call
13	Original maturity date	Not Aapplicable
14	Issuer call subject to prior supervisory approval	Issuer Call requires CBUAE Approval
15	Optional call date, contingent call dates and redemption amount	First Call Date 01st Oct 2024, No contingent Call date, Redemption @ 100 Face Value
16	Subsequent call dates, if applicable	First Call Date 01st Oct 2024 and thereafter on a semi-annual coupon payment date.
	Coupons / dividends	Semi-Annual
17	Fixed or floating dividend/coupon	Fixed till First call date , Variable thereafter
18	Coupon rate and any related index	Fixed rate coupon 5.875% until the first call date after which it will reset every 5 years to the 5yr US Treasury yield H1T5Y plus the Margin 4.301%)
19	Existence of a dividend stopper	Exists
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step-up or other incentive to redeem	None

22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non- convertible
24	Write down feature	Exists
25	If write down, write down trigger(s)	The notes can be written down permanently in whole or in part upon occurrence of a Non-Viability Event. The Loss Absorption mechanism is full or partial write down which means the securities shall be unconditionally and permanently written down on a pro rata basis of the amount determined by the CBUAE
26	If write down, full or partial	Full or partial write-down
27	If write down, permanent or temporary	Permanent
28	If temporary write-own, description of writeup mechanism	Not Aapplicable
28a	Type of subordination	Junior Subordinated
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	The Securities are deeply subordinated and rank senior only to claims of holders of Ordinary Shares and in respect of Other Common Equity Tier 1 Instruments
30	Non-compliant transitioned features	None. Fully Complaint as per CBUAE AT1 issuance guidelines
31	If yes, specify non-compliant features	Not Aapplicable

9. Table CCyB1 : Geographical distribution of credit exposures used in the countercyclical capital buffer

The Group is not exposed to countercyclical capital buffer except for the following geography:

	a	b	c	d	e
Geographical breakdown	**Countercyclical capital buffer rate**	**Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer**		**Bank-specific countercyclical capital buffer rate**	**Countercyclical buffer amount**
		Exposure values	**Risk-weighted assets**		
Luxembourg	0.5%	83,858	419	0.5%	2
Total		83,858	419		

10. Liquidity risk management

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risk of inability to fund assets at appropriate maturities and rates, and inability to liquidate assets at a reasonable price and in an appropriate time frame, and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to managing liquidity is to maintain, as far as possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or putting the Group's reputation at risk.

Management of liquidity risk

Treasury is entrusted with the responsibility of ensuring compliance with both statutory liquidity requirements and internal risk limits. All liquidity risk management policies and procedures are subject to review by Asset and Liability Committee (ALCO), Management Risk Committee (MRC), Board Risk Committee (BRC) and approval by the Board.

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the Central Bank of the UAE representing 13.0% (31 December 2021: 18.6%) of total assets which also include mandatory cash reserve deposits.. Short-term liquid assets also include investment grade marketable securities, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios.

The Group uses lending to stable resource ratio (LSRR) of 1:1 and eligible liquid assets ratio (ELAR) of 10%, which represents high quality liquid assets as stipulated by the Central Bank of the UAE, as key risk indicators and monitors them on a regular basis. The Group uses more prudent internal LSRR measure of 0.925:1 as a trigger point for action planning.

The Group manages its concentration of deposits by continuing to widen the customer base and sources of liabilities and setting in place caps on individual size and varying maturities.

Liquidity positions, key risk indicators and actions are discussed at ALCO to monitor and review achievement of short and long term liquidity strategies and thresholds.

Liquidity risk appetite is prudently and proactively reviewed taking into consideration the market events and relevant risk management standards. Adherence to the longer stress period is being achieved through reliance on both higher quality and adequate level of liquid assets. The Group monitors 30 days stress test under two scenarios of local market crisis and one / two notch downgrade of NBF Issuer Credit Rating in line with its liquidity risk appetite. The Bank has also defined a contingency funding plan to manage any liquidity crisis situation.

The Bank has a Board approved Liquidity Policy and Treasury Risk Management Framework in place that:

1. Defines Liquidity Risk and the roles and responsibilities of those charged with responsibility for Liquidity Risk Management in relation to the activities and exposures taken by the Bank
2. Defines the organization structure relating to Liquidity Risk management
3. Establishes a framework of independent monitoring and reporting

4. Codifies standards of measurement of Liquidity Risk
5. Ensures compliance with the regulatory requirements relating to Liquidity Risk
6. Defines the Bank's plan for obtaining required funding in the event of a shortage of liquidity in the market (the Contingency Funding Plan)

Funding strategy

NBF's funding and liquidity strategy is an integral part of its planning and risk management framework. The Bank's funding strategy takes into consideration the Board approved liquidity risk appetite and policies, regulatory requirements and best practices. The Bank front runs its liquidity for the planned business growth and focuses on diversification of sources of funding in terms of customers, counterparties, geographies, industries, products and maturities.

The Bank's funding is raised through retail banking, corporate banking and financial institution, business banking and Treasury operations. Business segments are required to self-fund the credit growth and the interbank and capital markets funding are determined and managed through ALCO. NBF follows a fully centralized model which consolidates funding and liquidity management at the Asset and Liability Management (ALM) Desk within Treasury function. The ALM Desk distributes funding across various business segments and ensures compliance with strict mismatch limits and manages pools of liquid assets. The Bank has well defined funds transfer pricing (FTP) policy which is used as cost for transfer of liquidity to/from ALM Desk to business segments.

Stress testing

Liquidity Stress testing is performed on a monthly basis. The liquidity stress test results are circulated to management and presented to ALCO. ALCO's Charter and processes ensure that the forecast Liquidity requirements, based on projections of loans, deposits and market conditions for proactive liquidity management, are considered with actions mandated. In addition, a daily predictive report for next 30 days is monitored by ALCO members outside the formal meetings to ensure early actions to deal with deterioration in liquidity ratios such as Advances to Deposits ("AD") ratio and ELAR .

In addition, Risk Management monitors Liquidity stress for three board approved scenarios, Business as usual, Local market crisis and one or two notch downgrade and assesses the adequacy of available funding to meet worst-case events. NBF's liquidity stress scenarios take into consideration the Bank's business model, and market conditions that are dynamically adjusted in line with bank specific and market specific factors.

Liquidity stress covers the following aspects:

- Stickiness of funding sources (assess the likelihood of roll-over of funding lines and how the fund providers are likely to behave under stress, including deposit run-off)
- Drying up of market liquidity
- Access to Central Bank facilities
- Off balance sheet commitments and other contingent liabilities

The Stress Scenarios used include:

- 30 days Liquidity Cash flows Stress Testing (under business as usual, local market crisis and one / two notch downgrade); and
- Structural Liquidity Cash Flows Stress testing (scenarios covering deposits strains & defaults in loan repayments by borrowers. Stress testing of ELAR and Liquidity Coverage Ratios).

To effectively manage Liquidity Risk, the Bank actively diversifies its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities. Furthermore, Deposits maintained by the top 20 depositors are monitored closely and presented to ALCO and MRC to ensure concentrations are understood.

Contingency Funding Plans

The Bank's Contingency Funding Plan (CFP) provides a framework with a high degree of flexibility and reliability to respond quickly in a variety of situations. Application of contingency measures is dependent upon whether an NBF specific crisis or market crisis exists. The Bank's CFP Policy requires both qualitative and quantitative analysis of the market and Bank's liquidity position to proactively manage any crisis situation.

The Bank has implemented systems for monitoring the balance sheet structure and liquidity profile on a daily basis including intraday monitoring capability with projected cash flows and liquidity position. The Bank monitors defined liquidity risk thresholds and corrective measures, if required, are initiated based on predictive position at warning limits that have been prudently established well within hard limits.

Some of the key liquidity measures that are measured and monitored on a daily basis include:

- Asset and liability cumulative cash flow gap less than 3 months with a minimum acceptable level to be less than 50% of the Liquid Assets was at 4.50% as at 30 June 2022.
- Net Funding Gap greater than 1 year with a minimum acceptable level to be < 25% of Liquid Assets was at 20.87% as at 30 June 2022.
- The Group uses lending to stable resource ratio of 1:1 and eligible liquid assets ratio of 10%, which represents high quality liquid assets as stipulated by the Central Bank of the UAE, as key risk indicators and monitors them on a regular basis. The Group uses more prudent internal LSRR measure of 0.925:1 as a trigger point for action planning.
- LCR and NSFR are calculated daily and circulated solely for internal readiness purposes as NBF is not a D-SIB and not yet approved by CBUAE to publish the same to meet regulatory expectations. Currently, only D-SIBs are required to publish LCR and NSFR.

Concentration limits on collateral pools and sources of funding (both products and counterparties)

The Bank manages concentration of its funding profile deliberately and sets limits at individual tickets and at counterparty level with due focus on spreading maturities. The Bank has a relatively high level of concentration of deposits from related parties that is considered as a strength given the significant historical stable source of funding. Excluding related party deposits, our Top 20 Depositors represents 18.4% of deposits as at 30 June 2022. Per Party group level deposits to Total assets for Principal Shareholders which is supposed to be less than 10% of total assets was at 8.30% as at 30 June 2022. Non Resident Deposits which are supposed to be maximum of 20% were at 8.92% as at 30 June 2022.
CASA stands at 50.01% of total deposits as at 30 June 2022. Over a period of 30 days, the core balance represent 83% and 70% of CASA balances at 90% and 99% confidence level respectively. This is based on behavioural historical analysis using regression approach.

Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of capital.

NBF does not have any significant subsidiaries and the Liquidity Exposure and funding needs are managed centrally at NBF for the Group .

11. Table LR1: Summary comparison of accounting assets vs leverage ratio exposure

		a
1	Total consolidated assets as per published financial statements	43,714,610
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	-
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	**Leverage ratio exposure measure**	**43,714,610**

12. Table LR2: Leverage ratio common disclosure template

		a	b
		T	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	43,714,610	42,616,277
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)**	**43,714,610**	**42,616,277**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	199,931	191,026
9	Add-on amounts for PFE associated with *all* derivatives transactions	422,998	483,148
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)**	**872,101**	**943,844**
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	8,439,847	7,923,457
20	(Adjustments for conversion to credit equivalent amounts)	-	-
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)**	**8,439,847**	**7,923,457**
Capital and total exposures			
23	**Tier 1 capital**	5,764,852	5,606,110

24	**Total exposures (sum of rows 7, 13, 18 and 22)**	53,026,558	51,483,578
Leverage ratio		**T**	**T-1**
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	11%	11%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11%	11%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	**Applicable leverage buffers**	8%	8%

13. Eligible Liquid Assets Ratio

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	5,680,082	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	5,680,082	5,680,082
1.3	UAE local governments publicly traded debt securities	517,638	
1.4	UAE Public sector publicly traded debt securities	132,507	
	Sub total (1.3 to 1.4)	650,145	650,145
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	202,242	202,242
1.6	**Total**	**6,532,469**	**6,532,469**
2	Total liabilities		37,896,690
3	**Eligible Liquid Assets Ratio (ELAR)**		**17.24**

14. Advances to Stables Resource Ratio

		Items	**Amount**
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	26,566,310
	1.2	Lending to non-banking financial institutions	300,886
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	790,711
	1.4	Interbank Placements	672,858
	1.5	**Total Advances**	28,330,765
2		**Calculation of Net Stable Resource**	
	2.1	Total capital + general provisions	6,207,623
		Deduct:	

	2.1.1	Goodwill and other intangible assets	-
	2.1.2	Fixed Assets	745,000
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	1,119
	2.1.6	Investment in subsidiaries, associates and affiliates	150
	2.1.7	**Total deduction**	746,269
	2.2	**Net Free Capital Funds**	5,461,354
	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	1,522,137
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	895,252
	2.3.5	Customer Deposits	26,901,297
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	**Total other stable resources**	29,318,686
	2.4	**Total Stable Resources (2.2+2.3.7)**	34,780,040
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	81.46

15. General qualitative information about credit risk

The Bank's business model principally focuses on servicing the needs of customers in the Corporate Banking, Business Banking and Retail Banking space. The Bank has limited market risk appetite and the business model revolves around financing needs of the customers in the above business segments. The Bank also has a strong Treasury offering, Financial Institutions business and proprietary Investments which are additional sources of credit risk. The Bank is well regarded for its Trade Finance expertise and major component of credit risk profile represents trade related exposures.

Credit risk exposures are governed by the Board approved risk appetite statement and credit risk policies

To ensure that NBF achieves an optimum level of return on its capital employed and operating within an acceptable level of Credit Risk, our policies and processes aim to:

(i) maintain sound credit-granting standards;

(ii) monitor and control credit risk;

(iii) properly evaluate new business opportunities;

(iv) identify and administer recovery for problem credits;

(v) ensure appropriate returns for the risks taken, and

(vi) ensure proper diversification with reduced concentration

NBF employs the "Three Lines of Defence" risk management philosophy under the Bank's Enterprise-wide Risk Management Framework (ERMF).

The First line of Defence (Senior Management, Staff in Business, Operations, Support functions, Credit department and Branches) is responsible for day to day risk management and management control. The Central Credit Committee and the Credit Department are approval authorities within the delegations set by the Board and these sit within the First Line of Defence.

The Second line of Defence (Risk Management & Compliance functions and Risk Governance Committees) recommend Policy for approval by the Board in line with the Bank's Risk Appetite sets Risk Capacity/Tolerances and operating boundaries, and provides guidance to and challenges First Line processes and risks and where possible supports any operational efficiencies aligned to the RAS and ERMF. The Bank has in independent Credit Risk function reporting into the CRO for fulfilling the second line of defence obligations.

The Third line of Defence (Internal Audit) provides independent assurance to the Board and Management designed to add value and improve NBF operations.

Credit Risk reporting is focused on providing clarity on credit quality, concentration issues, limit management and adequacy of collateral and provisioning. Reporting assesses alignment of our risk profile with the various limits contained in our Risk Appetite Statement and policies.

16. Table CR1: Credit quality of assets

		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	2,569,195	27,621,057	2,462,804	1,701,022	761,782	27,727,448
2	Debt securities	-	5,139,358	14,314	-	14,314	5,125,044
3	Off-balance sheet exposures	481,758	6,266,707	90,571	69,824	20,747	6,657,894
4	**Total**	**3,050,953**	**39,027,122**	**2,567,689**	**1,770,846**	**796,843**	**39,510,386**

Default status of an exposure is triggered when it passes 90 days past due. We also consider other risk indictors that may result in treating an exposure as default status after exercise of mature judgement.

The table CR2 presents Loans and Advances including Islamic financing in row 1. As the format of this template is fixed, acceptances have not been included under loans as it is presented in the Bank's financial statements. The total will therefore not match with the financial statement disclosure.

17. Table CR2: Changes in stock of defaulted loans and debt securities

		Amount
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**3,061,792**
2	Loans and debt securities that have defaulted since the last reporting period	62,777
3	Returned to non-default status	(37,207)
4	Amounts written off	(163,428)
5	Other changes	53,108
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**2,977,042**

Bank managed to prudently provide for the defaulted customers during the year and write off loans after exhausting all possible recovery efforts. There has been no default observed in debt securities. The Bank's remedial team pursues the recovery, both locally and internationally, from defaulted assets.

The Bank has presented Loans and advances including Islamic financing in this template. As the format of this template is fixed, acceptances have not been included under loans as presented in the Bank's financial statements. The total will therefore not match with the financial statement disclosure.

18. Additional disclosure related to the credit quality of assets

The following definitions are used in managing our credit risk.

Past due: payments not made as per schedule but not impaired

Impaired: Assets that have well defined credit weaknesses that jeopardize settlement of the debt, financial soundness and repayment capacity of the borrower is not assured and timely repayment of obligations is in jeopardy. There is a distinct possibility that the Bank may sustain some loss unless the deficiencies are corrected. Accounts restructured more than twice and or past dues for 90 days and above.

CBUAE Notice 28/2010 states that there is no substitute for mature judgement, as some of the characteristics for classification do not necessarily apply to all cases. In addition Clarification and Guidelines Manual for Circular No 28/2010 issued by the CBUAE also states that for commercial and corporate facilities, the Bank is required to use the circular's classifications, unless it can demonstrate, based on evidence and sound judgment, that the listed criteria for a specific facility is not the best indication of impairment. In this case, the Bank can classify the loan to an alternate category (higher or lower).

The evidence and judgement has been documented in our assessments and are recommended by the Bank's Central Credit Committee (CCC) and approved by the Management Risk Committee. These assessments were also presented to the CBUAE's examination team for their review.

19. Qualitative disclosure requirements related to credit risk mitigation techniques

Core features of policies and processes for, and indication of the extent to which the bank makes use of, on- and off-balance sheet netting.

The bank does not use on- and off-balance sheet netting for Capital Adequacy Reporting.

Core features of policies and processes for collateral evaluation and management.

The Bank's collateral management and evaluation for the purposes of capital adequacy reporting takes into consideration the Central Bank of the UAE and Basel requirements. The Collateral evaluation and consideration for determining risk mitigation towards risk weighted assets and capital calculation are as follows:

Cash 100%; Cash deposits held under margin or pledge in same currency as the loan / credit facility

Guarantees from Local and Federal Government of UAE and CBUAE, 100%. Foreign Sovereign Government Bonds rated BBB minus or above, 100%

Sovereign Government Bonds issued by other GCC countries and G-7 countries only will be considered as permissible collateral under this section. Attributable values of such Sovereign Government Bonds will be as follows:

• Countries with AAA rating - 100%

• Countries with rating AA+ down to & including A minus 70%

• Countries with rating below A minus 0% subject to active & available Country Limit being in place

(Excludes countries included in the Bank's Sanctions List)

ECAI rating as follows:

• Banks with AAA rating 100%

• Banks with rating AA+ down to & including AA minus 80% Subject to active & available Bank Limit being in place.

Listed Shares on a recognized stock exchange 70% Previous 3 months' average closing price should be used. Should be traded on a deep and liquid market.

20. Table CR3: Credit risk mitigation techniques - overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	**Exposures secured by collateral**	**Exposures secured by collateral of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
1	Loans*	38,229,735	5,398,416	5,398,416	-	-	-	-
2	Debt-securities	5,139,359	-	-	-	-	-	-
3	**Total**	43,369,094	-	-	-	-	-	-
4	Of-which-defaulted	1,669,447	123,036	123,036	-	-	-	-

21. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period;

NBF uses external ratings from recognized rating agencies and follows approach explained in document BCBS 128 para 96 98 for assigning risk weights:

96. If there is only one assessment by an ECAI chosen by a bank for a particular claim, that assessment should be used to determine the risk weight of the claim.

97. If there are two assessments by ECAIs chosen by a bank which map into different risk weights, the higher risk weight will be applied.

98. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied.

The Bank follows and complies with the same principle i.e. In case of two ratings, the lower rating is considered. For multiple ratings, the second lowest rating is considered.

The asset classes for which ECAI and ECA is used:

1. Claims on Sovereign

2. Claims on Multilateral Development Banks

3. Claims on Banks

4. Claims on Corporate (Rated-Bonds)

5. Rated Off-Balance sheet and Derivatives

A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book

The Bank uses Moody's CreditLens system for probability of default (PD) mapping.

The alignment of the alphanumerical scale of each agency used with the risk buckets

Credit ratings of all exposures are determined from the ECAIs and mapped to the exposures assigning a risk weight according to the supervisory tables. Standardised approach risk weights corresponding to the Credit Ratings assigned by ECAIs have been prescribed by the CBUAE for different asset classes and the same is followed by the Bank.

22. Table-CR4:-Standardised-approach - Credit risk exposure and Credit Risk Mitigation (CRM) effects

		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	6,488,413	-	6,488,413-	-	97,676	2%
2	Public Sector Entities	910,390	-	910,390	-	435,697	48%
3	Multilateral development banks	70,149	-	70,149	-	35,075	50%
4	Banks	6,235,390	807,429	6,235,390	55,300	3,032,839	43%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	21,509,912	20,281,910	21,509,912	15,160,354	20,112,947	48%
7	Regulatory retail portfolios	776,144	149,174	862,031	147,584	565,090	61%
8	Secured by residential property	2,555,326	-	2,555,326	-	1,518,680	59%
9	Secured by commercial real estate	1,374,732	-	1,374,732	-	1,374,732	100%
10	Equity Investment in Funds (EIF)	9,654	-	9,654	-	9,654	100%
11	Past-due loans	3,445,831	513,307	1,156,139	-	1,891,782	48%
12	Higher-risk categories	2,807	-	2,807	-	4,210	150%
13	Other assets	1,773,506	-	1,773,506	-	1,459,999	82%
14	**Total**	**45,152,254**	**21,751,820**	**42,948,449**	**15,363,238**	**30,538,381**	**46%**

23. Table CR5: Standardised 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	6,360,654	14,627	-	36,764	-	76,368	-	-	6,488,413
2	Public Sector Entities	-	495,056	-	157,297	-	258,037	-	-	910,390
3	Multilateral development banks	-	-	-	70,149	-	-	-	-	70,149
4	Banks	446	2,548,909	-	3,830,215	-	607,949	-	-	6,987,519
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	5,289,838	231,527	-	439,125	-	15,178,331	-	5,492,645	26,631,466
7	Regulatory retail portfolios	108,578	-	-	-	753,453	-	-	-	862,031
8	Secured by residential property	-	-	1,594,839	-	-	960,487	-	-	2,555,326
9	Secured by commercial real estate	-	-	-	-	-	1,374,732	-	-	1,374,732
10	Equity Investment in Funds (EIF)	-	-	-	-	-	9,654	-	-	9,654
11	Past-due loans	123,036	-	-	-	-	855,669	690,742	-	1,669,447
12	Higher-risk categories	-	-	-	-	-	-	2,807	-	2,807
13	Other assets	254,689	73,523	-	-	-	1,445,294	-	-	1,773,506
14	**Total**	**12,137,241**	**3,363,642**	**1,594,839**	**4,533,550**	**753,453**	**20,766,521**	**693,549**	**5,492,645**	**49,335,440**

24. Qualitative disclosure related to counterparty credit risk

Our Risk Appetite Statement defines the amount of risk (volatility of expected results) the Bank is willing to accept in pursuit of a desired financial performance or strategic objectives. Limits are allocated based on an assessment of the credit worthiness of each counterparty together with exposure caps based on the creditworthiness of the Country of origin and the individual characteristics of the counterparty.

25. Table CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

	a	b	c	d	e	f
	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	199,932	422,998		1.4	872,101	402,848
Internal Model Method (for derivatives and SFTs)						
Simple Approach for credit risk mitigation (for SFTs)						
Comprehensive Approach for credit risk mitigation (for SFTs)						
VaR for SFTs						
Total						

26. Table CCR2: Credit valuation adjustment (CVA) capital charge

		a	b
		EAD post-CRM	RWA
1	All portfolios subject to the Standardised CVA capital charge*	708,467	98,969
2	All portfolios subject to the Simple alternative CVA capital charge		

*all securities financing transactions (SFTs) that are subject to fair-value accounting and except those transacted directly with a central counterparty. EAD post-CRM: exposure at default. This refers to the amount used for the capital requirements calculation. It is therefore the amount of the credit valuation adjustments having applied the CRM techniques.

27. Table CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h
Risk weight / **Regulatory portfolio**	0%	20%	50%	75%	100%	150 %	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	562,767	38,079	-	646	-	-	601,492
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	270,609	-	-	270,609

Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**562,767**	**38,079**	**-**	**271,255**	**-**	**-**	**872,101**

28. Table CCR5: Composition of collateral for CCR exposure

	a	b	c	d	e	f
	Collateral used in derivative transactions				**Collateral used in SFTs**	
	Fair value of collateral received		**Fair value of posted collateral**		**Fair value of collateral received**	**Fair value of posted collateral**
	Segregated	**Unsegregated**	**Segregated**	**Unsegregated**		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	-	-

29. Table CCR6: Credit derivative exposures

	a	b
	Protection bought	**Protection sold**
Notionals	-	-
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	-	-
Fair values	-	-
Positive fair value (asset)	-	-

Negative fair value (liability)	-	-

30. Table CCR8: Exposures to central counterparties

		a	b
		EAD (post-CRM)	RWA
1	**Exposures to QCCPs (total)**		
2	Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	-	-
3	(i) OTC derivatives	-	-
4	(ii) Exchange-traded derivatives	-	-
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Pre-funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:	-	-
13	(i) OTC derivatives	872,101	402,848
14	(ii) Exchange-traded derivatives	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Pre-funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

31. General qualitative disclosure requirements related to market risk

NBF's Market Risk policy statement seeks to define market risks inherent in any business operation of the Bank and provides policy guidelines to measure, monitor, report and control all the identified risks. Market risk is inherent in lending, funding and financial markets operations activities (hereinafter referred to as ‘banking operations’). Market risk management across the Bank is the responsibility of our Treasury department supported by independent Middle Office and Market Risk functions. The Bank’s financial markets operations are governed by the objectives stated in its Liquidity Risk Management Policy, Investment Policy and in the Market Risk Management Policy. NBF adopts a well-managed risk philosophy in regards to the Bank’s core business activities and this is the case for NBF’s Treasury activities.

Structure and organisation of the market risk management function:

The Head of Treasury is accountable for managing the Market Risk in both the Trading Book and the Banking Book. The ALCO sets management parameters and tolerances for the different components of Market Risk. It ensures that the parameters and tolerances for the components of Market Risk deliver an outcome that is within the Bank's approved Risk Appetite. Treasury Middle Office (TMO) is accountable for the reporting of the Bank's position against the Parameters and Tolerance for all components of Market Risks in both the Trading Book and Banking Book on a daily basis. TMO uses indices and valuation criteria approved by ALCO to calculate the Bank's mark to market position for all components of the Bank's exposure to Market Risk. In the event that TMO detects a breach of the tolerance for Market Risk, it advises Risk Management. Risk Management confirms the calculations and provide advice to the Head of TMO. In the event that breach or anticipated breach is confirmed, the Head of TMO advises the Chairman of ALCO and the Chief Risk Officer (CRO) who convenes a meeting of ALCO to provide direction to the Head of Treasury with regard to curing the breach and restoring the Bank to a position within its Risk Appetite and Tolerance.

The scope and nature of risk reporting and/or measurement systems

TMO monitors limit utilization on a daily basis through a multi-layered Limit Monitoring System which uses data and reports from the treasury systems. Limit monitoring report is prepared on a daily basis and the historical utilizations for all limit exposures are presented for periodic management review. This forms a part of the monthly ALCO pack which is provided to senior management.

The following is a sample of limit-types monitored by market risk on a daily basis:

• Stop loss limit for foreign exchange and interest rate derivatives trading desk.

• Overall DV01 / PV01 limits for the Interest Rate Derivatives.

• DV01 / PV01 Limits by time buckets.

• Open Position limits for foreign exchange by currency groups and overall open position limits.

• Option premium limits for buying options.

• Notional limits for Forward Rate Agreements and Interest Rate Swaps (IRS) /Currency Rate Swaps (CRS).

Market Risk is a function independent of business/risk taking activities, and reports to the CRO.

32. Table MR1: Market risk under the standardised approach (SA)

		a
		RWA
1	General Interest rate risk (General and Specific)	2,298
2	Equity risk (General and Specific)	1
3	Foreign exchange risk	112,479
4	Commodity risk	-
	Options	
5	Simplified approach	94
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**114,872**

33. Interest Rate Risk in Banking Book (IRRBB) risk management objectives and policies

Qualitative disclosure

IRRBB refers to the risk of loss in earnings or economic value of the Bank's Banking Book because of movement in interest rates. The Bank has assets and liabilities portfolio not marked to market and which are carried on the books of the Bank at historical values. Thus, the economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held until maturity. The Bank maintains overall balanced positions in its duration of rate sensitive assets and rate sensitive liabilities for different maturity buckets ensuring that it is not exposed to significant risks from parallel or nonparallel shifts in yield curve.

IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts. ALCO governs the interest rate risk for the Bank on an on-going basis. The tenures and levels of assets and liabilities are decided in monthly ALCO meetings and accordingly, in line with the business budget, expected macro-economic scenario and business conditions, changes in the structure of assets and liabilities are affected.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Treasury or to separate books managed under the supervision of the Bank's ALCO, through Funds Transfer Pricing (FTP) Systems. This transfer is usually achieved by a series of synthetic internal deals between the business units and these books.

When the behavioral characteristics of a product differ from its contractual characteristics, the behavioral characteristics are assessed to determine the true underlying interest rate risk. The Bank's ALCO is required to regularly monitor all such behavioral assumptions and interest rate risk positions to ensure they comply with interest rate risk limits. Risk Management ensures that data inputs are adequately specified with regard to rates, maturities, re-pricing, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings. Risk Management and TMO jointly ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by the Bank's ALCO.

For measuring overall interest sensitivity in the banking book, the Bank conducts stress tests by simulating yield curve on over 80 Board approved parallel and non-parallel yield curve shifts scenarios and the worst-case from duration based and simulation based approaches is used to measure potential loss. Additionally CBUAE's prescribed 200 basis point parallel shifts to the yield curve(s), and corresponding impact on its Net Interest Income and DV01 sensitivity is also computed on regular basis and reported to CBUAE on monthly basis.

The Bank has used the Economic Value of Equity Approach (EVE) to analyse the dynamic behaviour of economic value of equity with response to varying interest rate scenarios. Broadly, the EVE is defined as the difference between the economic value of assets and economic value of liabilities in response to a change in the interest rate. The linkage between the two is established via weighted modified duration of rate sensitive assets and liabilities.

The Bank has estimated the IRRBB based on Modified Duration as well as Scenario Based Yield Curve simulation by generating 80 scenarios of parallel and non-parallel shifts in yield curve. The Bank uses the following nine time buckets and a non-interest rate sensitive bucket:

1. Up to 7 days
2. 7 days to 1 month
3. 1 to 3 months
4. 3 months to 6 months
5. 6 months to 1 year
6. 1 year to 2 years
7. 2 years to 4 years
8. 4 years to 6 years
9. Over 6 years.

All assets and liabilities are mapped to respective time buckets based on either their respective maturities or next re-pricing date whichever is earlier. Items such as capital, reserves & surplus, bills payable, inter-office adjustment, provisions, cash, current account and fixed assets are treated as non-rate sensitive. The midpoint of each time bucket is considered as the proxy for the maturity of all assets and liabilities in that time bucket. The Bank uses market yields and coupons for various instruments and they are mapped to the same set of products for respective maturities.

As the EIBOR yield curve is available for up to 1 year only, the Bank has generated a yield curve beyond 1 year using AED Swap rates followed by interpolation and extrapolation. The yield curve has been divided into 3 parts - short term (up to 1 year), medium term (from 1 to 4 years) and long term (over 4 years) and shifted the yield in steps of 20 bps from -250 bps to +250 bps in 3 different maturities. This generated 80 scenarios of parallel and non-parallel yield curves. The negative difference in the Net Present Value (NPV) of assets and liabilities was summed as the impact on Economic Value of Equity. Similarly, Modified

Duration (MD) (based on bucket midpoint) impact was also calculated. The maximum impact is considered to gauge the worst-case loss.

Description of how the bank hedges its IRRBB and the associated accounting treatment

With reference to Interest Rate Risk on the Banking Book (IRBB), NBF has a strategy in place to mitigate the market risk arising from potential adverse moves in interest rates (locally/globally) to safeguard the bank's capital and earnings. NBF has a designated Asset Liability Management (ALM) unit responsible for the bank's interest rate risk monitoring and management.

Historically, the Bank has a short duration balance sheet based on its assets and liability mix where the interest rate risk is managed accordingly.

NBF has interest rate risk measurement system (Ambit Focus) that captures all material sources of interest rate risk and assess the effect of interest rate changes. Monitoring MIS reports are reviewed and presented at ALCO at defined frequency.

The Bank has "The Matched Maturity" funding FTP process to transfer liquidity and interest rate risk to centralized ALM team. The FTP posts mismatched earnings from business units into the Asset and Liability Unit of Treasury. The ALM Unit acts as the central clearing house for funds, benchmarking all transfer rates against a market derived yield curve plus other market pricing factors.

The Bank also uses hedging techniques such as Interest rate swaps against assets and liabilities to hedge interest rate risk. To that extent, select hedging transactions have been executed against specific fixed income securities along with fixed income mandates that are managed by external Fund Managers. The Bank follows International Financial Reporting Standards for hedge accounting.

The ALCO and Investment Committee review the interest rate risk exposure in bank's Banking and Investment book at monthly meetings in order to assess, monitor and control the risk.

The Bank has used the Economic Value of Equity Approach (EVE) to analyse the dynamic behaviour of economic value of equity with response to varying interest rate scenarios. Broadly, the EVE is defined as the difference between the economic value of assets and economic value of liabilities in response to a change in the interest rate. The linkage between the two is established via weighted modified duration of rate sensitive assets and liabilities. Discount rates are derived from interpolation of yield curves, using which, Bank computed discounted Assets and Liabilities to derive EVE.

In line with CBUAE guidelines the Bank computes ΔEVE for Parallel up, Parallel down, Steepener, Flattener, Short rate up and Short rate down scenario curves. ΔNII is computed for Parallel up and Parallel down scenarios. For monthly CBUAE reporting, the Bank computes ΔNII using a 200Bps up and down scenario.

33. Qualitative information on a bank's operational risk framework

(a) Policies, frameworks and guidelines for the management of operational risk.

Operational Risk is a Material Risk of the bank and its overarching governance is set out in the Enterprise wide Risk Management Framework. As a Material Risk it has its own Framework and Policy and specific operational risk categories such as Business Continuity risks and Outsourcing Risks are covered by their own policies and standards.

The Operational Risk Management Framework requires that all operational risks be identified, and assessed on an inherent, residual and target basis. The assessment methodology gives the risk a rating based on the Likelihood and Consequence of the risk materializing into an event. The risk rating takes into account internal loss data, external loss data and the business environment and internal control factors relevant for the risk in the specific context of the product or service.

The impact of new or changed systems, products and processes are assessed using a “Risk in Change” methodology. Risks are rated and reported against a Board approved matrix to allow us to produce an Operational Risk Profile which is presented at the Operational Risk Committee, Management Risk Committee and Board Risk Committee. The Group has an overarching Board approved Operational Risk Management Framework (ORMF) which lays down the broad framework of Governance, Risk appetite, Policy and process structure of Operational Risk management and measurement of Operational Risk. The ORMF is supported by a documented and Board approved Operational Risk Policy (ORP) which details the Objectives, Governance, Risk classification, identification, reporting & assessment and accounting methodology. ORP includes a Risk and Control Assessment program that enables a risk-based sample and review of controls over the risks that are assessed. Consideration is given to information gained through the operational risk assessments and reviews that have been conducted, as well as through other avenues such as exception reporting, operational loss events and near misses and internal and external audits. Operational Risk in new products is considered as part of Product Development Policy (PDP) governed by Product Committee and any new process or change in process is subjected to “Risk in Change” methodology.

Operational Risk Management function reports to the Chief Risk Officer and prudent governance is achieved through the Bank’s Operational Risk Committee (ORC) that meets at least once a month to discuss ongoing operational risk issues as well as review the Bank’s Operational Risk Profile and related metrics. The Committee reports to the Bank’s Management Risk Committee (MRC) that supervises Enterprise-wide Risks.

NBF uses the Standardized Approach for calculation of Operational Risk capital requirements.

NBF’s methodology for Operational Risk measurement has been described above. Risk ratings are formally reviewed each year in the Risk and Control Self-Assessment process but are also dynamically reviewed in light of changes to process, the effectiveness of controls as assessed through testing or in light of the root cause of an event and this can occur at any time. Monthly Operational Risk reporting to the ORC and MRC includes the Operational Risk profile, details of events and losses, analysis of the root cause of events and any emerging issues.

Quarterly reporting to Board Risk Committee (BRC) includes the overall profile, material developments and emerging issues. The reporting also includes an update on Operational Risk losses booked and action taken to mitigate reoccurrence, our five highest rated risks, Frauds, Key Risk Indicators and our Reputational Risk profile.

Risk mitigation generally involves a treatment plan to address shortcomings in the control environment. For some risk types, we mitigate loss through the use of insurance as a risk transfer method.

NBF maintains an annual insurance plan which outlines the transferable risks and the recommended coverage. Currently the Bank has the following risk coverage:

1. Bankers Blanket Bond, Professional Indemnity and Directors and Officers insurance;
2. Damage to Electronic Equipment;
3. Property All Risks including Business Interruption; and
4. Public Liability.

34. Authorisation of Publication

This Report is published under the authority of the Board of Directors this 16th day of August 2022.