BANK OF CHINA LTD.

-ABU DHABI

Pillar III Disclosure

December 2021

Content

A. GENERAL OVERVIEW

This document is primarily concerned with quantitative and qualitative disclosures for Bank of China Ltd.-Abu Dhabi (herein simply referred to as “BOCAD” or “the Bank”). The disclosures are consistent with the Pillar III guidelines and have been approved by the Senior Management Committee (herein simply referred to as “SMC”).

The aim of Pillar III is to bolster market discipline through enhanced disclosure requirements that allow market participants to make an assessment of Banks scope of application and calculation of capital, risk exposure, risk assessment and capital adequacy.

Pillar III disclosures comprise two types:

- Qualitative disclosures relating to risk management practises, and;
- Quantitative disclosures relating to actual risk exposures and respective capital allocation.

Pillar III requires all qualitative and quantitative material risks to be disclosed. Where disclosure has been withheld as proprietary or non-public material, as the guidelines/ regulations permit, we shall comment as appropriate.

Pillar III disclosures, also referred to as Market Discipline, is a core component of the Basel framework whose main objective is to ensure timely and transparent disclosures to market participants. These disclosures mainly address how the Bank manages all types of risks it is facing to ensure that depositors’ money is protected and that the Bank remains a going-concern.

All quantitative information in this Pillar III report is as of December 31st, 2021.

B. INTRODUCTION

1. Bank of China Ltd.-Abu Dhabi at a glance

BOCAD was incorporated in 2014 holding a wholesale banking licence and is regulated by the Central Bank of UAE (herein simply referred to as “CBUAE”).

The Bank is wholly owned by Bank of China Limited (herein simply referred to as “BOC” or the “the Group”) which is registered and domiciled in the People’s Republic of China. The Group provides support to the Bank in terms of capital, technology and IT human resources.

2. Disclosures

All disclosures of both qualitative and quantitative information in this Pillar III document are approved by SMC.

The objective of Pillar III disclosures is to improve market discipline through effective public disclosure to complement requirements under Pillar I and II and to allow market participants access to information on the Bank’s risk exposures and risk management policies and processes. They are also intended to complement the disclosures in the financial statements based on IFRSs as published on the Bank’s website.

The chairman of SMC for the Bank believes that all disclosures made here-in are correct and accurate and attests to the validity of the data.

3. Frequency

This report is prepared on an annual basis, and published in accordance with CBUAE.

4. Approach

The Bank has applied the Basel III Framework as follows:

- Credit Risk – Standardized Approach
- Market Risk – Standardized Approach
- Operational Risk – Basic Indicator Approach

C. OVERVIEW OF RISK MANAGEMENT AND RISK WEIGHTED ASSETS

1. Key prudential metrics related to regulatory capital, leverage ratio and liquidity standards

	Items (AED'000)	Dec 2021	Sept 2021
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	379,255	391,085
1a	Fully loaded ECL accounting model		
2	Tier 1	379,255	391,085
2a	Fully loaded ECL accounting model Tier 1		
3	Total capital	383,666	398,436
3a	Fully loaded ECL accounting model total capital		
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	654,996	633,053
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	57.9%	61.78%
5a	Fully loaded ECL accounting model CET1 (%)		
6	Tier 1 ratio (%)	57.9%	61.78%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)		
7	Total capital ratio (%)	58.58%	62.94%
7a	Fully loaded ECL accounting model total capital ratio (%)		
	Leverage Ratio		
8	Total leverage ratio measure	1,827,728	1,777,393
9	Leverage ratio (%) (row 2/row 13)	20.57%	22.00%
10a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)		
10b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)		
	ELAR		
11	Total HQLA	278,946	268,892
12	Total liabilities	1,101,376	947,030
13	Eligible Liquid Assets Ratio (ELAR) (%)	25%	28%
	ASRR		
14	Total available stable funding	865,449	776,740
15	Total Advances	463,138	413,822
16	Advances to Stable Resources Ratio (%)	53.51%	53.28%

2. The risk management objectives and policies of the Bank

2.1 The business model of the Bank

The primary risk management objectives of the Bank are to optimize capital allocation, maintain risk level within acceptable parameters and satisfy depositors and the regulatory requirements and other interest groups in order to achieve the Bank’s prudent and stable development.

The Bank, under the guidance of the group’s risk appetite and policies, the Bank's goal is therefore to achieve an appropriate balance between risk and return, minimize potential negative effects on the Bank’s financial performance, serve and implement the BOC Group's strategies.

The Bank, as a branch of the BOC Group as well as a local financial institution, works continuously to implement the strategic requirements, as serving to boost the local economic development, financial prosperity, and international expansion of Chinese enterprises. Currently the target clients of the Bank are mainly the major local companies, governments and sovereigns, major international companies and financial institutions with investment rating, and medium-and-large Chinese companies operating in the Middle East.

Flexibility and adaptability should be built into the business strategy in response to changing market conditions. At the moment, main issues posing strategic risks to the Bank include geopolitical and economic volatility, commodity price volatility, uncertainty in the region's industrial structure adjustment, and China's economic slowdown.

The Bank has attached great significance to the business and strategic risk management to avoid the failure of the Bank’s long term strategy.

Risk appetite is designed with strategic and forward-looking considerations whereas authorities and risk limits are used to govern and monitor our day-to-day business activities. Risk strategy guides risk appetite, which is embodied in risk policies, covering integrated risk identification, assessment, mitigation and management.

2.2 The risk governance structure of the Bank

The Bank has an effective and well-established governance framework in place to ensure that risks impacting our businesses are identified, appropriately categorized, assessed, managed and communicated to the Senior Management in a timely manner. The SMC has overall accountability and responsibility for the Bank's management of risk. Also it is the strategy-making level of risk management in the Bank.

The Risk Management Committee (herein simply referred to as RMC) is responsible for determining the risk appetites and risk tolerance, general principles of risk management, risk management framework and overall risk strategy.

The SMC delegates specific risk management roles and responsibilities to: RMC, the Asset and Liability Committee (herein simply referred as ALCO), the Anti-Money Laundering and Compliance Committee (herein simply referred as AMCC) and the Internal Audit. Specific responsibilities of the above committees (as well as the SMC) and posts are defined in the Terms of Reference of each committee and the authorization document for each post.

The risk management functions mean the departments and/or posts that are responsible for the management of various risks under the direction of the SMC and relevant committees. Among them, the Risk Management Department (herein simply referred as RMD) takes the lead to manage the credit risk, market risk and operational risk; Financial Management Department (herein simply referred as FMD) takes the lead to manage liquidity risk and interest rate risk in the banking book and strategic risk. The Compliance Department (herein simply referred as CD) takes the lead to manage the compliance risk and AML risk; the Executive Office takes the lead to manage reputation risk and IT risk.

The Internal Audit is responsible for evaluating and supervising the risk management and assessment of the adequacy and effectiveness of internal control and governance procedures. The chief internal auditor of the Bank acts as head of the Bank's internal audit function.

2.3 The channels used by the Bank

The Bank endeavours to promote strong risk conduct and embedded a risk management culture throughout various ways. The senior management also takes the risk culture as priorities. The senior management approved Enterprise Culture and Employee Conduct Framework which provides organizational direction and describes our approach to a set of related topics applicable to all risk categories such as accountability and risk culture.

Senior management communicates behavioural standards to our staff on a regular basis, with a focus on conduct and values. Furthermore, the Code of Conduct outlines an employee's need to be truthful, respect others, and follow all applicable laws, regulations, and policies. Anyone who violates the Code of Conduct or fails to disclose a probable or actual violation faces corrective or disciplinary action.

2.4 The scope and main features of risk measurement systems

As the parent company, BOC holds a "neutral" risk appetite to balance risk and return in line with the principles of "rationality, stability and prudence". The goal of BOC risk management is to maximize shareholders' interests within the risk tolerance and on the premise of prudence compliance required by the depositors, regulator and other stakeholders. BOC makes vigorous effort to strengthen risk management. In terms of credit risk management, it implements centralized credit approval and risk classification examination with a sophisticated examiner system. It enhances credit authorization and post-loan management, as well as the disposal and recovery of non-performing loans. For market risk management, BOC formulates “Market Risk Management Policy” to define the market risk measurement, risk limit structure and risk limit monitoring. In respect of liquidity risk management, the head office takes charge of liquidity risks of the whole bank and realizes high degree of unification of policy and risk measurement standard in line with the discipline of centralized management.

BOC has established three defence lines for internal control. Institutions of all levels, all business line departments, and the staff shall shoulder the responsibility of internal control. This is the first defence line which aims to realize self-control by self-evaluation, self-inspection, self-rectification and self-training. CD and RMD shall take charge of the overall establishment of internal control system to guide, inspect, supervise and evaluate the first defence line, which is the second defence line. Internal Audit shall check and evaluate the appropriateness and effectiveness of business operations, risk management, internal control and corporate governance of the whole bank in a systematic and standardized manner, which is the third defence line.

2.5 The process of risk information reporting provided to the SMC

The RMC reviews positions in excess of risk appetite as reported by the ALCO and RMD，making sure the implementation of policies and procedures for the risk appetite, reporting quarterly to the SMC of the Bank's risk appetite execution status and improving monitoring measures.

The RMD monitors and reports quarterly to the RMC the execution of the Bank's defined risk appetite indicators, specifically in credit, market and operational risks; reporting positions in excess of risk appetite to the RMC.

The FMD continuously monitors and quarterly reports the execution of the Bank's defined risk appetite indicators specific to liquidity risk and IRRBB to the RMC; reporting positions in excess of risk appetite to the RMC.

The CD monitors and reports quarterly the execution of the tier two risk appetite indicators specifically related to compliance and AML risks to AMCC.

2.6 Qualitative information on stress testing

The Bank actively manages the entire assets portfolio and major counterparty risks in trading business and perform stress testing on a timely basis, based on a combination of eight extreme scenarios，for example rising interest rates, global pandemic continues, global inflation increases, debt crisis etc. Hypothetical scenarios are designed to be forward-looking at potential future market stresses, and are designed to be severe but plausible.

The Bank's market risk and liquidity risk stress testing are used to identify and control risk due to the large changes in market prices and rates.

2.7 The strategies and processes to manage, hedge, and mitigate risks that arise from the Bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigates

The responsibility for managing credit risk is shared broadly following the three lines of defence governance model. The SMC delegates credit risk approval authorities through risk appetites to the Chief Risk Officer (herein simply referred as CRO). Credit transactions in excess of these authorities must be approved by the RMC. To facilitate day-to-day business activities, the CRO has been empowered to further delegate credit risk approval authorities to individuals within RMD as necessary. The Bank's medium-low risk appetite towards credit risks is reflected in the conservative approach towards lending focusing on investment grade corporate customers, collateralized lending, etc. , a rigorous view towards high leverage financial project and a tight restriction over such facilities. The Bank seeks to reduce the exposure to credit risk through a variety of means, including the structuring of transactions and the use of collateral. Risk mitigates include the use of guarantees, collateral, seniority, loan-to-value (LTV) requirements and covenants.

For market risk, the Bank's medium-low risk appetite is reflected in a strict restriction to the back to back clients trading, and moderate limit in the exchange rate risk in the banking book. The Bank does not conduct any proprietary trading; all of the trading activities are client driven (need to be operated on a back-to-back basis), or for hedging of banking account market risk. The Bank adopts FX risk exposure, intraday and overnight FX risk exposure, and PVBP of bond indicators for the purpose of monitoring, reporting and managing the market risk in the banking book.

Counterparty credit activities are undertaken in a manner consistent with the relevant requirements and policies of the Bank, in line with our credit risk management policy. The primary risk mitigation techniques for trading counterparty credit risk are collateralization when a borrower pledges assets as security (share the same collateral as the syndication), which provides recourse to the lender in the event of default.

The Bank's medium-low risk appetite towards liquidity risk is reflected in the effective and prudent management of liquidity risk to ensure the continuing health and strength of the Bank.

The Bank mainly utilizes the interest rate sensitivity gap to analyse the re-pricing risk on a static basis from net interest income perspective. The Bank adopts the Net Interest Income (NII) Movement Ratio and Re-pricing gap limits for the purpose of monitoring, reporting and managing the IRRBB.

For Interest Rate Risk in Banking Book (IRRBB), the Bank's medium-low risk appetite is reflected in well management of the re-pricing gap, and moderate losses to the Bank in term of the Bank's earnings due to the change of interest rate.

The Bank has a medium-low risk appetite for material operational risks. All appropriate measures should be taken towards achieving a high level of operational risk awareness and the establishment of a rigorous operational risk management system. Operational risk appetite is measured as a percentage of regulatory capital. A level of operational loss for any given year of above Moderate level is considered unacceptable.

The Bank maintains a medium-low risk appetite for compliance risk. Given the nature of compliance risk, the risk appetite indicator related to compliance risk is qualitative in nature. The Bank endeavours to put in place appropriate policies, procedures and controls to ensure no material breach of applicable laws, regulations and rules are committed by the Bank or its Employees.

The Bank maintains a medium-low risk appetite for AML risks. Given the nature of AML risk, the risk appetite indicator related to AML risk is qualitative in nature. The Bank endeavours to put in place appropriate policies, procedures, systems and controls to ensure no material breach of applicable AML laws, regulations and rules is committed by the Bank or its Employees.

3. Overall of risk weighted assets

No.	**Items (AED' 000)**	**Dec 2021**	**Sep 2021**
1	Credit risk (Standardized approach (SA))	735,772	588,101
2	Market risk (Standardized approach (SA))	359	380
3	Operational risk (Basic indicator approach (BIA))	44,572	44,572
Total RWA		**780,703**	**633,053**

D. Linkages between Financial Statement and Regulatory Exposures (LI2)

The below table shows the effect of regulatory adjustments required to derive the Bank's exposure at default (EAD) for the purposes of calculating its capital requirements. The differences between the carrying values under regulatory scope of consolidation and carrying values in financial statements are detailed below:

		a	**b**
		Total	**Items subject to:**
	Items (AED' 000)		**Credit risk framework**
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	1,508,861	1,508,861
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)		
3	Total net amount under regulatory scope of consolidation	1,508,861	1,508,861
4	Off-balance sheet amounts	697,884	694,458
5	*Differences in valuations*		
6	*Differences due to different netting rules, other than those already included in row 2*		
7	*Differences due to consideration of provisions*		
8	*Differences due to prudential filters*		

9	**Exposure amounts considered for regulatory purposes**		

E. REGULATORY CAPITAL AND CAPITAL ADEQUACY

1. Capital Composition

The table below shows the Bank's breakdown of regulatory capital according to the scope of regulatory consolidation and in-line with the CBUAE capital supply standard.

40	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
41	*Directly issued capital instruments subject to phase-out from Tier 2*	0	
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)	0	
43	*Of which: instruments issued by subsidiaries subject to phase-out*	0	
44	Provisions	7,626	
45	**Tier 2 capital before regulatory adjustments**	**7,626**	
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	0	
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)	0	
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	
49	CBUAE specific regulatory adjustments	0	
50	**Total regulatory adjustments to Tier 2 capital**	0	
51	**Tier 2 capital (T2)**	**7,626**	
52	**Total regulatory capital (TC = T1 + T2)**	**383,666**	
53	**Total risk-weighted assets**	**654,996**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**57.9%**	
55	**Tier 1 (as a percentage of risk-weighted assets)**	**57.9%**	
56	**Total capital (as a percentage of risk-weighted assets)**	**58.58%**	
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	**2.50%**	
58	**Of which: capital conservation buffer requirement**	**2.50%**	
59	**Of which: bank-specific countercyclical buffer requirement**	**0.00%**	
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	**0.00%**	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available**	**50.9%**	

	after meeting the bank's minimum capital requirement.		
	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
	Amounts below the thresholds for deduction (before risk weighting)		
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	0	
66	Significant investments in common stock of financial entities	0	
67	Mortgage servicing rights (net of related tax liability)	0	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	28,230	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	7,626	
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0	
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0	
	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*	0	
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	0	
75	*Current cap on AT1 instruments subject to phase-out arrangements*	0	
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	0	
77	*Current cap on T2 instruments subject to phase-out arrangements*	0	
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	0	

2. Capital Adequacy

The capital adequacy ratio (CAR) is calculated by dividing the regulatory capital base by the total on and off balance sheet RWAs. The minimum CAR for foreign banks incorporated in UAE is 10.5 per cent.

3. Reconciliation of regulatory capital to balance sheet

The table below shows the link between the Bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure.

Items(AED'000)	Balance sheet as in published financial	Under regulatory scope of	CC2 Ref

	statements	consolidation	
Assets			
Cash and balances with the UAE Central Bank	273,949	273,949	
Due from banks	755,201	755,366	A
Due from related parties	3,689	3,689	
Financial assets measured at amortised cost	4,998	4,998	
Loans and advances	448,764	463,138	A
Other Assets	1,942	1,942	
Property, plant and equipment	2,563	2,563	
Intangible assets	5	5	
Current and deferred tax assets	3,211	3,211	
Total assets	**1,494,322**	**1,508,861**	
Liabilities			
Customer deposits	540,782	540,782	
Due to related parties	550,075	550,075	
Due to banks and other financial institutions	1,132	1,132	
Other liabilities	10,131	9,387	A
Provisions	-	15,283	A
Total liabilities	**1,102,120**	**1,116,659**	
Shareholders' equity			
Paid-in share capital	367,200	367,200	
Of which: amount eligible for CET1	367,200	367,200	
Of which: amount eligible for AT1	-	-	
Retained earnings	8,054	8,054	
Accumulated other comprehensive income	16,948	16,948	
Total shareholders' equity	**392,202**	**392,202**	

A: Key differences between regulatory exposure and carrying values in financial statements is mainly on account of: Treatment of carrying amount as net of provision in financial statements.

F. LEVERAGE RATIO

Leverage Ratio Computation

The table below shows the calculation of BOCAD's detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,480,632

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 recognized 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)	(3,216)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	1,477,416
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	697,884
20	(Adjustments for conversion to credit equivalent amounts)	(347,572)
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)**	350,312
		Capital and total exposures
23	**Tier 1 capital**	376,040
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	1,827,728
Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	21%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	
26	CBUAE minimum leverage ratio requirement	3%
27	**Applicable leverage buffers**	

G. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that a bank may not be able to meet short term financial obligations. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

Due to the nature and strategy of business, the Bank holds sufficient high liquidity assets that bring liquidity risk to a very limited level.

1. Governance of liquidity risk management

The responsibility for liquidity risk management has been vested upon the Bank's ALCO. The ALCO shall be responsible for the Bank's liquidity risk management and performs the following functions:

- Approving the Bank's liquidity risk management policy;

- Oversee the development, establishment and maintenance of procedures and practices that translate the goals, objectives and risk tolerance into operating standards;
- Formulate, review and supervise the implementation of liquidity risk management strategy, policy and procedures in accordance with the tolerable liquidity risk;
- Determine the organizational framework of liquidity risk management and clarify the responsibility of each department;
- Oversee the establishment of effective internal controls over the liquidity risk management process;
- Draw up the liquidity risk contingency plan, understand the events that may trigger the contingency plan, and promptly implement the plan when these events take place.
- The ALCO will make all important decisions with respect to the management of the Bank's liquidity position.

FMD is responsible for measuring, and monitoring the liquidity positions in the Branch daily and reporting to the senior management, the Branch ALCO and the relevant departments on a regular basis. The Bank measures its liquidity by regularly calculating a set of liquidity ratios. It is also entrusted with the responsibility to conduct stress tests and make recommendations based on the results.

FMD performs the following functions:

- Draft liquidity risk management strategy, policy and procedures;
- Take charge of the Branch's liquidity risk management established by the ALCO;
- Establish and implement the liquidity risk limit indicator system;
- Measure and monitor the Branch's net amount of cash flow mismatch daily. According to the existing business; Measure the LR. Ensure the regulatory liquidity limits are satisfied;
- Implement stress test and put forth management suggestions based on test results;
- Report the Branch's liquidity situation to the ALCO and the Senior Management on a regular basis;
- Submit information on liquidity risk management to the regulatory authority as required.

Global Market Department (herein simply referred as GMD) performs the following functions:

- Manage the intra-day liquidity, allocate the fund position and ensure to avoid the payment risk;
- Implement the interbank lending and borrowing according to the business demands and liquidity ratio demands;

- Make investment and interbank transaction strictly following the Branch's liquidity limits;
- Monitor and test the Bank's ability of market financing and report to the Senior Management and the ALCO on a regular basis.

Operation Department (herein simply referred as OD) performs the following functions:

- Make funds transfer in accordance with the Global Market Department's instruction;
- Monitor the Branch's nostro accounts to ensure there is sufficient balance for payment.

Corporate Banking Department and Banking Department performs the following functions:

- Comply with the Branch's liquidity management requirements and forecast the fund flow in writing to the GMD, FMD and OD.
- When the Branch's liquidity ratio is lower than the internal Buffer, put loans only if there is sufficient fund support.

RMD performs the following functions:

- Ascertain the influence of credit risk, market risk and operational risk on the Bank's over all liquidity position.
- Identify any other events that might trigger liquidity risk.

Lines of Authority:

The Bank is mandated to report its relevant liquidity reports to the local regulator and the Bank's FMD as required frequencies.

2. **Funding strategy**

Consistent with the requirements set by the Bank's LMP, the Bank must have sufficient resources of liquidity, being liquidity assets and access to sources of funding, to withstand a range of liquidity crises without impairing its:

• Solvency;

• Normal levels of customer business;

• Continued access to customer and institutional market funding; and

• Cost of funding.

The Bank is expected to be self-sufficient for its liquidity needs and the Bank should have third-party sources of funding at the local level though the Bank will always enjoy commitment from the Bank for unlimited access to the Bank's central funding pool and other forms of liquidity support.

The third-party sources of funding developed and operationalized by the Bank must be as diversified as far as possible to ensure that an adequate portion of the third-party unsecured funding can be refinanced in any stress situation or a liquidity crisis. The Bank is also expected to hold an appropriate portfolio of unencumbered liquid assets that can be used to manage aggravated levels of liquidity risk in a stress situation, to replace withdrawals of unsecured funding.

3. Eligible Liquid Assets Ratio (ELAR)

The table below shows the breakdown of the bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations. The bank is required to maintain at a minimum regulatory high quality assets of 10% of total liabilities, which is higher.

1	**High Quality Liquid Assets**	**Dec 2021**
1.1	Physical cash in hand at the bank + balances with the CBUAE	273,948
1.2	UAE Federal Government Bonds and Sukuks	4,998
	Sub Total (1.1 to 1.2)	278,946
1.3	UAE local governments publicly traded debt securities	
1.4	UAE Public sector publicly traded debt securities	
	Sub total (1.3 to 1.4)	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	
1.6	**Total**	**278,946**
2	**Total liabilities**	**1,101,376**
3	**Eligible Liquid Assets Ratio (ELAR)**	**25%**

4. Advances to Stables Resource Ratio

The table below shows the breakdown of the bank's advances to Stables Resource ratio as per the Liquidity regulations. The regulatory requirement of the ratio is less than 100% and the bank meets the requirement.

	Computation of Advances	**Dec 2021**
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	463,138
1.2	Lending to non-banking financial institutions	
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	
1.4	Interbank Placements	
1.5	**Total Advances**	**463,138**
	Calculation of Net Stable Resources	
2.1	Total capital + general provisions	407,485
	Deduct:	
2.1.1	Goodwill and other intangible assets	5
2.1.2	Fixed Assets	2,563

2.1.3	Funds allocated to branches abroad	
2.1.5	Unquoted Investments	
2.1.6	Investment in subsidiaries, associates and affiliates	
2.1.7	**Total deduction**	**2,568**
2.2	**Net Free Capital Funds**	**404,917**
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	
2.3.3	Refinancing of Housing Loans	
2.3.4	Borrowing from non-Banking Financial Institutions	
2.3.5	Customer Deposits	460,532
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
2.3.7	**Total other stable resources**	**460,532**
2.4	**Total Stable Resources (2.2+2.3.7)**	**865,449**
	Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	**53.51%**

H. MATERIAL RISKS

1. Credit Risk

Credit risk refers to the risk that a borrower will default on their debt obligation by failing to make required repayments. This risk can result in loss to both interest and principle. Credit Risk is the biggest risk the Bank is exposed to. Thus credit risk management has an overreaching impact on the Bank's operations and performance.

1.1 Elements of Credit Risk Management

The Bank is an overseas branch of BOC in UAE, and mainly focuses on providing financial services to corporate clients, including term loans, trade financing, project financing, and RCF etc. Therefore the credit risk profile of the Bank mainly refers to a possibility of facing a loss caused by declining or loss of asset value (including off-balance asset), resulting from a deterioration in the corporate clients 'financial conditions or the default of them. Guided by the BOC group's "moderate" risk appetite and the risk management principles of "rational and prudent", the Bank's credit risk management goal is to strike a reasonable balance between risk and return. The components of the Bank's credit risk management framework comprise credit risk governance structure, credit risk appetite and credit risk limits, credit risk management policies and procedures, and credit risk management system to ensure the Bank's risk control and risk-taking ability matching its business model and development plan.

The credit risk management policies reflects the Bank's risk appetite and takes into account the whole process of credit granting business, include qualitative and quantitative methods with regard to identification, measurement, assessment, monitoring, reporting, control or mitigation of credit risk; credit risk management reports and stress tests etc., in order to make sure that the credit risk is effectively managed and controlled. The core credit risk management policy of the Bank is "Credit Risk Management Manual" covering requirements and procedures of internal credit rating, credit line review and approval, loan execution, collateral management, post-loan management, risk classification and so on. As to credit risk limits, the Bank sets limits from a variety of dimensions such as industry, country, product and tenor, single clients and group clients etc., in the aim of not only implementing requirements in the risk appetite but also decentralizing the credit risk.

The Bank has established a credit risk management structure with clear division of responsibilities, including CRO, RMC and RMD. CRO is a member of the Bank's SMC and RMC, who is in charge of the holistic credit risk management including decision-making and supervising the implementation of credit risk appetite and management strategies, policies and procedures etc. RMC aims to assess the credit risk profile of the Bank and develop appropriate strategies to monitor, control and mitigate the credit risk related, and its responsibilities consist of reviewing all relevant dimensions and identifying metrics of credit portfolio risk, reviewing and approving credit limits, customer concentration and stress testing related issues proposed by the RMD, etc. RMD is responsible for daily credit risks management and control, including but not limited to due diligence on credit facilities, review internal credit rating ,review risk classifications of credit assets, monitoring and management of Expected Credit Losses (herein simply referred as ECL), analyse credit risk portfolio, prepare credit risk management report, and conduct stress testing.

The Bank has established three defence lines for internal control. The business line departments are the first defence line which aims to realize self-control. Credit risk management and risk control is the responsibility of RMD of which specific functions are introduced in the previous question. CD is in charge of ensuring business compliance with local laws and regulations and international AML requirements etc. RMD and CD both are the second defence line, taking charge of the overall establishment of internal control system to guide, inspect, supervise and evaluate the first defence line. Internal Audit, which is the third defence line, independently exams and evaluates the appropriateness and effectiveness of business operations, risk management, compliance management and corporate governance of the Bank in a systematic and standardized manner.

RMD needs to prepare the credit portfolio review report quarterly covering analysis of credit assets quality and credit assets distribution the amount and adequacy analysis of general provisions and specific provisions, collection and disposal of existing Non-Performing Loan(herein simply referred as NPL), potential high-risk customers and corresponding risk control measures, newly incurred NPL and significant risk events, effectiveness of credit risk management, work plans in the next quarter, etc. Besides, RMD needs to submit credit data analysis monthly and major credit risk reports when necessary.

1.2 Credit Quality of Assets

1.2.1 Composition

The table below shows the carrying values of credit quality of assets of the Bank.

		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	0	463,138	14,374	0	14,374	448,764
2	Debt securities	0	5,000	0	0	0	5,000
3	Off-balance sheet exposures	0	694,459	744	0	744	693,714
4	**Total**	**0**	**1,162,597**	**15,118**	**0**	**15,118**	**1,147,479**

1.2.2 Qualitative Disclosure

An exposure is “past-due” when any amount of principal, interest or fee has not been paid at the date it was due. An exposure is "impaired" when the borrower show obvious weakness in its financial condition and creditworthiness which may hinder repayment or the loan principals or interests have been overdue for more than 60 days. There is no difference between the definition of past due and default for accounting and regulatory purposes.

AS at end of 2021, there is no past-due exposures (>90 days) in the Bank.

In accordance with IFRS 9 requirements, the Bank assesses and recognizes its loan impairment losses based on expected credit losses model. The expected credit losses (ECL) is a probability-weighted estimate of the credit loss (ie. the present value of all cash shortages) for the estimated duration of the financial instrument. The formula of the ECL model is"$ECL=\sum_t ECL(t) =\sum_t 〖EXP(t)\cdot DF(t)\cdot PD(t)\cdot LGD(t)〗$",and the model applies to all the financial assets on and off the balance sheet classified by loan risk categories, including syndicated loans, bilateral loans, trade finance, commitment, L/C or L/G etc. ECL accounting provisions charged for Stage 1 and Stage 2 exposures in accordance with IFRS 9 are categorised as general provisions, while provisions incurred by Stage 3 exposures are categorised as specific provisions.

From the perspective of the Bank, debt restructuring means a series of actions taken by the Bank on the basis of adequate assessment of the credit risk, including modifying or making a new repayment plan and adjusting the terms of the facility agreement, to urge the debtor to repay its debt, defuse credit risk and minimize or prevent credit loss of the Bank. The risk classification of a restructured loan shall not be higher than substandard I.

1.2.3 Quantitative Disclosure

The tables below show the breakdown of exposures by geographical areas, industry and residual maturity.

Industry	Balance(000' AED)	Percentage
Transport and logistics	107,134	23.13%
Electricity, water and gas supply	44,076	9.52%
Sovereignty and finance	196,412	42.41%
others	42,056	9.08%
Oil and gas	73,460	15.86%
In total	**463,138**	100.00%

Country	Balance(000' AED)	Percentage
UAE	299,966	64.77%
Oman	44,076	9.52%
USA	21,068	4.55%
Chile	42,056	9.08%
China	55,972	12.09%
In total	**463,138**	100.00%

Tenor (Residual maturity)	Balance(000' AED)	Percentage
less than 1 year	64,260	13.87%
1-3 years	70,018	15.12%
3-5 years	161,428	34.86%
over than 5 years	167,432	36.15%
In total	**463,138**	100.00%

As of end of 2021, there is no impaired exposures, no accounting past-due exposures and no restructured exposures in the Bank.

1.3 Credit Risk Exposure under Standardised approach

The table below shows the credit exposure under standardised approach as at end of 2021.

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposures post-CCF and CRM**		**RWA and RWA density**	
No.	**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	393,321		393,321			
2	Public Sector Entities	73,460	139,049	73,460	69,525	65,852	4%
3	Multilateral development banks						
4	Banks	836,347	250,963	836,347	125,481	355717	19%
5	Securities firms						
6	Corporates	193,429	304,447	193,429	143,730	314,203	17%
7	Regulatory retail portfolios						
8	Secured by residential property						
9	Secured by commercial real estate						
10	Equity Investment in Funds (EIF)						
11	Past-due loans						
12	Higher-risk categories						
13	Other assets						
14	**Total**	**1,496,557**	**694,459**	**1,496,557**	**338,736**	735,772	40%

1.4 Exposures by Asset Classes and Risk Weights under Standardised Approach

The table below shows the exposures by asset classes and risk weights under standardised approach as at 31st December, 2021 (Exposures before CCF and CRM).

		a	b	c	d	e	f	g	h	i
	Risk weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures
1	Sovereigns and central banks	393,321								393,321
2	Public Sector Entities		73,460		73,460		65,589			212,509
3	Multilateral development banks									
4	Banks		417,373		669,876		60			1,087,309
5	Securities firms									
6	Corporates				91,825		406,051			497,876
7	Regulatory retail portfolios									
8	Secured by residential property									
9	Secured by commercial real estate									
10	Equity Investment in Funds (EIF)									
11	Past-due loans									
12	Higher-risk categories									
13	Other assets									
14	**Total**	393,321	490,833	-	835,161	-	471,700	-	-	2,191,015

2. Market Risk

Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in interest rates, equity rates, credit spreads, foreign exchange rates and commodity prices.

2.1 Market Risk Management

2.1.1 Strategies and processes

The basic principles of risk management of the Bank is to match the business scale, product complexity and risk characteristics of the Bank. The Bank follows the principles of "integrated, comprehensive and timely" in its management. The goal of market risk management is to control the market risk within the limits approved by the HO and take effective measures to monitor risks under the business authorization of the HO, so as to achieve a reasonable balance of risks and returns, thereby promoting the steady and sustainable development of the business.

In order to identify, measure, monitor and control the Bank's market risks, the RMD combined qualified methods with quantified methods, including Value at Risk (VAR), stress test, sensitivity analysis, scenario analysis, foreign exchange exposure analysis, net interest income analysis, Economic Value analysis, repricing gap analysis and duration analysis.

The risk monitoring is subject to a periodic independent check. The Bank uses HO's Models to determine or interpolate specific market risk factors together with CBUAE regulation. The RMD pays particular attention to the monitoring of market risk that does not conform to the usual Market Risk policy and reports unauthorized exceptions to policies, procedures and limits in a timely manner to the senior management along with any remedial action proposed or taken. Besides, The RMD periodically reviews the Market Risk limits in order to check their suitability for current market conditions and the Bank's overall risk appetite.

The RMD has set an appropriate limit structure to control its Market Risk Exposure. The degree of granularity within the limit structure, or how hierarchical it is, will depend on the nature of the products traded (for example, whether the underlying risks are linear or non-linear) and the scale of the Bank's overall business (for example, whether the Bank is an active market maker). The RMD will identify, timely report and subsequently act in respect of exceptions to limits. The RMD also monitors the limit breaches and action arising from exceptions. They will consider whether it is appropriate to set intermediate thresholds that alert management when limits are approached, triggering review or other appropriate action, or both.

2.1.2 Structure and organisation of the market risk management function

The Bank has established a market risk management structure composed of the RMC, the RMD, FMD, GMD and the Chief internal auditor.

The RMC is in charge of: reviewing, discussing and formulating major adjustments of the Bank's major market risk management policies under the overall market risk management policy and risk appetite set by the HO; evaluating market risk status based on monitoring indicators and limit implementation, and coordinating matching of risk exposure and business revenue goals; review the implementation on the setting of market risk limits at the bank level; review the recommendations on market risk prevention and control measures; and listen to reports from the GMD on implementing market risk management requirements.

The RMD is responsible for the identification, monitoring and analysis of the Bank's overall market risk. The main responsibilities include: implementation of various regulatory regulations and management requirements for market risks set by regulatory agencies; responsible for monitoring and timely report to the risk management department of the HO for major changes. Measure market risk exposure in accordance with the methods and standards of the HO. Monitoring the implementation of market risk limits according to the requirements of the HO.

The GMD is responsible for the conduct of the daily trading businesses, while monitors the risks generated by the business. Through implementing various market risk management policies and systems, establishing and enhancing business and personnel management mechanism to ensure that relevant market risk indicators are controlled within the approved limits. When significant changes, which is expected to cause adverse impact on the Bank's operation, in market risk exposure or significant changes in market interest rates and exchange rates are observed, the GMD should report immediately to the RMD and the FMD.

FMD: put forward relevant measures and suggestions for asset and liability management in banking book based on regulatory requirements, financial budgets and operating indicators issued by the HO.

Chief internal auditor: independently evaluating the Bank's adequacy and effectiveness of the market risk management framework and implementation.

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

The RMD implements a system of management reporting which provides relevant, accurate, comprehensive, timely and reliable Market Risk reports monthly and quarterly to relevant functions within the Bank based on daily monitoring. These reports (1) alert the Senior Management's attention to the size of Exposures and the relationship between these Exposures and limits; (2) cover exceptions to the Bank's Market Risk policy; (3) present the results from stress tests undertaken; and (4) analyse and explain any changes to the level and nature of Market Risk and any remedial action proposed or taken. The Bank also has procedures or controls including: stop-loss procedures, taking appropriate action according to the information within the management reports; reporting any trades booked at off-market rates.

Measurement methods selection of the Bank keeps to the principle of "Appropriate", "Applicable", and "Universally Acceptable". Despite of different market risk types and measurement requirements of the trading book and the banking book, market risk factors that could directly or indirectly induce market risk, should all be captured. The bank will assess the impact of any new transaction on its market risk position on an on-going basis, and carry out a full measurement of its positions daily.

To sum up:

(1) The Bank uses the full featured system "MUREX" to monitor in real time;

(2) The business line department reports quarterly to the HO about the implementations of related regulations and reviews the regulations and processes on a yearly basis to see if new changes should be made to better manage the market risk;

(3) Risk Management Department of the Bank reports monthly and quarterly to the HO, which summaries the volumes of trade, ratios, and limit utilization rate etc.;

(4) Middle office of the region (Europe and Africa) monitors related indictors daily.

2.2 Market risk under the standardised approach (SA)

The table below shows the components of the capital requirement under the SA for market risk. Currently, there is only foreign exchange risk in the Bank's trading book.

	Items (AED'000)	**Dec 2021**
1	General Interest rate risk (General and Specific)	0
2	Equity risk (General and Specific)	0
3	Foreign exchange risk	359
4	Commodity risk	0
5	Option	0
6	**Total**	**359**

3. Interest Rate Risk in the Banking Book (IRRBB)

Interest Rate Risk is the risk to earnings or capital arising from adverse movement in the interest rates. Interest Rate Risk in the Banking Book (IRRBB) has a multi-dimensional nature involving the movements of rates across yield curves (term structures) of one or more instruments in the Bank's Banking Book.

The primary sources of interest rate risk to which the Bank is typically exposed to are as follows:

- Repricing Risk: The primary and most often discussed form of interest rate risk arises from timing differences in the maturity (for fixed rate) and repricing (for floating rate) of Bank's assets, liabilities, and off-balance sheet positions. Repricing mismatches, fundamental to the business of banking, expose the Bank to unanticipated fluctuations in income or underlying income.
- Yield Curve Risk: Re-pricing mismatches can also expose the Bank to changes in the slope and shape of the yield curve (e.g. rate movements of unequal magnitudes or divergent directions across different points of the yield curve).
- Basis Risk: Another important source of risk (also known as spread risk) arises from the imperfect correlation in adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest rate changes, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and financial instruments of similar maturities or re-pricing frequencies.

3.1 IRRBB Management Strategies and Processes

Strategies for the management of Interest Rate Risk in the Banking Book include:

- Identification and assessment of potential IRRBB exposure before new products are launched and new business developed.
- Evaluation of interest rate risk profiles for new business and the capacity of risk measurement and monitoring of related information systems.
- Enforcing the same policies and guidelines across the Bank in addressing Interest Rate Risk in the Banking Book.

3.2 Structure of the Management Function

The SMC is also responsible for the overall IRRBB management and the ALCO of the Bank assumes the primary responsibility for Internal Capital Adequacy Assessment and ensures capital is adequate to cover the Bank’s main risks. The RMC approves the strategies and policies with respect to interest rate risk management and ensures that Senior Management takes the necessary steps to monitor and control these risks.

The ALCO is responsible for monitoring and implementing actions with respect to the management of interest rate risk and evaluates on and off balance sheet risk.

The FMD is responsible for preparing and compiling the interest rate sensitivity gap for major currencies. The department also analyses the risk profiles and reports to the Senior Management and HO.

The business departments contribute in the management of interest rate risk by providing the required inputs to the FMD.

3.3 Scope and Nature of IRRBB Reporting and Measurement Systems

The Bank’s interest rate risk profile are reported to ALCO on a regular basis, while the results of the stress testing are reported quarterly to ensure that the Bank’s exposure is managed based on the Group’s objectives and in compliance with CBUAE regulations.

The Bank uses the following technical approaches to measure interest rate risk:

- Interest Rate Sensitivity Gap Analysis.
- The Net Interest Income (NII) Sensitivity.

3.4 Mitigation of Interest Rate Risk in the Banking Book

The management of IRRBB is mainly focused on measuring the interest rate re-pricing risk of asset-liability structure. Key measures used include:

- The sensitivity of net interest income (NII).
- The sensitivity of economic value (EV) on banking book to the change in interest rate.

3.5 IRRBB Quantitative Disclosure

"Economic value of equity (“EVE”) refers to the ratio of changes in a bank’s economic value to its Tier 1 capital in the interest shock scenarios as defined in the standardized framework;

EVE =ΔEVE / Tier 1 capital

The ΔEVE is measured per currency for all six prescribed interest rate shock scenarios (Parallel up，Parallel down，Steeper，Flattener，Short rate up，Short rate down), given by the regulatory authority’s standardized framework, and take maximum of the worst aggregated reductions to EVE as the results.

Net interest income volatility ratio (“NII”) refers to the ratio of changes in a bank’s income in the next year to its net interest income budget in the parallel interest rate shock scenarios as defined in the standardized framework;

NII =ΔNII / Net Interest Income Budget

The ΔNII is measured using the parallel interest rate shock scenarios for assets, liabilities and off-balance items for the coming year under the regulatory authority’s standardized framework.

According to internal regulation, the bank should comply with EVE limits (20 Million CNY or equivalent) and NII (not exceeding 20%) set by the Head Office.

The table below shows the Bank’s ΔEVE and ΔNII as at 30th September and 31st December, 2021. The Bank meets the regulatory requirements.

In reporting currency (AED)	**ΔEVE**		**ΔNII**	
Period	**Dec 2021**	**Sep 2021**	**Dec 2021**	**Sep 2021**
Parallel up	1,267	1,287	2,093.60	2621.20
Parallel down	-1,301	-1,282	-2,093.60	-2621.20
Steeper	-1,190	-1,073		
Flattener	-1,483	1,355		
Short rate up	1,883	1,752		
Short rate down	-1,931	-1,745		
Maximum	1,883	1,752		
Period	**Dec 2021**		**Sep 2021**	
Tier 1 capital	376,040		391,085	

4. Operational Risk

Operational Risk is defined as the prospect of loss resulting from human factors, inadequate or failed internal processes, procedures, systems or policies. The definition includes human error, fraud and malice, failures of information systems, problems related to personnel management, commercial disputes, accidents, fires, floods etc. Losses from operational risks of negligible significance are expected to occur and are expected as part of the normal course of business. Those of material significance are rare and the Bank seeks to reduce the likelihood of these in accordance with its Risk Appetite.

4.1 Management Strategies and Processes

The operational risk management framework established by the Bank is designed to:

- Introduce risk identification processes such as risk assessment, Key Risk Indicators (KRI) where appropriate and historic risk events collection.
- Establish a proactive operational risk management culture across the business, linking business operations with objectives of risk control.
- Establish comprehensive and integrated operational risk reporting.
- Adhere to the local regulatory requirements and practices relating to operational risk of the jurisdictions in which the Bank operates.
- Examine the adequacy and effectiveness of the operations of the operational risk management department.

The Bank uses the Operational Risk and Control Assessment (herein simply referred as RACA) process， as operational risk (OR) owner, continuously identify, assess and report the OR and control of business area or process. The Bank also applies other metrics such as monitoring Key Risk Indicators (KRI) that are monitored to alert management when risk levels exceed acceptable risk appetite levels.

4.2 Structure of the Management Function

The governance and structure of the operational risk management function is clearly defined by the Operational Risk Management Framework (ORMF). The ORMF is reviewed and approved by the SMC.

The SMC monitors, through the RMC, the operational risk level and profile including the level of operational losses, their frequency and severity and through the Internal Audit Function, the appropriateness and effectiveness of operational risk related controls issues.

Senior management is responsible for the implementation and process development of ORMF.

The RMC scrutinizes the effectiveness of the ORMF and system. In addition to identifying deficiencies and weakness of the framework, the RMC also establishes relevant improvement measures and advocates for their implementation.

In company with the RMC, the RMD is responsible establishing and implementing the ORMF. Other departments or business units are responsible for reporting their operational risks on both regular and event driven basis.

The Internal Audit function independently reviews and supervises the Bank’s operational risk management controls and policies. internal audit reports on the operational effectiveness of operational risk management policies are reported to the senior management and HO.

The prime responsibility for operational risk management lies with the respective heads of each business department or branch. To this end, every business department and branch:

- Identifies, evaluates and monitors its operational risks.
- Assesses control efficiency.
- Reports all relevant issues

4.3 Scope and Nature of Reporting and Measurement Systems

4.3.1 Reporting

The constant monitoring and reporting of Operational Risk is a key component of an effective ORMF. In this regard, the Bank has clear and consistent reporting lines.

Operational Risk reports are submitted to SMC and HO quarterly by the RMD.

The business units report to their respective departments and Senior Management. Copies of the reports are also submitted to the RMD.

4.3.2 Measurement Systems

The Bank calculate and measure the Operational Risk using the Basic Indicator Approach (BIA). This approach uses the Bank's total gross income as a risk indicator for the Bank's operational risk exposure and sets the required level of operational risk capital as 15% of the Bank's annual positive gross income averaged over the previous three years.

4.4 Mitigation of Strategies and Processes

To effectively mitigate operational risk, the Bank’s uses the following management tools:

- ***Risk Identification and Self-Assessment Process*****:** The Bank uses the RACA to identify and evaluate the effectiveness of controls in place and assess whether the risks are effectively managed within the risk appetite.
- ***Key Risk Indicators:*** A Key Risk Indicators (KRI) is a risk metric that provides regular insight into a Bank’s risk exposure. The aim is to ensure that all the major risk exposures are captured by KRIs in each department. The Bank has a well-established list of KRIs for different departments which are reviewed annually and approved by the RMC. The KRI data is collected on a monthly/quarterly basis from all the departments and reported to the Board and Senior Management as a part of the quarterly Board meeting agenda.
- ***Operational Risk Loss Event (ORLE):*** Operational Risk Loss Data provides meaningful information for assessing the Bank’s exposure to operational risk and the effectiveness of internal controls. The ORLE data is collected on a monthly basis from all departments irrespective of the amount. The Bank records all actual, potential or near miss losses. RMD and CD conducts analysis of critical events and recommends actions plan in agreement with the

respective department reporting/ affected by the loss. The Bank has an ORM system where all RACA processes, loss events and KRIs are recorded.

The Bank has also adopted a series of qualitative standards, including: the existence of an independent risk control, audit and compliance function, effective use of risk reporting systems, active involvement of management and appropriate documentation of risk management systems.

4.5 Capital Requirements for Operational Risk

The Bank calculates the capital requirement for operational risk using the Basic Indictor Approach (BIA). The capital requirement is 15% of the average over the previous three years annual gross income.

The table below shows the Bank's minimum capital requirement for operational risk.

AED'000	2018	2019	2020	Average
Gross Income	24,124	27,353	19,838	23,772
				*15%
Minimum capital requirement for operational risk				3,566

I. REMUNERATION POLICY

The Bank has formulated its remuneration policy, in accordance with the relevant provisions of the "Corporate Governance Regulation for Banks" (the Regulation) and the "Corporate Governance Standards for Banks" (the Standards) issued by the Central Bank of the UAE (CBUAE, Circular No. 83/2019), and relevant policies issued by the head office.

The remuneration policy covers all categories of employees in the Bank. In general, risk factors which have been considered in the performance appraisal of a staff affect the bonus for the same staff. Also, the current and future risk of the Bank will be considered by the head office in the determination of the overall bonus to be allocated.

1. General Principles

Remuneration should facilitate the delivery of long-term financial stability for the business and promote sound risk management principles. Risk control functions have played an important role in the remuneration related procedures and decisions of the Bank. The preparation of the remuneration policy is initiated by the Bank and the relevant work shall be organized and implemented by the HR after reporting to the Bank management for approval.

The remuneration policy of the Bank is formulated on the basis of the Guidance of the head office and the annual remuneration budget for the Bank, including salary and bonus, is given by the head office. The total budget is based on the Bank's overall performance, after factoring in the financial, non-financial and other long-term strategic measures, as well as risk-adjusted elements.

The aim of the remuneration policy and the arrangement is to enable the Bank to maintain a fair, equitable and market-competitive remunerative structure for its employees based on the Bank's performance and industry practice, and is designed to encourage employee behaviour that supports the institution's risk appetite, risk management, business strategies and long-term financial soundness of the Bank. The remuneration of staff in risk control functions are determined in accordance with their performance objectives and are independent of the performance of the business units which they oversee. The performance factors in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals, and appropriate remuneration will be recommended based on the appraisal result.

In order to avoid large fluctuation of employees' remuneration during the years, the bonus pool and salary-quota borrowing mechanism are implemented. If necessary, the Bank may apply to the head office for the use of bonus pool funds or to borrow salary-quota in advance. When the business performance improves, the Bank shall apply to the head office for recharging the bonus pool or returning the borrowed salary-quota on the premise of meeting the reasonable salary expense demand.

2. Remuneration Structure

Remuneration refers to the cash and non-cash compensation received by Bank's employees for providing services to the Bank, including employee salary and employee benefits. Employee salaries are divided into fixed salary and bonus, and employee benefits include statutory benefits and extra benefits.

The award of bonus depends on the fulfilment of budgeted income, takes into account the overall performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies, corporate culture and compliance with legal and regulatory requirements.

In addition, the Bank maintains a performance appraisal scheme to ensure individual staff performance would be adequately and effectively evaluated. Bonus is directly related to performance, and poor performance will result in a reduction or elimination of bonus.

3. Senior Management Remuneration

The salary of senior management members shall be approved by the head office. The performance bonus of the general manager shall be calculated and determined by the head office in consideration of the Bank performance and other factors. The performance bonus of other senior management members is distributed by the general manager, taking into account factors such as work performance, appraisal results, and the number of months of duty performance. Among them, the appraisal includes relevant indicators such as compliance and risk control. A deferral of partial performance bonus for senior management members shall be conducted.

4. Policy Review

The remuneration policy must be in line with the Regulation and the Standards of the CBUAE and shall be reviewed as necessary by HR and approved by the senior management of the Bank.

5. Remuneration awarded during the financial year

The table below shows the Bank's remuneration awarded during the financial year.

			a	b
	Remuneration Amount(AED'000)		**Senior Management**	**Other Material Risk-takers**
1	Fixed Remuneration	Number of employees	1	2
2		Total fixed remuneration (3 + 5 + 7)	456	728
3		Of which: cash-based	456	728
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	Variable Remuneration	Number of employees	1	2
10		Total variable remuneration (11 + 13 + 15)	326	270
11		Of which: cash-based	326	270
12		Of which: deferred		
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	**Total Remuneration (2+10)**		782	998