# Bank Saderat Iran

## United Arab Emirates

## Market Discipline – (Disclosure)

(BASEL III, Pillar III Report)

Submitted to

**Central Bank of the United Arab Emirates**

**Banking Supervision and Examination Department**

Approved by

**Regional Office in the UAE**

**Regional Manager**

Prepared by

**Accounts Department**

Concurred by

**Risk Management Department**

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As of 31-Dec-19

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**INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS AS ON 31-Dec-2019**

**Basis of Consolidation[1] :**

| | Country of Incorporation | % Ownership | Description[2] | Accounting Treatment[3] | Surplus Capital[4] | Capital Deficiencies[5] | Total Interests[6] |
|---|---|---|---|---|---|---|---|
| *Subsidiaries* | | | | | | | |
| *Significant investments* | | | | | | | |
| | | | | | | | |
| | | | | | | | |

**Restrictions on transfer of regulatory capital within the group:**

1. Include an outline of differences in the basis of consolidation of subsidiaries for accounting and regulatory purposes.

2. A brief description of the entities within the group such as securities, insurance, other financial subsidiaries, commercial subsidiaries, significant minority equity investments in insurance, financial and commercial entities.

3. Report the accounting treatment as:

- that are fully consolidated;
- that are pro-rata consolidated;
- that are given a deduction treatment;
- those from which surplus capital is recognized, and
- that are neither consolidated nor deducted (e.g. where the investment is risk weighted)

4. The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group. Surplus capital in unconsolidated regulated subsidiaries is the difference between the amount of investment in those entities and their regulatory capital requirements.

5. The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. they are deducted.

6. The aggregate amounts (e.g. current book value) of the licensed bank's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this (it's required to method) versus using the deduction or alternate group wide method

Table (2)

**CONSOLIDATED CAPITAL STRUCTURE UNDER BASEL III AS ON 31-Dec-2019** (AED 000's)

| Details | | Summary Note and References | Amount |
|---|---|---|---|
| **Capital Base** | | | **640,576** |
| **1** | **Common Equity Tier 1 (CET1) Capital** | | **584,486** |
| **1.1** | Share Capital | | 2,350,000 |
| **1.2** | Share premium account | | - |
| **1.3** | Eligible Reserves | | 521,553 |
| **1.4** | Retained Earnings / (-) Loss | | (1,063,083) |
| **1.5** | Eligible amount of minority interest | | - |
| **1.6** | Capital shortfall if any | | - |
| | **CET1 capital Before the regulatory adjustments and threshold deduction** | | **1,808,470** |
| **1.7** | Less: Regulatory deductions | | 1,223,984 |
| **1.8** | Less: Threshold deductions | | - |
| | **Total CET1 capital after the regulatory adjustments and threshold deduction** | | 584,486 |
| | **Total CET1 capital after transitional arrangement for deductions (CET1)** | | **584,486** |
| **2** | **Additional Tier 1 (AT1) Capital** | | **-** |
| **2.1** | Eligible AT1 capital (After grandfathering) | | - |
| **2.2** | Other AT1 Capital e.g. (Share premium, minority interest) | | - |
| | **Total AT1 capital** | | - |
| | **Total AT1 capital after transitional arrangements (AT1)** | | - |
| **3** | **Tier 2 (T2) Capital** | | **56,090** |
| **3.1** | Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization) | | - |
| **3.2** | Other Tier 2 capital (including General Provisions, etc.)[1] | | 56,090 |
| | **Total T2 Capital** | | **56,090** |
| | **Total T2 capital after transitional arrangements (T2)** | | **56,090** |

[1] Impact of changes in fair value reserve should be factored here

Table 3(a) and 3(b)

**CAPITAL ADEQUACY AS ON 31-Dec-2019**

## a) Qualitative Disclosures

Refer [Annex 3A3B-1] on page # 4

## b) Quantitative Disclosures

AED 000's

| | Capital Requirements | RWA | Capital Charge | Capital Ratio (%) |
|---|---|---|---|---|
| 1 | Credit Risk - Standardized Approach | **4,487,191** | 471,155 | 14.3% |
| 2 | Market Risk - Standardized Approach | **7,580** | 796 | 8450.9% |
| 3 | Operational Risk | **-** | - | 0.0% |
| | a. Basic Indicator Approach | - | - | 0.0% |
| | b. Standardized Approach/ASA | - | - | 0.0% |
| | c. Advanced Measurement Approach | - | - | 0.0% |
| | **Total Capital requirements** | ***4,494,771*** | ***471,951*** | 14.3% |
| | | | | |
| | **Capital Ratio** | | | |
| | **a. Total for Top consolidated Group** | 294,656 | 30,939 | 217.4% |
| | **b. Tier 1 ratio only for top consolidated Group** | 294,656 | 25,046 | 217.4% |
| | **c. CET1 ratio only for top consolidated Group** | 294,656 | 20,626 | 217.4% |

# Annex 3A3B-1

*"Include here a description of the approach taken by the bank to assess the adequacy of its capital to support current and future activities. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk and equity risk) banks must describe their risk management objectives and policies as per Para 824 of Basel II"*

## Risk Management Strategy

Bank Saderat Iran - UAE 'the Bank' Risk Management function contributes to the Bank's success by promoting a disciplined risk culture and creating risk transparency. It also ensures that we adopt a prudent and intelligent approach to risk-taking that appropriately balances risk and return and optimizes the allocation of capital throughout the Bank to benefit shareholders and other stakeholders. A significant number of employees and considerable technological resources are focused on ensuring that the Bank remains a top in the field of risk management. Moreover, through its proactive risk management culture and the appropriate qualitative and quantitative tools, the Bank strives to minimize the potential for undesired risk exposures in its operations. The essential functions of risk management are to identify measure and more importantly monitor the profile of the bank.

## Key Objectives of BSI, UAE Risk Management

Prudent risk-taking is an integral part of the Bank daily business. The most important objectives of the Bank risk management strategy are to protect the human resources strength, financial strength of our business and to safeguard our reputation. The Bank risk management framework is therefore founded on the following principles, which apply for all businesses and risk categories.

## Protection of Human Resources strength

At the Bank, we carefully monitor, control, and measure risk to limit the impact of potentially adverse events on our human resources as a very important assets of our organization. It is essential for our risk appetite to be consistent with our human resources.

## Protection of financial strength

At the Bank, we carefully monitor, control, and measure risk in order to limit the impact of potentially adverse events on our capital and income streams. It is essential for our risk appetite to be consistent with our financial resources.

## Safeguarding of reputation

The value of our organization depends on our reputation. All of our employees are therefore committed to maintaining our good reputation.

## Risk transparency

Risk transparency is essential in order to ensure that risks are well understood by senior management and at all levels, which can be balanced against business goals.

## Management accountability

Our various businesses own the risks that are assumed in the execution of their operations. The leaders of our respective businesses are responsible for the active management of risk exposures and for the return generated on the basis of the risks that were assumed.

## Independent oversight

Risk management is a structured process that is used to identify measure, monitor, manage and report risk. The Risk Management functions operate independently of the front-office units to ensure the integrity of risk and control processes.

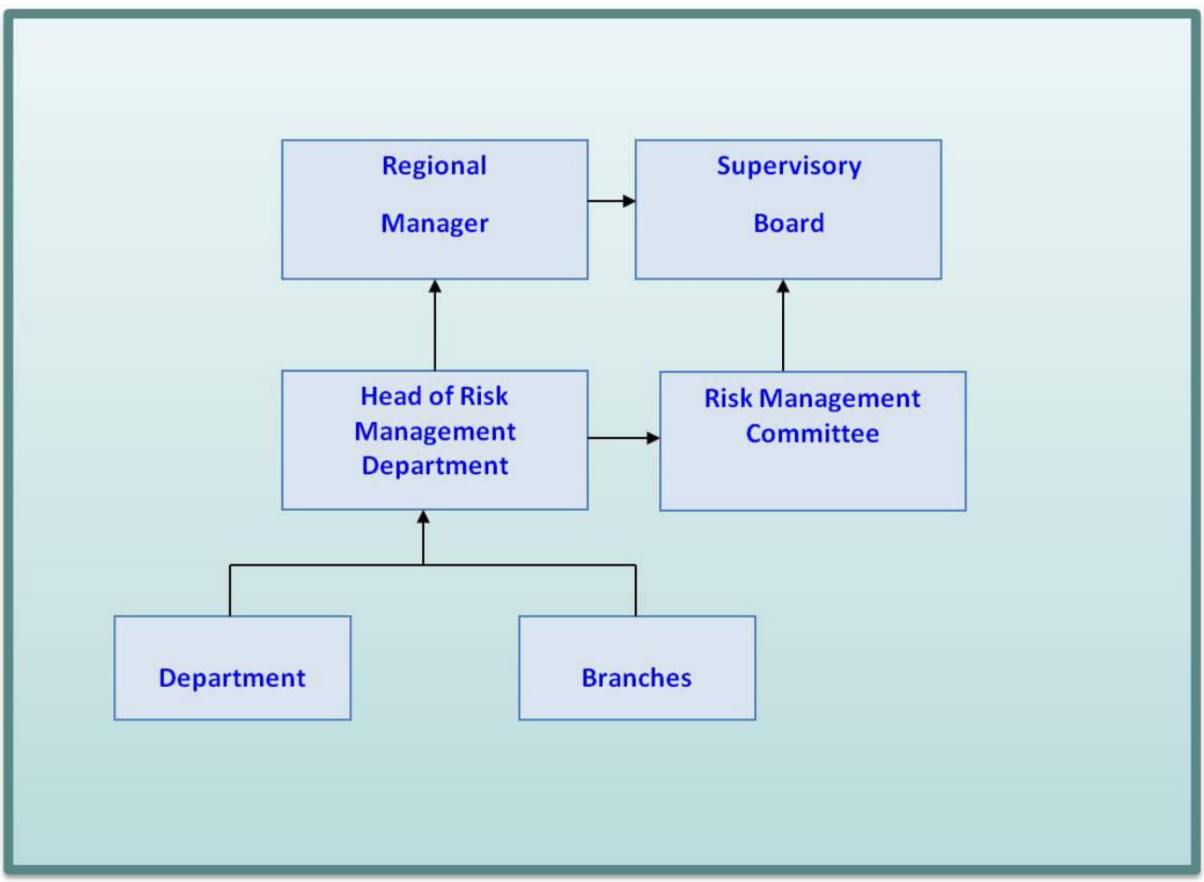
# Bank Saderat Iran, UAE, Risk Management Department Organizational Structure

## Reporting

Risk Manager is responsible to report to the Regional Manager on day to day activities. However, significant issues are raised to Supervisory Board through the Regional Manager or Board Risk Committee.

Risk Manager will receive various types of reports from Branches and Departments for identifying risk related issues.

## Reporting Structure



## Computation of Capital Adequacy and its Approach

All the Banks in the UAE are required to keep a Minimum Capital Adequacy Ratio **12%** effective from June 2010 according to the CBUAE Circular No. 27/2009 dated 17 Nov 2009 for Pillar I of the Basel II capital accord, further As per CBUAE Circular No. 52/2017, total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least **10.5%** of RWA. Based on the analysis and upon conducting a stress test scenarios, the Risk Management Department proposed the Internal Capital Adequacy Ratio to be set at **13.30%**, accordingly on review and discussions the Top Management approved. Hence, the Internal Capital Adequacy Ratio of the Bank is set at **13.30%**, until unless subject to any material changes effecting the Capital, Balance Sheet or Risk Weighted Assets. The Bank has opted for Standardized approaches for Credit Risk and Market Risk and Basic Indicator of Operational Risk as per Basel II and National Discretion under Pillar I for the calculation of minimum capital Requirement, which covers most of the risk factors related to the Bank. The Bank relies on Basic methods of calculating minimum capital requirements in the assessment of individual risk types.

## Risk Management Activity

The Bank has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of their day to day operations:

Credit Risk

Market Risk

Operational Risk

The Regional Manager has overall responsibility for the oversight of the risk management framework for the Bank. There are established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the operations of the Bank.

The Credit Committee, Assets and Liabilities Committee work under the mandate of the Regional Manager to set up risk limits and manage the overall risk. These Committees approve risk management policies of the Bank developed by Risk Management Department.

The Risk Management function is independent of the business. It is responsible to develop credit, market and operational risk policies. Risk Managers are delegated authority within the risk management framework to approve credit risk transactions. Risk Management Department also monitors Market and Operational risk.

Audit and Compliance is an independent department which is responsible to review the risk policies, risk exposures and the risk managing and monitoring frame work.

## Treasury

The Treasury is responsible for managing the assets and liabilities of the Bank and its overall financial structure. It is also primarily responsible for the funding and liquidity, interest rate, and exchange rate fluctuation exposure risks of the Bank.

## Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the compliance by the Bank with these procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Regional Manager.

## Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect their business strategy and market environment of the Banks as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Regional Manager, the Risk Committee, and the Head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Relevant Committee assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Regional Manager receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank.

A briefing is given to the Assistant Regional Manager and all other relevant members of management of the Bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

## Risk Mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collaterals to reduce its credit risks.

Table 4(a)

## Qualitative Disclosures

| | | |
|---|---|---|
| **Definition of past due and impaired (for accounting purposes)** | | |
| **Refer [Annex 4A-1] one page # 14** | | |
| **Refer [Annex 4A-2] one page # 17** | | |
| **Specific**<br><br>**General** | | |
| **Discussion of Bank's credit risk management policy** | | |
| **Refer [Annex 4A-3] one page # 23** | | |
| **Partial adoption of foundation IRB/advanced IRB    Refer [Annex 4A-4] one page # 27** | | |
| **Approach** | **Description of exposures** | **Plans and timing of migration to implement fully higher approach** |
| Standardized Approach | | |
| Foundation IRB | | |
| Advanced IRB | | |

# Annex 4A-1

*"Definition of past due and impaired (for accounting purposes)"*

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- The borrower is more than 60 days past due on its contractual payments;
- The borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

## Impairment of financial assets

The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. No impairment loss is recognized for investments in equity instruments which are carried at FVTPL.

For all financial instruments, the Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Bank considers whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due. The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

# Annex 4A-2

*"Description of approaches followed for specific and general allowances and statistical methods"*

## Credit - impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events which indicates the borrower is in significant financial difficulty.

- ✓ The borrower is in long-term forbearance
- ✓ The borrower is deceased
- ✓ The borrower is insolvent
- ✓ The borrower is in breach of financial covenant(s)
- ✓ An active market for that financial asset has disappeared because of financial difficulties
- ✓ Concessions have been made by the lender relating to the borrower's financial difficulty
- ✓ It is becoming probable that the borrower will enter bankruptcy
- ✓ Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funds.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 30 days or more.

## Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

## Assessment of significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal risk grade;
- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected;
- To cause a significant change to the borrower's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the borrower;
- Significant increases in credit risk on other financial instruments of the same borrower;
- Significant changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements;
- Significant changes in the actual or expected performance and behavior of the borrower, including changes
    i. In the payment status of borrowers in the Bank and changes in the operating results of the borrower; and
    ii. Macroeconomic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

## Models and assumptions used

The Bank uses various models and assumptions in measuring ECL of financial assets. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

***- Establishing the number and relative weightings of forward - looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario***

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

***- Probability of default***

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

***- Loss given default***

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

# Annex 4A-3

*"Discussion of Bank's credit risk management policy"*

## Credit Risk Management

The Regional Office has delegated responsibility for the management of credit risk to its Credit Committee and the Credit Risk Management Department. Their responsibilities include:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Facilities Committee, Head of Credit Facilities or Regional Credit Facilities Committee.
- Reviewing and assessing credit risk. Credit Facility Department and Risk Management Department assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewal and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the Bank's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The grading system is used in determining where impairment provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Credit facility Department, Branches and Risk Management Department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Regional Credit Facility Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Branches in the management of credit risk.

Policies relating to credit are reviewed and approved by the Regional Credit Facility Committee. All credit lines are approved centrally for the Bank in accordance with the credit policy set out in the Credit Policy Manual. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.

The Bank further limits risk through diversification of assets by geography and industry sectors.

All credit facilities are administered and monitored by the Credit Facility Department. Periodic reviews are conducted by the credit Officer and also by Credit facility Department.

Cross border exposure and financial institutions exposure limit for money market and treasury activities are approved as per guidelines established by the regional Credit Facility Committee and are monitored by the Risk Management Department.

## Commercial/Institutional lending

All credit applications for commercial and institutional lending are subject to the Bank's regional credit policies and to regulatory requirements, as applicable from time to time.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the credit Facility Committee or the regional manager.

The management of the Bank has established country limits for cross border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's regional credit risk management and periodically by the Credit Facility Committee.

## Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the regional Credit facility Committee. All approval authorities are delegated to the Credit facility Committee by the Regional Office. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product programs contains detailed credit criteria (such as salary multiplies, bank statement, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements.

# Annex 4A-4

*"Partial adoption of foundation IRB/advanced IRB"*

## Standardized Approach

The Bank is calculating Capital Adequacy Ratio with Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Credit Risk Exposure across all the Asset Class as on 31-12-2019 AED (000's) 4,487,191/-

Market Risk Exposure as on 31-12-2019 AED (000's) 7,580/-

Operational Risk Exposure as on 31-12-2019 AED (000's) 263,145/-

## Foundation IRB

In accordance the CBUAE Circular No. 27/2009 dated 17-11-2009, the Bank has noted that the CBUAE expects the Banks in the UAE to migrate from Standardized Approach to Foundation IRB approach, in due course. The Bank does not have a plan for foundation IRB approach in immediate near future, any such decision shall be communicated to CBUAE once it is materialized.

Table 4(b)

**GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31-Dec-2019**

(AED 000's)

| | Loans | Debt Securities | Total Funded | Commitments | OTC Derivatives | Other Off-Balance Sheet exposures | Total Non-Funded | Total |
|---|---|---|---|---|---|---|---|---|
| Foreign Currency | 511,001 | - | 511,001 | - | - | 37,981 | 37,981 | 548,982 |
| AED | 12,120,355 | - | 12,120,355 | - | - | 40,770 | 40,770 | 12,161,125 |
| **Total** | **12,631,356** | **-** | **12,631,356** | **-** | **-** | **78,751** | **78,751** | **12,710,107** |

Table 4(c)

**GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON 31-Dec-2019**

(AED 000's)

| **GEOGRAPHIC DISTRIBUTION** | Loans | Debt Securities | Total Funded | Commitments | OTC Derivatives | Other Off-Balance Sheet exposures | Total Non-Funded | Total |
|---|---|---|---|---|---|---|---|---|
| United Arab Emirates | 12,338,563 | - | 12,338,563 | - | - | 70,877 | 70,877 | 12,409,440 |
| GCC excluding UAE | - | - | - | - | - | 874 | 874 | 874 |
| Arab League (excluding GCC) | - | - | - | - | - | - | - | - |
| Asia | 292,793 | - | 292,793 | - | - | 7,000 | 7,000 | 299,793 |
| Africa | - | - | - | - | - | - | - | - |
| North America | - | - | - | - | - | - | - | - |
| South America | - | - | - | - | - | - | - | - |
| Caribbean | - | - | - | - | - | - | - | - |
| Europe | - | - | - | - | - | - | - | - |
| Australia | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - | - |
| **Total** | **12,631,356** | **-** | **12,631,356** | **-** | **-** | **78,751** | **78,751** | **12,710,107** |

1. Concerning independent institutions insert the figures opposite the country that licensed them.
2. Concerning institutions that operate as branches for their H.O. insert the figures opposite the country where the H.O. are licensed.

Table 4(d)

**GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31-Dec-2019**

(AED 000's )

| INDUSTRY SEGMENT | Loans | Debt Securities | Total Funded | Commitments | OTC Derivatives | Other Off-Balance Sheet exposures | Total Non-Funded | Total |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Fishing & related activities[1] | - | - | - | - | - | 21 | 21 | 21 |
| Crude Oil, Gas, Mining & Quarrying[2] | 173,421 | - | 173,421 | - | - | 12 | 12 | 173,433 |
| Manufacturing[3] | 579,477 | - | 579,477 | - | - | 29,616 | 29,616 | 609,093 |
| Electricity& Water | - | - | - | - | - | 33 | 33 | 33 |
| Construction[4] | 423,478 | - | 423,478 | - | - | 8,004 | 8,004 | 431,482 |
| Trade[5] | 10,018,262 | - | 10,018,262 | - | - | 24,939 | 24,939 | 10,043,201 |
| Transport, Storage & Communication[6] | 11,300 | - | 11,300 | - | - | 1,412 | 1,412 | 12,712 |
| Financial Institutions[7] | 102,408 | - | 102,408 | - | - | 5,540 | 5,540 | 107,948 |
| Services[8] | 1,230,301 | - | 1,230,301 | - | - | 6,216 | 6,216 | 1,236,517 |
| Government[9] | - | - | - | - | - | - | - | - |
| Retail/Consumer banking[1o] | 92,709 | - | 92,709 | - | - | 2,958 | 2,958 | 95,667 |
| All Others | - | - | - | - | - | | - | - |
| **Total** | **12,631,356** | **-** | **12,631,356** | **-** | **-** | **78,751** | **78,751** | **12,710,107** |

Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing & other activities (sheep rearing, etc).

2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others.

3. Manufacturing includes food, tobacco, beverages, textile, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminum, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering works, saw mills, marble tiles and other manufacturing.

4. Construction includes construction of buildings, contractors and other construction.

5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.

6. Transport and communication includes taxies, and other land transport, water transport, air transport, warehousing, storage and others.

7. Financial institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions.

8. Services include hotel and restaurants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sports club, etc.) and other services.

9. Government includes federal government and local government.

10. Retail/consumer lending includes personal loan installments, residential mortgage loans, car loans, credit cards, other retail products, loans for investments in shares etc.

Table 4(e)

**GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31-Dec-2019**

(AED 000's )

| RESIDUAL CONTRACTUAL MATURITY | Loans | Debt Securities | Total Funded | Commitments | OTC Derivatives | Other Off-Balance Sheet exposures | Total Non-Funded | Gross |
|---|---|---|---|---|---|---|---|---|
| Less than 3 months | 230,223 | - | 230,223 | - | - | 4,795 | 4,795 | 235,018 |
| 3 months to one year | 55,763 | - | 55,763 | - | - | 5,993 | 5,993 | 61,756 |
| One to five years | 2,348,267 | - | 2,348,267 | - | - | 67,963 | 67,963 | 2,416,230 |
| Over five years | 9,997,103 | - | 9,997,103 | - | - | - | - | 9,997,103 |
| Grand Total | **12,631,356** | **-** | **12,631,356** | **-** | **-** | **78,751** | **78,751** | **12,710,107** |

Table 4(f)

**IMPAIRED LOANS BY INDUSTRY SEGMENT AS ON 31-Dec-2019**

(AED 000's)

| INDUSTRY SEGMENT | OVERDUE | | | PROVISIONS | | ADJUSTMENTS | | Total Impaired Assets |
|---|---|---|---|---|---|---|---|---|
| | Less than 90 days | 90 days and above | Total | Specific | General | Write-offs | Write-backs | |
| Agriculture, Fishing & related activities[1] | - | - | - | - | - | - | - | - |
| Crude Oil, Gas, Mining & Quarrying[2] | - | 152,600 | 152,600 | 61,122 | - | - | - | 91,478 |
| Manufacturing[3] | - | 576,002 | 576,002 | 207,531 | - | - | - | 368,471 |
| Electricity& Water | - | 11,013 | 11,013 | - | - | - | - | 11,013 |
| Construction[4] | - | 341,237 | 341,237 | 21,658 | - | - | - | 319,579 |
| Trade[5] | - | 9,950,143 | 9,950,143 | 3,646,503 | - | - | - | 6,303,640 |
| Transport, Storage & Communication[6] | - | 11,300 | 11,300 | 4,643 | - | - | - | 6,657 |
| Financial Institutions[7] | - | 54,499 | 54,499 | 16,511 | - | - | - | 37,988 |
| Services[8] | - | 1,136,842 | 1,136,842 | 375,828 | - | - | - | 761,014 |
| Government[9] | - | - | - | - | - | - | - | - |
| Retail/consumer banking[1o] | - | 73,346 | 73,346 | 5,912 | - | - | - | 67,434 |
| All Others | - | - | - | - | 167,103 | - | - | (167,103) |
| **Grand Total** | **-** | **12,306,982** | **12,306,982** | **4,339,708** | **167,103** | **-** | **-** | **7,800,171** |

1. Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing other activities (sheep rearing, etc).
2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others.
3. Manufacturing includes food, tobacco, beverages, textile, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminum, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering works, sawmills, marble tiles and other manufacturing.
4. Construction includes construction of buildings, contractors and other construction.
5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.
6. Transport and communication includes taxies, and other land transport, water transport, air transport, warehousing, storage and others.
7. Financial institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions.
8. Services include hotel and restaurants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sports club, etc.) and other services.
9. Government includes federal government and local government.
10. Retail/consumer lending includes personal loan installments, residential mortgage loans, car loans, credit cards, other retail products, loans for investments in shares etc.

Table 4(g)

**IMPAIRED LOANS BY GEOGRAPHIC DISTRIBUTION AS ON 31-Dec-2019**

(AED 000's )

| Geographic Region | OVERDUE | | | PROVISIONS | | ADJUSTMENTS | | Total Impaired Assets |
|---|---|---|---|---|---|---|---|---|
| | Less than 90 days | 90 days and above | Total | Specific | General | Write-offs | Write-backs | |
| United Arab Emirates | - | 12,082,919 | 12,082,919 | 4,324,708 | - | - | - | 7,758,211 |
| GCC (excluding UAE) | - | - | - | - | - | - | - | - |
| Arab League (excluding GCC) | - | - | - | - | - | - | - | - |
| Asia | - | 224,063 | 224,063 | 15,000 | - | - | - | 209,063 |
| Africa | - | - | - | - | - | - | - | - |
| North America | - | - | - | - | - | - | - | - |
| South America | - | - | - | - | - | - | - | - |
| Caribbean | - | - | - | - | - | - | - | - |
| Europe | - | - | - | - | - | - | - | - |
| Australia | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | 167,103 | - | - | (167,103) |
| **Grand Total** | **-** | **12,306,982** | **12,306,982** | **4,339,708** | **167,103** | **-** | **-** | **7,800,171** |

Note: Jurisdictions should not be included more than once under the geographic region

**Table 4(h)**

**RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS FOR THE YEAR 31-Dec-2019**

(AED 000's)

| | | |
|---|---|---|
| **Opening Balance of Provisions for Impaired Loans** | | **4,283,233** |
| Add: | Charge for the year | |
| | • Specific provisions | 343,984 |
| | • General provisions | - |
| Add: | Write-off of impaired loans to income statement | - |
| Less: | Recovery of loan loss provisions | (68,382) |
| Less: | Recovery of loans previously written-off | - |
| Less: | Write-back of provisions for loans | (52,024) |
| | Adjustments of loan loss provisions | - |
| | **Closing Balance of Provisions for Impaired Loans** | **4,506,811** |

Table 4(i)

**LOAN PORTFOLIO AS PER STANDARDIZED APPROACH AS ON 31-Dec-2019**

(AED 000's)

| Assets Classes | On Balance Sheet | Off Balance sheet | Credit Risk Mitigation (CRM) | | | Risk weighted assets |
|---|---|---|---|---|---|---|
| See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions | Gross Outstanding | Net exposure after Credit Conversion Factors (CCF) | Exposure before CRM | CRM | After CRM | |
| Claims on Sovereigns | 1,787,198 | 1,787,198 | 1,787,198 | - | 1,787,198 | - |
| Claims on non Central Government public sector entities. (PSE's) | - | - | - | - | - | - |
| Claims on multilateral development banks | - | - | - | - | - | - |
| Claims on banks | 1,899,068 | 1,899,068 | 1,899,068 | - | 1,899,068 | 874,320 |
| Claims on securities firms | - | - | - | - | - | - |
| Claims on Corporates | 326,707 | 155,573 | 326,707 | - | 155,573 | 155,573 |
| Claims included in the regulatory retail portfolio | 120,290 | 49,082 | 120,290 | - | 49,082 | 46,347 |
| Claims to secured by residency property | - | - | - | - | - | - |
| Claims secured by commercial real estate | - | - | - | - | - | - |
| Past due loans | 12,340,720 | 2,510,719 | 2,510,719 | - | 2,510,719 | 3,234,040 |
| High risk categories | - | - | - | - | - | - |
| Other assets | 239,273 | 230,794 | 230,794 | - | 230,794 | 176,912 |
| Claims on securitized assets | - | - | - | - | - | - |
| Credit derivatives (Banks Selling protection) | - | - | - | - | - | - |
| **TOTAL CLAIMS** | **16,713,256** | **6,632,434** | **6,874,776** | **-** | **6,632,434** | **4,487,192** |

## a) Qualitative Disclosures

| |
|---|
| • For each portfolio, name of ECAIs used, plus reasons for any changes |
| • Types of exposure for which each agency is used |

**LOAN PORTFOLIO AS PER STANDARDIZED APPROACH AS ON 31-Dec-2019**

(AED 000's)

| **b) Quantitative** | **Gross Credit Exposures** | | | | | **Exposures Subject to Deduction** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset Class** | **Rated** | **Unrated** | **Total** | **Post CRM** | **RWA Post CRM** | **Rated** | **Unrated** | **Total** | **Post CRM** | **RWA Post CRM** |
| Claims on Sovereigns | | | | | | | | | | |
| Claims on Public Sector Entities | | | | | | | | | | |
| Claims on Multilateral Development Banks | | | | | | | | | | |
| Claims on securities firms | | | | | | | | | | |
| Claims on Banks | | | | | | | | | | |
| Claims on Corporate | | | | | | | | | | |
| Regulatory & other retail exposure | | | | | | | | | | |
| Residential retail exposure | | | | | | | | | | |
| Commercial Real Estate | | | | | | | | | | |
| Other assets | | | | | | | | | | |
| Claims on Securitized Assets | | | | | | | | | | |
| Credit Derivatives (Banks selling protection) | | | | | | | | | | |
| **Grand Total** | | | | | | | | | | |

Table 7(a) & 7(b)

**CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH AS ON 31-Dec-2019**

## a) Qualitative Disclosures

Policies and processes covering credit risk mitigation, including summary of:

| |
|---|
| • Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting; |
| • Policies and processes for collateral valuation and management; **Refer [Annex 7AB-1] on page # 38** |
| • Description of the main types of collateral taken by the bank; **Refer [Annex 7AB-2] on page # 39** |
| • The main types of guarantor/credit derivative counter-party and their credit worthiness; and **Refer [Annex 7AB-3] on page # 41** |
| • Information about (market or credit) risk concentrations within the mitigation taken. **Refer [Annex 7AB-4] on page # 43** |

(AED 000's)

| **b) Quantitative Disclosures** | **Exposures** | **Risk Weighted Assets** |
|---|---|---|
| **Gross Exposure prior to Credit Risk Mitigation** | 6,807,358 | |
| Less: Exposure covered by on-balance sheet netting | | |
| Less: Exposures covered by Eligible Financial Collateral | 174,926 | |
| Less: Exposures covered by Guarantees | | |
| Less: Exposures covered by Credit Derivatives | | |
| **Net Exposures after Credit Risk Mitigation** | 6,632,432 | 4,487,191 |

# Annex 7AB-1

*"Policies and processes for collateral valuation and management"*

## Overview

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory and trade receivables.

The Bank also obtains guarantees from parent company when giving loans to subsidiaries or other group companies or from owners when extending credit to their businesses.

Management monitors the market value of collateral (based on values of collaterals assessed at the time of extending credit), requests additional collateral in accordance with the underlying agreement. The estimates of fair values are generally not updated except when a loan is individually assessed or impaired. Collaterals are normally not held against amounts advanced to banks.

It is the policy of the Bank to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

# Annex 7AB-2

*"Description of the main types of collateral taken by the bank"*

***The types of securities/guarantees to be obtained from the customer seeking banks facilities shall be as under:***

1. Banks lien on customers own or third party fixed deposit availability with the bank with proper authorization.
2. Mortgage of immovable properties.
3. Pledge of goods/gold bars/Jewellery.
4. Guarantees of other reputable banks.
5. Trade related bills/cheques received for collection, duly assigned favour of the bank.
6. Export LC received form Iran favouring our customers.
7. Iranian banks commitment to pay under Usance LC at specified maturities.
8. Irrevocable assignment of receivable under progress payment certificates (PPC) of government and reputable companies' projects favoring the bank.
9. Acceptable shares/ stock and valuable papers (bonds)
10. Acceptable official or bonded warehouse receipts.

11. Life insurance cover, (duly assigned in favor of the bank)

12. Promissory notes

13. Hypothecation of stocks and insurance thereof with banks mortgage clause.

14. Continuing guarantee of (independent) third party (other than the borrower).

15. Continuing guarantee of borrowers themselves and their own account with the bank or other banks.

16. Guarantees and securities obtained by other branches of bank BSI Iran outside UAE according to the local foreign exchange regulation and with the approval of the head office through regional office.

**Note:** **1:** Securities and guarantee for the credit facilities must be valid, easily salable and recoverable and must be sufficient to cover the dues to the bank: (principle, interest and any other charges/ expenses).

**2:** Margins for various securities /collaterals and or guarantees acceptable in the branches will be determined by the regional credit committee.

# Annex 7AB-3

*"The main types of guarantor/credit derivative counter-party and their credit worthiness"*

GENERAL

A guarantee is a written promise to answer for the debt of another person (principal debtor) to whom the guarantor is already or is about to become liable.

The handling of advances against guarantees needs special care because the guarantor will often be ready to take advantage of any error or omission by the Bank to avoid liability. It is common experience that when the guarantor is called upon to meet the obligation, unpleasantness may ensue, and it is sometimes necessary to resort to legal action. However, it is sometimes expedient to accept unsecured guarantees but, as a general rule, security should be taken to support the guarantee, which in itself should cause the guarantor to reconsider his position and realize the implications involved.

Guarantees from relative or from those who would be presumed to exert influence (husband/wife, doctor/client, solicitor/client etc.) are fraught with danger. A guarantee from a member of the staff of the Bank should never be accepted.

As per the extant instructions, Branch should continue to obtain Continuing Guarantee form (printed document) duly signed by both the principal debtors and Guarantors.

The following precautions are being taken in advancing money on a guarantee.

- The Continuing Guarantee should be signed before any advance is made, and only after the guarantor has had it clearly explained to his exactly what his commitment entails. The guarantee should only be signed in the Bank in the presence of a witness, or where required under local law in presence of at least two witnesses.
- No guarantee should be taken without being satisfied that the guarantor not only is sound but will continue to be able to redeem his promise without any embarrassment. No guarantee should be taken from a minor.
- If a guarantee covers only a part of a customer's indebtedness to the Bank, the guaranteed account must be kept separately in order that the Bank's claim on the Guarantor can be precisely established.
- If a guarantee is given by more than one person, liability should be stated as joint and several.
- Though the banker is not bound to disclose all he knows about his customer's dealings, he must not conceal from the guarantor any facts materially affecting the transaction.

# Annex 7AB-4

*"Information about (market or credit) risk concentrations within the mitigation taken"*

## *Risk concentrations of the maximum exposure to the credit risk*

A risk concentration is any single exposure or group of related exposures with the potential to produce losses large enough to threaten the bank's health or ability to maintain its core operations. Risk concentrations are undoubtedly the single most important cause of major problems in the banking industry. Credit risk concentration arises in both direct exposures to obligors and may also occur through exposure to protection providers such as guarantors.

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The financial assets of the Bank, before taking into account any collateral or provision held in the books or other credit enhancements, can be analyzed by the following geographical regions:

| Geographical Distribution | 2019<br>AED'000 |
|---|---|
| United Arab Emirates | 12,338,563 |
| Asia | 292,793 |
| **Total** | **12,631,356** |

| Industry Sector | 2019 AED'000 |
|---|---|
| Agriculture, Fishing & related activities | - |
| Crude Oil, Gas, Mining & Quarrying | 173,421 |
| Manufacturing | 579,477 |
| Electricity& Water | - |
| Construction | 423,478 |
| Trade[5] | 10,018,262 |
| Transport, Storage & Communication | 11,300 |
| Financial Institutions | 102,408 |
| Services | 1,230,301 |
| Government | - |
| Retail/Consumer banking | 92,709 |
| All Others | - |
| **Total** | **12,631,356** |

As per the above, major Geographic and Obligor exposure is with the UAE and Iran due to the reason that the UAE stands as one of the major hubs for Import and Export of commodities in the Region resulting the Banks in the UAE to engage more in trade finance and other financing activities, due to this, the Bank's main concentration is in Trade Finance activities between UAE and I.R. of Iran which is considered a home country exposure for the bank. The Bank understands the risk, as it is well aware and updated with the market situation in Iran.

In order to avoid excessive concentrations of risk, the policies and procedures of the Bank includes specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

**Table 10**

**TOTAL CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDIZED APPROACH AS ON 31-Dec-2019**

(AED 000's)

| **Market Risk** | **Amount** |
|---|---|
| Interest rate risk | - |
| Equity position risk | - |
| Foreign exchange risk | 796 |
| Commodity risk | - |
| **Total Capital Requirement** | 796 |

**Table 13**
**EQUITY POSITION IN THE BANKING BOOK AS ON 31-Dec-2019** (AED 000's )

## a) Qualitative Disclosures

The general qualitative disclosure requirement (Paragraph 824 of Basel II) with respect to equity risk, including:

| |
|---|
| • Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and |
| • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices |

As at ______, the bank's total equity investment portfolio in the banking book amounted to AED __ % of which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note X to the consolidated financial statements under 'Significant Accounting Policies' Details of cost, market and fair value are reported in Note Y to the consolidated financial statements under the heading of "Non-Trading investments".

## b) Quantitative Disclosures

**1. QUANTITATIVE DETAILS OF EQUITY POSITION:**

(AED 000's )

| Type | Current Year | | Previous Year | |
|---|---|---|---|---|
| | Publicly Traded | Privately Held | Publicly Traded | Privately Held |
| Equities | | | | |
| Collective investment schemes | | | | |
| Any other investment | | | | |
| Total | | | | |

**2. REALIZED, UNREALIZED AND LATENT REVALUATION GAINS (LOSSES) DURING THE YEAR:**

| Gains (Losses) | Amount |
|---|---|
| Realized gains (losses) from sales and liquidations | - |
| *Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account | - |
| **Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account | - |
| Total | - |

**3. ITEMS IN (2) ABOVE INCLUDED IN TIER 1/TIER 2 CAPITAL:**

(AED 000's )

| Tier Capital | Amount |
|---|---|
| Amount included in Tier I capital | 584,486 |
| Amount included in Tier II capital | 56,090 |
| Total | 640,576 |

**4. CAPITAL REQUIREMENTS BY EQUITY GROUPINGS:**

(AED 000's )

| **Grouping** | **Amount** |
|---|---|
| Strategic investments | - |
| Available for sale | - |
| Held for trading | - |
| Total capital requirement | - |

Table 14

**INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) AS ON 31-Dec-2019**

**Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. The following impact on the net interest income and regulatory capital for the year of an immediate and permanent movement in interest yield curves as at –**

(AED 000's )

| Shift in Yield Curves | Net Interest Income | Regulatory Capital |
|---|---|---|
| +200 basis point | (90,450) | 9,497 |
| - 200 basis point | 94,450 | - |

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.