

BASEL III – PILLAR III DISCLOSURES

FINANCIAL YEAR – 2021

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1 Overview and Introduction

This document contains Pillar III disclosures which supplements the Basel III minimum capital requirements and the supervisory review process of Ajman Bank PJSC (the "Bank"). This includes information on the Bank's reporting structure, regulatory capital structure, risk exposures, risk management objectives, policies and assessment processes. The disclosures consist of both quantitative and qualitative information and are provided at the Bank level.

The Bank is regulated by the Central Bank of the United Arab Emirates ("CBUAE") and follows the Pillar III disclosure requirement guidelines issued by the CBUAE. Some of the Pillar III requirements have been disclosed in the audited consolidated financial statement for the year ended 31 December 2021, which covers the risk and capital management processes of the Bank and its compliance with the Basel Accords.

1.1 Basel Regulatory Framework

The Basel Accord framework consists of following three main pillars:

- Pillar I - outlines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the Banks' own regulatory fund;
- Pillar II - addresses a Bank's Internal Capital Adequacy Assessment Process ("ICAAP") for assessing overall capital adequacy in relation to risks other than Pillar I; and
- Pillar III - covers the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, which encourages market discipline and allows market participants to assess specific information.

1.2 Future Regulatory Developments

The regulation and supervision of financial institutions has undergone a significant change since the global financial crisis. CBUAE Basel III capital regulations have been implemented and are complied by the Bank.

All revised capital standards for 2021 as per Basel III guidelines on capital standards for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Capital Conservation Buffer (CCB) are implemented. There is close coordination between UAE Banks and CBUAE for the smooth implementation of any forthcoming new guidelines and disclosure requirements.

Implementation and Compliance of Basel Framework Guidelines

The Bank has been in compliance with Basel Accord guidelines since 2008, in accordance with CBUAE directives on Standardised Approach for Credit, Market and Operational Risk. In compliance with the CBUAE guidelines and Basel accords, these disclosures include information on the Bank's risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

Verification

The Pillar III disclosures for the year ended 31 December 2021 have been appropriately verified internally.

2 Overview of Risk Management and RWA

OVA: Bank risk management approach

(a) Overall risk profile and risk tolerance

Risk management is an integral part of Ajman Bank's business operations. The focus is to create a risk culture within the organisation, where decisions are made following a proactive risk management approach. Involving identification,

measurement, monitoring and controlling risks to pursue the mission of the Bank. While staying within the Board approved Risk appetite.

Risk appetite is defined as the amount of risk exposure the Bank is willing to accept or retain. The Board approved risk appetite is reviewed and updated at least annually or more frequently if the circumstances warrant. The Bank's Risk Appetite is defined in accordance with the prudent risk management principles, while following the highest ethical standards, ensuring a fair outcome for its clients and also facilitating the effective operations in the financial markets. The risk appetite also ensures compliance to the guidelines set by regulators and law enforcement agencies.

To ensure full coverage the Risk appetite has dedicated segments for all risks relevant to the bank. Each segment of the risk appetite has various qualitative and quantitative measures with specific thresholds. The segments include,

- Credit Risk
- Market Risk
- Liquidity Risk
- Capital Adequacy
- Profit Rate Risk in the Banking Book
- Operational Risk
- Regulatory/Compliance Risk
- Information Security Risk
- Sharia Compliance Risk

The Risk appetite statement is complemented with other detailed limits monitored with specific thresholds. All is reported to the relevant management level committees on a daily/monthly basis. On a quarterly basis the Risk appetite is presented to the Board Risk Committee ("BRC"). Escalations are made to the Board upon recommendations of BRC.

(b) Risk Governance Structure

(c) Channels to communications and enforcement of risk culture

The Board of Directors hold the ultimate responsibility for managing and monitoring the Risks faced by the Bank. The Board manages the responsibility through below structure.

Board of Directors

The Board of Directors has the supreme authority for decision making in the Bank. The overall responsibility of risk management rests with the Board. The Board comprises of seven members including the Chairman and Vice Chairman. The Board meets regularly with at least once in each quarter. The Board approves the business plan along with the risk appetite measures/limits and monitors the progress in achievement of the same. This includes review/approvals of financial and non-financial items and updates recommended by the sub committees of the Board. The recommendations governed by

Board Risk Committee

The Board Risk committee ("BRC") has been formed to support the Board in the oversight of Risk management and related issues. BRC conduct its meetings at least once every quarter. It constitutes of three Board members, while the CRO is secretary to the committee. The BRC's primary function is to assist the Board of Directors in fulfilling their responsibilities related to:-

- Ensuring appropriate risk management practices and systems are available in the Bank,
- Appropriate identification, measurement, monitoring and controlling of Bank's principal business risks is conducted, and
- Reviewing material policies, procedures to manage Bank's material risks, and
- Ensuring compliance with Risk related regulatory guidelines.

Risk Management Department

The Risk Management Department is responsible for developing, implementing and maintaining risk related design/procedures to ensure risk remains within the acceptable range as approved by the Board Risk Committee and the Board of Directors. The department under the leadership of Chief Risk Officer ("CRO") is responsible for overall risk control and monitoring. Any breach of limits are to be escalated as per Board approved guidelines. The department also conducts stress testing of various Risks faced by the bank to analyse and report the impact. This helps the department maintain adequate buffers against unknown shocks. Risk management department is well equipped with the systems required for risk measurements, which includes state of the art asset liability management system, liquidity measurement system, limit monitoring system and other. As per strategy the bank does not expose to material currency Risk other than USD and that also is maintained within a reasonable range.

The Bank has various sub committees of the Board with a clear mandate and delegation of authority. For example, Executive Committee of the Board, Board Compliance Committee and Board Audit Committee to name a few. Also the management level committees play a significant role in managing the Risks pertinent to their areas. For example, Asset Liability Committee, Management Credit and Investment Committee, Risk Management Committees and etc.

The Bank follows the three lines of defense approach in Risk management.

- **First line of Defense:** The functions involved in risk taking is identified as the first line of defense. This would be a business unit or other function engaged in revenue generation or supporting such actions. They are responsible for conducting their business to maximize the risk-return; whilst ensuring that they operate within the Board approved risk appetite and regulatory guidelines. They are responsible to ensure risk identification and development of controls in their respective areas.
- **Second line of Defense:** These are the control functions including Risk Management, Sharia, Legal and Compliance. Responsible for establishing a robust risk management and control framework, conducting independent assessments, oversight and challenge to the first line of defense teams and activities. Including development, monitoring and reporting adherence to the Risk Appetite and other quantitative and qualitative limits.
- **Third line of Defense:** This is the Internal Audit function tasked to review and report compliance to internal, regulatory guidelines and best practice.

Three lines of defense approach enables the Bank to ensure risks are properly understood at each level with controls and mitigations are executed at appropriate levels without any compromise due to conflict of interest.

(d) Scope and main features of risk measurement systems

The Bank operates a state of the art enterprise risk management suite. This includes an asset liability module, market risk, liquidity module and RAROC module. Also, the Bank has obligor risk rating system, which is one of the best in the industry. These systems very effectively support the risk management process in the bank.

(e) Process of risk information reporting provided to the board and senior management

Board of Directors bear the ultimate responsibility for Risk Management within the Bank. Board of Directors have assigned the Risk Committee of the Board to closely supervise all the risk related initiatives and promote the risk culture. Senior Management will be responsible to ensure risk awareness and promote overall risk culture in the Bank. The Bank employs three lines of defense mechanism for the risk management. The model's main purpose is to define accountabilities and responsibilities for managing the risk across the Bank.

Under 1st Line of Defense, Business teams follows the standard operating procedures and adhere to the guidelines to do the due diligence before establishing relationship with the client. Business teams are accountable for effectiveness in risk management in operation.

Under 2nd Line of Defense, Risk Management is responsible for implementing risk management framework and ensure that policy, process, systems are in place for proper risk management process. Also, they ensure framework is comprehensive enough to identify, monitor, control and report all the associated risk.

Under 3rd Line of Defense, Bank's involves audit department to conduct independent review of the effectiveness of risk management practices They also check and confirm the level of compliance and advise improvement or corrective action if it is required.

(f) Qualitative information on stress testing

The department also conducts various stress testing exercises to analyse the impact of different Risks faced by the bank. These exercises support the ICAAP process plus help the department maintain/propose adequate buffers in the risk appetite measure.

(g) Strategies and processes to manage, hedge, and mitigate risks

The Bank follows a conservative approach in managing the Risks it faces while conducting its operations.

- To manage the liquidity risk within the appetite the bank makes efforts to keep the funding base diversified. The same is monitored or kept in check with appropriate liquidity related parameters set in the Risk appetite.
- Credit Risk is the main risk bank faces while conducting its business. The measures we use to manage the credit risk include diversity in credit portfolio, avoiding concentration, secured lending and etc.
- The bank's business model is such that we don't incur much market risk as it doesn't keep trading portfolio nor it holds exposure in foreign currencies. The profit rate risk is also managed at conservative levels.
- Operational and fraud risk are being managed carefully to avoid any occurrence of loss incidents.

OV1: Overview of RWA

		RWA	Minimum capital requirements
		Q4 2021	Q4 2021
1	Credit risk (excluding counterparty credit risk)	15,069,603	1,582,308
2	Of which: standardised approach (SA)	15,069,603	1,582,308
-	-		
-	-		
-	-		
6	Counterparty credit risk (CCR)	279,818	29,381
7	Of which: standardised approach for counterparty credit risk	279,818	29,381
-	-		
-	-		
-	-		
-	-		
12	Equity investments in funds - look-through approach	534,730	56,147
13	Equity investments in funds - mandate-based approach	0	0
14	Equity investments in funds - fall-back approach	0	0
15	Settlement risk	0	0
16	Securitisation exposures in the banking book	0	0
17	-		
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0

		RWA	Minimum capital requirements
		Q4 2021	Q4 2021
20	Market risk	116,908	12,275
21	Of which: standardised approach (SA)	116,908	12,275
22	-	-	-
23	Operational risk	1,154,498	121,222
-	-	-	-
-	-	-	-
26	Total (1+6+10+11+12+13+14+15+16+20+23)	17,155,557	1,801,333

Note: The numbers presented in all the tables are in AED '000s unless otherwise specified.

KM1: Key metrics

		Q4 2021
Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	2,522,257
1a	Fully loaded ECL accounting model	0
2	Tier 1	2,522,257
2a	Fully loaded ECL accounting model Tier 1	0
3	Total capital	2,720,809
3a	Fully loaded ECL accounting model total capital	0
Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	17,155,557
Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	14.70%
5a	Fully loaded ECL accounting model CET1 (%)	0
6	Tier 1 ratio (%)	14.70%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	0
7	Total capital ratio (%)	15.86%
7a	Fully loaded ECL accounting model total capital ratio (%)	0
Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%
9	Countercyclical buffer requirement (%)	0
10	Bank D-SIB additional requirements (%)	0
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	7.70%
Leverage Ratio		
13	Total leverage ratio measure	22,740,886
14	Leverage ratio (%) (row 2/row 13)	11.09%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	0
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	0

		Q4 2021
Liquidity Coverage Ratio		
15	Total HQLA	0
16	Total net cash outflow	0
17	LCR ratio (%)	0
Net Stable Funding Ratio		
18	Total available stable funding	0
19	Total required stable funding	0
20	NSFR ratio (%)	0
ELAR		
21	Total HQLA	2,545,486
22	Total liabilities	19,014,966
23	Eligible Liquid Assets Ratio (ELAR) (%)	13.39%
ASRR		
24	Total available stable funding	18,133,115
25	Total Advances	15,732,255
26	Advances to Stable Resources Ratio (%)	86.76%

*LCR and NSFR are not applicable

3 Linkages between Financial Statements and Regulatory Exposures

L12: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	22,342,286	22,342,286	0	0	0
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	0	0	0	0	0
4	Off-balance sheet amounts	2,952,088	0	0	0	0
5	Differences in valuations	0	0	0	0	0
6	Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
7	Differences due to consideration of provisions	0	0	0	0	0

8	Differences due to prudential filters	0	0	0	0	0
9	Exposure amounts considered for regulatory purposes	25,294,374	22,342,286	0	0	0

4 Composition of Capital

CC1: Composition of regulatory capital

		Amounts
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2,100,000
2	Retained earnings	204,064
3	Accumulated other comprehensive income (and other reserves)	218,193
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>	
5	Common share capital issued by third parties (amount allowed in group CET1)	
6	Common Equity Tier 1 capital before regulatory deductions	2,522,257
Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles including mortgage servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	
12	Securitisation gain on sale	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	
14	Defined benefit pension fund net assets	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
20	Amount exceeding 15% threshold	
21	Of which: significant investments in the common stock of financials	
22	Of which: deferred tax assets arising from temporary differences	
23	CBUAE specific regulatory adjustments	
24	Total regulatory adjustments to Common Equity Tier 1	
25	Common Equity Tier 1 capital (CET1)	2,522,257

Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
27	Of which: classified as equity under applicable accounting standards	
28	Of which: classified as liabilities under applicable accounting standards	
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	
31	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	
32	Additional Tier 1 capital before regulatory adjustments	
Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	
36	CBUAE specific regulatory adjustments	
37	Total regulatory adjustments to additional Tier 1 capital	
38	Additional Tier 1 capital (AT1)	
39	Tier 1 capital (T1= CET1 + AT1)	2,522,257
Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	
41	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
43	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	
44	Provisions	198,552
45	Tier 2 capital before regulatory adjustments	198,552
Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
49	CBUAE specific regulatory adjustments	-
50	Total regulatory adjustments to Tier 2 capital	-
51	Tier 2 capital (T2)	198,552
52	Total regulatory capital (TC = T1 + T2)	2,720,809
53	Total risk-weighted assets	17,155,557
Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	14.70%
55	Tier 1 (as a percentage of risk-weighted assets)	14.70%
56	Total capital (as a percentage of risk-weighted assets)	15.86%

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)	0.00%
58	Of which: capital conservation buffer requirement	0.00%
59	Of which: bank-specific countercyclical buffer requirement	0.00%
60	Of which: higher loss absorbency requirement (e.g. DSIB)	0.00%
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	7.70%
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)		
-	-	
66	Significant investments in common stock of financial entities	
-	-	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	
-	-	
-	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
73	Current cap on CET1 instruments subject to phase-out arrangements	
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
75	Current cap on AT1 instruments subject to phase-out arrangements	
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	
77	Current cap on T2 instruments subject to phase-out arrangements	
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	

CC2: Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	Q4 2021	Q4 2021
Assets		
Cash and balances with the Central Bank	2,185,729	2,185,729
Due from banks and financial institutions	726,986	726,986
Islamic financing and investing assets, net	14,924,244	14,924,244
Islamic Investments securities at FVTOCI	2,646,658	2,646,658
Investments in associate	177,313	177,313
Investments in Properties	359,739	359,739
Property and Equipment	124,057	124,057

Other Islamic assets	1,197,560	1,197,560
Total assets	22,342,286	22,342,286
Liabilities		
Islamic customers deposits	15,263,046	15,263,046
Due to banks and other financial institutions	4,211,113	4,211,113
Other Liabilities	233,505	233,505
Total liabilities	19,707,664	19,707,664
Shareholders' equity		
Share Capital	2,100,000	2,100,000
Statutory reserve	270,124	270,124
Investment fair value reserve	(51,930)	(51,930)
General impairment reserve	112,364	112,364
Retained earnings	204,064	204,064
Total shareholders' equity	2,634,622	2,634,622

CCA: Main features of regulatory capital instruments

Not applicable. There are no regulatory capital instruments issued by the Bank.

5 Macroprudential Supervisory measures

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Not applicable. There are no private sector credit exposures relevant for the calculation of the countercyclical buffer.

6 Leverage Ratio

LR2: Leverage ratio common disclosure template

		Q4 2021
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	22,339,906
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	
6	(Asset amounts deducted in determining Tier 1 capital)	
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	22,339,906
Derivative exposures		
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,331
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	28,712
10	(Exempted CCP leg of client-cleared trade exposures)	
11	Adjusted effective notional amount of written credit derivatives	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	

13	Total derivative exposures (sum of rows 8 to 12)	32,043
Securities financing transactions		
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
16	CCR exposure for SFT assets	
17	Agent transaction exposures	
18	Total securities financing transaction exposures (sum of rows 14 to 17)	
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	1,417,677
20	(Adjustments for conversion to credit equivalent amounts)	(1,048,741)
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)	368,937
Capital and total exposures		
23	Tier 1 capital	2,522,257
24	Total exposures (sum of rows 7, 13, 18 and 22)	22,740,886
Leverage ratio		
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	11.09%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.09%
26	CBUAE minimum leverage ratio requirement	3%
27	Applicable leverage buffers	8%

7 Liquidity

LIQA: Liquidity risk management

(a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity risk strategy, policies and practices across business lines and with the board of directors

Liquidity risk management is to ensure that the Bank has enough funds to meet its obligations. The Bank's liquidity risk management is governed by liquidity risk management policy approved by the Board. the policy defines all aspects of liquidity management.

The overall responsibility for managing the liquidity risk rests with the Board of Directors. BRC is responsible for reviewing the Liquidity Risk management design and approach. As it fulfills its mandate of being Board Risk management focused committee.

At management level the Board has already established Asset Liability Committee ("ALCO") to ensure close monitoring of whole process. One of the main objectives of ALCO is to ensure that the bank is able to manage its liquidity in a manner that is cost effective, ensure credible market reputation and provides satisfactory level of depositor confidence. ALCO is a senior management level committee, chaired by CRO, with the decision making capacity and responsibility to review, discuss and direct the financial policies, risk exposures and matters related to asset/liability management.

Risk Management is responsible to review, monitor and report the level of risks independently to ensure compliance to both regulatory and internal requirements. Also ensure an effective Contingency Funding Plan (CFP) is available as part of liquidity risk management, which can be triggered in the event of liquidity need.

Treasury remains responsible for action/providing execution to the plans way forwards discussed in the framework.

The key measurement tool for liquidity risk monitoring in Ajman bank as per regulatory requirement of Central Bank of UAE are eligible liquid asset ratio (ELAR) and Advances to stable resource ratio (ASRR). Additionally, internal metrics of deposit concentration and cash flow maturity mismatch are also being used.

(b) Funding strategy, including policies on diversification in the sources of funding (both products and counterparties)

Business units responsible for fresh asset generation will provide estimates of their respective units' liquidity requirements to the Head of Treasury as well as ALCO. The respective unit head will also include in the report the amount and details of any anticipated payments and prepayments from credit customers. Likewise deposit generation estimates as well as expected large withdrawals are to be advised in the same manner and frequency by liability managers. Internal limits of maximum deposit by a counterparty and currencies are in place for diversification of funding base.

(c) Liquidity risk mitigation techniques

The Bank has a pro-active liquidity risk management approach in assessing, measuring and monitoring liquidity risk. Following are the key control and strategies for liquidity risk management:

- Comprehensive liquidity risk management policy and risk appetite framework
- Maintaining adequate concentration of High Quality Liquid Assets (HQLA)
- Maintaining credit lines with other UAE financial institutions
- Keeping advances in check compared to stable resources (ASR)
- Maintain diversity in funding base

(d) An explanation of how stress testing is used

Liquidity stress testing identifies potential liquidity strains and whether bank has sufficient liquidity to meet obligations under a funding crisis. Therefore, in addition to conducting cash-flow projections to monitor net funding requirements under normal business conditions, Ajman bank performs regular stress tests by conducting projections based on "what if" scenarios on their liquidity positions to:

- Identify sources of potential liquidity strain.
- Ensure that current liquidity risk exposures remain in accordance with the established liquidity risk tolerance.
- Analyze any possible impact of future liquidity stresses on their cash flows, liquidity position, profitability and solvency.

(e) An outline of the bank's contingency funding plans

ALCO shall declare if, in its opinion, condition of the Bank reaches the point where more funds are needed than Bank's ability to generate them in the near future and where it's in the best interest of the Bank to trigger Liquidity Contingency Plan. The declaration in this respect will be made after careful evaluation and monitoring of early warning indicators (EWIs) for liquidity contingency plan. ALCO may base the decision on alert from Treasury and using the MIS prepared/issued by Risk on daily and/or monthly basis.

In order to avert a liquidity crisis, ALCO will resort to action plan to overcome the funding crisis. These action plans could be classified as either 'Primary Action Plan (PAP)' or the 'Secondary Action Plan (SAP)' explained thoroughly in liquidity risk management policy.

The responsibility to initiate (alert ALCO) and implement the plan, which falls under primary action, rests with Head of Treasury & Capital Markets, who will take direct guidance from the Chairman of ALCO, along with Chief Financial Officer and Chief Risk Officer. On the other hand, successful initiation and implementation of secondary actions, requires complete cooperation and coordination from various divisions of the Bank.

(f) Customized measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to the bank

The Bank maintains a state of the art asset liability management system which has a built in liquidity management tool. The Bank monitors its balance sheet based on actual and behavioral maturity with Board approved limits as part of liquidity risk appetite. This helps the Bank to maintain desired level of liquidity for projected cash flow requirements.

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

The Bank monitors following liquidity risk measures with limits:

- Top 20 Deposit concentration
- Cashflow mismatch by maturity bucket
- Minimum CASA ratio of deposit
- Maximum deposit from single counterparty
- Maximum deposit from single foreign currency

(i) Balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps

2021	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Undated	Total
Assets							
Cash and balances with central bank	2,185,729	-	-	-	-	-	2,185,729
Due from banks and other financial institutions	290,739	16,403	52,252	367,592	-	-	726,986
Islamic financing and investing assets, net	2,096,089	1,089,630	1,564,992	5,584,933	4,588,600	-	14,924,244
Investment securities	-	-	18,366	1,382,049	963,451	282,792	2,646,658
Investment in associates	-	-	-	-	-	177,313	177,313
Investment properties	-	-	-	-	-	359,739	359,739
Property and equipment	-	-	-	-	-	124,057	124,057
Other assets	200,755	47,865	-	-	-	948,940	1,197,560
Total assets	4,773,313	1,153,898	1,635,610	7,334,574	5,552,051	1,892,841	22,342,286
Liabilities and equity							
Islamic customers' deposits	3,837,464	2,539,363	3,246,176	4,357,055	1,282,988	-	15,263,046
Due to banks and other financial institutions	2,728,677	360,327	1,072,110	50,000	-	-	4,211,113
Other liabilities	148,401	28,994	-	-	-	56,110	233,505
Equity	-	-	-	-	-	2,634,622	2,634,622
Total liabilities and equity	6,714,542	2,928,684	4,318,285	4,407,055	1,282,988	2,690,732	22,342,286
Net Liquidity Gaps	(1,941,229)	(1,774,786)	(2,682,675)	2,927,518	4,269,063	(797,891)	0

LIQ1: Liquidity Coverage Ratio

Not applicable

LIQ2: Net Stable Funding Ratio

Not applicable

ELAR: Eligible Liquid Assets Ratio

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,820,197	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	1,820,197	1,820,197
1.3	UAE local governments publicly traded debt securities	636,773	
1.4	UAE Public sector publicly traded debt securities		
	Sub total (1.3 to 1.4)	636,773	530,376
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	194,912	194,912
1.6	Total	2,651,882	2,545,486
2	Total liabilities		19,014,966
3	Eligible Liquid Assets Ratio (ELAR)		13.39%

ASRR: Advances to Stable Resource Ratio

	Items	Amount
1	Computation of Advances	
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	14,981,128
1.2	Lending to non-banking financial institutions	237,385
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	93,722
1.4	Interbank Placements	420,020
1.5	Total Advances	15,732,255
2	Calculation of Net Stable Resources	
2.1	Total capital + general provisions	2,754,360
	Deduct:	
2.1.1	Goodwill and other intangible assets	
2.1.2	Fixed Assets	1,067,960
2.1.3	Funds allocated to branches abroad	
2.1.5	Unquoted Investments	282,792
2.1.6	Investment in subsidiaries, associates and affiliates	177,313
2.1.7	Total deduction	1,528,065
2.2	Net Free Capital Funds	1,226,295
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	3,122,378
2.3.5	Customer Deposits	13,784,443
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
2.3.7	Total other stable resources	16,906,820
2.4	Total Stable Resources (2.2+2.3.7)	18,133,115
3	Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	86.76

8 Credit Risk

CRA: General qualitative information about credit risk

(a) How the business model translates into the components of the bank's credit risk profile

Credit risk is defined as the risk that the Bank's customers, clients or counter parties fail to perform or are unwilling to pay profit, repay the principal or otherwise to fulfil their contractual obligations under finance agreements or other credit facilities, thus causing the Bank to suffer a financial loss. Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall.

The Bank's credit risk management (CRM) is performed by a dedicated CRM desk which proposes different measures and thresholds in the risk appetite to manage credit risk of the Bank. This includes limits on industry concentration, top 20 obligor concentration, geographical concentration, obligor credit quality and various other parameters. The bank's credit risk section of the risk appetite reflects the desired credit risk profile.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits

The Bank follows the policies and processes to do the assessment, identification, measurement, monitoring and control of credit risk. Credit Risk Management Department of the Bank does annual assessment of credit risk measurement models, monitor the credit portfolio against the criteria defined in credit risk appetite matrix, review and update internal rating models. While the credit risk management provides a portfolio level framework to monitor/control credit risk.

The Bank has a Credit division that is a dedicated credit underwriting department, which make sure that proper due diligence of client is done before relationship is established with the bank. Bank also has a monitoring unit under Remedial Management department, which monitors the problem accounts. Bank also has a dedicated credit administration department which reviews and updates the approved credit limit, ensure proper credit documentation and other credit administration related tasks are fulfilled.

(c) Structure and organization of the credit risk management and control function

All Wholesale banking credit proposals are reviewed by Credit Division, which dedicatedly pursues credit underwriting under corporate credit policy. While Retail exposures are being reviewed by them as per the specific product programs.

While reviewing the proposal Bank follows the guidelines as per banking standards. Necessary organizational structures are created to facilitate the effectiveness of proper credit risk management and control. Organizational structure of Credit Risk Management comprises of Board of Directors (BoD), Executive Committee (EC), Board Risk Committee (BRC), Management Credit and Investment Committee (MCIC), Chief Risk Officer (CRO) and the Credit Risk Management Department (CMD).

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions

Credit Division reviews all credit proposals independently. keeping in line with the credit policy, products programs, risk appetite and regulatory guidelines.

Credit Risk Management and Compliance is a second line of defense, which supports management to help ensure that risk and controls are effectively managed. This also includes reporting any breaches to the limits, explanation of any guideline and etc.

As a third line of defense, audit department conducts independent credit and compliance audits of the entire credit risk management process of the bank. The scope of internal audit includes the evaluation of the entire credit process for its independence and effectiveness and provide assurance to senior management and the board. Internal Audit Department is responsible to highlight any gap identified within the credit risk management process.

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

The Bank does the credit portfolio monitoring by publishing a detailed credit risk appetite reports on monthly basis, which contains both primary metrics (measured against specified threshold) and monitoring metrics (are not measured against specified threshold).

Credit risk appetite metrics is broadly bifurcated into asset quality and credit concentration. Asset Quality section of appetite matrix measures non-performing exposures, past due not impaired exposures, provision coverage and restructured exposures whereas concentration metrics measures concentration from different aspect. Any breach related to asset quality, concentration and exposure limits are initiated by CRO and reported to MCIC for resolution/action plan. Post discussion at MCIC level a complete appetite with all exception and resolution/ action plan is submitted to Risk Committee (RC) at least quarterly. Credit risk appetite report are reviewed at least annually in light of changes in market conditions and reassessed whenever is required. The reassessed limits shall then be recommended by CRO to Risk Committee and then to Board for final approval.

CR1: Credit quality of assets

		Gross carrying values of		Allowances /Impairments	Of which ECL accounting provisions for credit losses on SA exposures allocated in		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		regulatory category of Specific	regulatory category of General	
		a	b	c	d	e	f
1	Loans	1,783,237	14,041,750	900,743	778,668	122,075	14,924,244
2	Debt securities	54,506	2,642,230	53,623	50,078	3,545	2,643,113
3	Off-balance sheet exposures	19,357	527,472	11,722	9,789	1,933	535,107
4	Total	1,857,101	17,211,452	966,088	838,535	127,553	18,102,465

CR2: Changes in the stock of defaulted loans and debt securities

1	Defaulted loans and debt securities at the end of the previous reporting period	2,102,443
2	Loans and debt securities that have defaulted since the last reporting period	631,458
3	Returned to non-default status	207,955
4	Amounts written off	338,052
5	Other changes	-404,658
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4+5)	1,783,236

CRB: Additional disclosure related to the credit quality of assets

(a) The scope and definitions of 'past due' and 'impaired' exposures for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

The Bank considers an account past due if its late on its payment by 1 day. Any account which reaches 90 days past due is considered impaired. Only for corporate accounts the criteria of 90 days past due can rebutted based on management assessment and progress in the account. Any exception is considered if it's in line with the CBUAE regulations.

(b) The extent of past-due exposures (>90 days) that are not considered to be impaired and the reasons for this.

The past due exposure >90 DPD stood at AED 557 Million. There are various reasons for not classifying these accounts,

- i. large amount is due to syndicated exposure where negotiations are final stage of resolution and classifying the account will not help,
- ii. customer is doing partial payments, and
- iii. few technical past due's as restructuring is under execution.

(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Islamic investments securities at FVTOCI
- Islamic financing and investing assets
- Other Islamic assets
- Off balance sheet exposures subject to credit risk

No impairment loss is recognised on Islamic equity investments.

ECL is required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL is measured at an amount equal to the 12-month ECL.
- ECL is a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- For undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the finance and the cash flows that the Bank expects to receive if the finance is drawdown; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

Measurement of ECL

The key elements used in the computation of ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These elements are derived from our internally developed statistical models based on our historical data and the data provided by the Central Bank of UAE. They are adjusted to reflect probability-weighted forward-looking information.

In its ECL models, the Bank relies on a broad range of forward looking information as economic input such as:

- Oil price, Brent USD
- Dubai real estate sale prices
- Abu Dhabi real estate sale prices
- Real GDP growth
- Dubai Stock Price index
- Abu Dhabi Stock Price index

Significant increase of credit risk: ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets 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. However, 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.

PD is an estimate at certain point in time which is derived based on model output of regression of historical observed default rates against macro-economic variables. These outputs are calibrated against through the cycle (TTC) PD which is currently used by the Bank, and assessed using rating tools tailored to various categories of counterparties and exposures. It helps the Bank to avoid procyclicality i.e. underestimation and overestimation if there is one of outlier data. These statistical models are based on market data, as well as internal data comprising both quantitative as well as qualitative factors. PD's are estimated considering the contractual maturities of exposures by building term structure of default using the cumulative survival probability.

LGD is an estimate of the loss magnitude arising on in case the customer defaults. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from nonperforming status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective profit rate (EPR) of the finance.

EAD represent the expected exposures in the event of a default. The Bank derives the EAD from the current exposures to the counterparty and the potential changes to the current amount allowed under the contract including amortization. The EAD for the on balance sheet items are its gross carrying amount whereas for off balance sheet items such as letters of credits, financial and general guarantees undrawn non-cancellable finance commitments are estimated by applying credit conversion factors on the committed exposures.

(d) The bank's own definition of a restructured approach

Facilities whose terms have been modified due to a loss event are considered as restructured facilities. The criteria include, but are not limited to amendments of installment payment terms, where deterioration in financial position or credit risk of the customer is identified as:

- i. Inability to meet the profit and/or installment payments on due date or
- ii. Insufficient present and future cash flows to repay principal and profit.

(e) Breakdown of exposures by geographical areas, industry and residual maturity.

Please refer to **point (i) under LIQA section** for residual maturity. Below is the exposures breakdown by geographical areas and industry.

Industry	UAE	Outside UAE	Grand Total
Government	94,962	660,524	755,487
Manufacturing and Services	4,202,563	40,766	4,243,328
Trade	698,994	0	698,994
Real Estate	7,159,390	0	7,159,390
Consumer Home Financing	1,388,115	0	1,388,115
Consumer Financing	1,579,673	0	1,579,673
Grand Total	15,123,697	701,290	15,824,987

(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.

Industry	UAE	Outside UAE	Grand Total
Manufacturing and Services	677,846	40,766	718,612
Trade	166,617	0	166,617
Real Estate	755,659	0	755,659
Consumer Home Financing	71,262	0	71,262
Consumer Financing	71,087	0	71,087
Grand Total	1,742,471	40,766	1,783,236

(g) Ageing analysis of accounting past-due exposures.

Row Labels	Corporate Banking	Consumer Banking	Treasury	Grand Total
Normal or Past due up to 30 days	411,962	3,675		415,637
Past due 31 - 60 days	23,647			23,647
Past due 61 - 90 days	170,671	4,406		175,077
Past due 91 - 180 days	28,613	12,985		41,599
Past due of more than 180 days	969,510	157,767	4,428	1,131,705
Grand Total	1,604,403	178,833	4,428	1,787,666

(h) Breakdown of restructured exposures between impaired and not impaired exposures.

Restructured accounts are totaling of AED 1.048BN, of which impaired is 211MN and performing is 838MN.

CR4: Standardised approach - credit risk exposure and CRM effects

	Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		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	3,816,343		3,816,343		1,071,657	28.1%
2	Public Sector Entities	940,157		42,557		42,557	100.0%
3	Multilateral development banks	236,953		236,953		-	0.0%
4	Banks	1,589,102		1,351,717		689,076	51.0%
5	Securities firms						0.0%
6	Corporates	3,225,278	527,875	2,558,401	252,640	2,760,927	107.9%
7	Regulatory retail portfolios	2,192,230	29,412	1,903,199	11,857	1,651,892	86.8%
8	Secured by residential property	3,708,443		3,708,244		2,723,871	73.5%
9	Secured by commercial real estate	3,522,530		3,509,476		3,509,476	100.0%
10	Equity Investment in Funds (EIF)	267,178		267,178		534,730	200.1%
11	Past-due loans	1,024,881	15,020	1,024,861	5,173	1,063,237	103.7%
12	Higher-risk categories						0.0%
13	Other assets	2,198,492		2,198,492		1,826,580	83.1%
14	Total	22,721,589	572,307	20,617,422	269,670	15,874,002	77.0%

CR5: Standardised approach - exposures by asset classes and risk weights

	Risk weight	Asset classes								Total credit exposures amount (post CCF and post-CRM)
		0%	20%	35%	50%	75%	100%	150%	Others	
1	Sovereigns and their central banks	2,618,910	157,221				1,040,213			3,816,343
2	Public Sector Entities						42,557			42,557
3	Multilateral development banks	236,953								236,953
4	Banks	36	34,130		1,270,602		46,949			1,351,717
5	Securities firms									-
6	Corporates				74,141		2,649,944		86,955	2,811,041
7	Regulatory retail portfolios					1,052,655	862,401			1,915,056
8	Secured by residential property			1,514,421			2,193,824			3,708,244
9	Secured by commercial real estate						3,509,476			3,509,476
10	Equity Investment in Funds (EIF)								267,178	267,178
11	Past-due loans						963,628	66,406		1,030,034
12	Higher-risk categories									-
13	Other assets	396,911					1,751,580	50,000		2,198,492
14	Total	3,252,811	191,351	1,514,421	1,344,744	1,052,655	13,060,571	116,406	354,134	20,887,092

9 Market risk

MRA: General qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.

Ajman Bank doesn't incur any market risk capital for trading activities, as nothing is held for trading i.e. in Fair Value Through Profit & Loss.

(b) Structure and organization of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in the above point, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.

The market risk governance structure of the Banks is as follows:

The overall responsibility for managing the Market Risk faced by the Bank rests with the Board of Directors. The Board has already established ALCO to ensure close monitoring of whole processes. The Board of Director's need to:

- Ensure that the overall risk exposure is maintained at prudent levels and consistent with the available capital.
- Ensure that top management as well as the responsible resources in individual risk management roles possess sound expertise and knowledge to accomplish the risk management function.
- Ensure that the systems and methodologies used for identification, measurement and control of risk management are commensurate with the complexity of operations.
- Ensure that adequate resources (technical and support) are devoted for these risk management functions.

Board Risk Committee (BRC) is responsible for reviewing the policies from time to time to ensure relevance/appropriateness. It is also responsible for oversight of the implementation of the policy while ALCO is responsible for interpreting and ensuring its implementation. The BRC needs to:

- Ensure that the Board approved limits are adhered to all times in Bank's daily operations.
- Review the policy on a need basis.
- Ensure adequate internal controls are in place to control and monitor all forms of financial, non -financial risks.

ALCO is a senior management level committee with the decision making capacity and responsibility to review, discuss and direct the financial policies, risk exposures and other relevant matters.

Risk Management is responsible to review and monitor the level of risks independently to ensure compliance to both regulatory and internal limits, procedures and requirements.

- Risk Management will be responsible to develop and implement procedures that translates business policy and strategic direction set by the Board into operating standards that are well understood by Bank's personnel.
- Review/ advice on new products to ensure that relevant risk (e.g. ALM, market risk and etc.) aspects are properly incorporated.
- All changes to the policy will be recommended by Risk for review by the RC.
- Upon BRC clearance same will be submitted for the Board Approval.
- Develop and publish risk appetite report to monitor the risk within the Board advised thresholds

(c) Scope and nature of risk reporting and/or measurement systems

The Bank uses state of the art risk measurement tools, which helps in measurement of exposure to various market risks. Risk reports are generated on periodic frequency (Daily, Monthly and Quarterly) based on applicability. Same are presented to the respective Committee including ALCO, BRC or Board. Any breach to the Board approved appetite is escalated to the relevant authority as per the predefined escalation matrix based on urgency and severity of the breach or as deemed appropriate by Risk/CRO. The responsibility of seeking dispensation/ratification of any excess from relevant authorities (ALCO/Board etc.) would rest with Business owning the limit.

MR1: Market risk under the standardised approach

		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	116,908
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	

-	-	
8	Securitisation	
9	Total	116,908

10 Profit rate risk in the banking book (PRRBB)

PRRBB: PRRBB risk management objectives and policies

(a) Description of how the bank defines PRRBB for purposes of risk control and measurement

The risk of loss in the banking book caused by changes in profit rates. Profit rate risk in the banking book (PRRBB) more specifically refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in profit rates that affect the institution's banking book positions. When rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets and liabilities instruments and hence its economic value (EV). Changes in profit rates also affect a bank's earnings by altering profit rate sensitive income and expenses, affecting its net income (NI). Main components of PRRBB include repricing risk, basis risk, yield curve risk and optionality (if applicable).

(b) Description of the bank's overall PRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and the net profit income (NPI) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.

The governance of PRRBB is integral part of overall risk governance structure of the Bank. Board, Risk Committee along with Asset and Liability Management Committee (ALCO) are responsible for defining and establishing policies around prudent management of PRRBB based on risk appetite of the Bank. The Bank employs below key tools for measurement of PRRBB:

- Net-repricing GAP positions; reported to ALCO on daily basis
- Economic value of equity (EVE) Monitoring; reported to ALCO on daily basis
- Earning at Risk (NII); reported to ALCO on periodic basis

As part of risk assessment and measurement process, Bank has applied behavioral analysis on applicable Balance Sheet items such as analysis of Non-maturing products, rollover and early termination of deposits. Additionally, all new product structures and any changes to existing parameters in terms of re-pricing tenors, benchmarks, rate floors offered, maturity and pricing is reviewed from a PRRBB perspective by Risk Management department for its impact on economic value sensitivities. The impact of profit rate shocks is also factored within ICAAP as one of Pillar II risk's and the results are presented to senior management.

(c) Periodicity of the calculation of the bank's PRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to PRRBB.

Economic Value of Equity (EVE) and re-pricing gaps are monitored and reported to ALCO on daily basis whereas impact on earning is reported quarterly.

(d) Description of the profit rate shock and stress scenarios that the bank uses to estimate changes in the economic value of earnings.

The Bank is applying profit rate shocks as prescribed by CBUAE & Basel for assessing impacts on EVE and NII.

(e) Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (i.e. the EVE metric generated by the bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure Template IRRBB1, the bank should

provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).

The impact of profit rate shocks are also factored as part of ICAAP and the results are presented to senior management. These numbers are also reported on the same basis as part of the Bank's Pillar III disclosures.

(f) High-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.

The Bank is not involved in any hedging activities related to PRRBB.

(g) A high-level description of key modelling and parametric assumptions used in calculating Δ EVE and Δ NPI in Table B, which includes:

- For Δ EVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.
- How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behaviour).
- The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions.
- Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed Δ EVE and Δ NPI in Table B, including an explanation of why these are material.
- Any methods of aggregation across currencies and any significant interest/profit rate correlations between different currencies.

Below are the modelling assumptions used for the purpose of evaluating EVE.

- EVE figures are reported in AED currency as we don't have any major currency risk.
- A behavioral analysis has been conducted to calculate the repricing maturity of non-maturity deposits using historical information and same has been validated by external consultant.
- We have applied the floor rate of 0% as we assumed that profit rates cannot fall below 0% for all products.

PRRBB1: Quantitative information on PRRBB

In reporting currency (AED)	Δ EVE	Δ NII
Period	Q4 2021	Q4 2021
Parallel up	-11.80%	28,169
Parallel down	27.84%	(28,169)
Steeper	-9.67%	
Flattener	18.86%	
Short rate up	0.22%	
Short rate down	-0.05%	
Maximum		
Period	Q4 2021	
Tier 1 capital	2,522,257	

- Average repricing maturity assigned to NMDs 1.54 years
- Longest repricing maturity assigned to NMDs 4.5 years

11 Operational risk

OR1: Qualitative disclosures on operational risk

(a) Bank's policies, frameworks and guidelines for the management of operational risk

Operational risk can arise by a wide range of different external events ranging from power failures to floods or earthquakes to terrorist attacks etc. Similarly, operational risk can arise due to internal events such as the potential for failures or inadequacies in any of the firm's processes and systems (e.g. its IT, risk management or human resources management processes and systems), or those of its outsourced service providers, or still those emanating out of treatment of, and performance by, employees.

The Bank's operational risk management strategy is driven by the Bank's vision and mission which is aligned with the Bank's strategy. It supports the Bank's overall intent of contributing to the UAE's national growth and prosperity, in a Sharia compliant manner, through the effective management of risks relating to the failure of internal processes, people, and systems, or from external events.

Principles are aligned to the Basel Committee on Banking Supervision (BCBS) document (Principles for the Sound Management of Operational Risk, 2011), CBUAE Regulation no 163/2018 and reflect the standards designed to shape the Bank's operational risk management behavior, whilst adhering to the rules and principles of Islamic Sharia as interpreted by the Bank's Sharia Board.

The Bank has implemented "Risk Control Self-Assessment" (RCSA) as part of Risk Assessment, KRI Framework as part of Risk Monitoring and has reasonable Internal Loss Event / Incidents Reporting to continuously build up its internal loss database. The Bank has a comprehensive policy on Operational Risk Management. The bank conducts regular Operational risk awareness trainings across all departments and business units/branches.

Operational Risk Appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank's Operational Risk Management Framework.

The Operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances.

- Maintains a well-controlled operating environment for its businesses and functions to mitigate the most material risks (e.g., including but not limited to external fraud and errors in processing, data);
- Expects employees to uphold the highest ethical standards of conduct in accordance with Ajman Bank values, policies and control framework and report concerns as set forth in the employee code of conduct;
- Expects Third Parties providing significant products or services to businesses and support areas will hold themselves to the highest standards of conduct in accordance with Ajman Bank values, policies and control framework;
- Does not tolerate:
 - Violations of laws or regulations
 - Fraud committed by its staff
 - Deliberate actions that result in harm to clients
- The entity recognizes that mistakes occur but has very little appetite for:
 - Activities which could result in financial statements that inadequately reflect Ajman Bank financial profile or in a material weakness in financial reporting controls
 - Threats to company assets or data arising from malicious attacks or inadequate protection
 - Damage from inability to timely recover from a major interruption to business operations, technology or facilities
 - Behavior inconsistent with responsibly providing financial services or which could result in reputational harm

It also emphasizes Ajman Bank risk culture and lays out standards, procedures and programs that are designed and undertaken to enhance the Bank's risk culture, embed this culture deeply within the organization, and give employees tools to make sound and ethical risk decisions and to escalate issues appropriately.

(b) Structure and organisation of their operational risk management and control function

The Bank has implemented 3 lines of defense as part of its Risk Governance. This is in accordance with Basel recommendation for ORM. Based on Ajman Bank's environment the 3 lines of defense was updated and shared with all stake holders for their compliance. The first line of defense is the Business Line Management.

The Operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs. The second line of defense is the Operational Risk Management function, the Chief Risk Officer and the Board Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defense is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee on the adequacy and effectiveness of the Operational Risk Management Framework. The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defense approach is implemented and operated in an appropriate and acceptable manner.

(c) Operational Risk Measurement System

Currently, the Bank is working on automating the complete Operational risk framework and developing the required system with the vendors. This will facilitate the Loss event reporting, RCSA submissions, KRI reporting, Control and Risk registry and reduce the turnaround time by automating the workflow.

The entire workflow integrates with the upcoming system for every process linked with risk reporting. Additionally, management dashboard has been created to provide the risk status of the bank holistically and by each department giving details of each risk across the respective units with drill down options.

(d) Scope and main context of their reporting framework on operational risk to executive management and to the board of directors.

As part of governance structure, bank has constituted Operational Risk Management committee as a principal forum for discussing and communicating bank wide ORM issues, initiatives and decisions in respect of Operational Risk. Further, the bank escalates all its highly critical matters to Board Risk Committee for approval and board ratifications.

(e) The risk mitigation and risk transfer used in the management of operational risk.

Operational Risk Management Framework at Ajman Bank is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material Operational risks. Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product.

Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Group's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

12 Remuneration Policy

REMA: Remuneration Policy

Banks must describe the main elements of their remuneration system and how they develop this system. In particular, the following elements, where relevant, should be described:

Qualitative disclosures

Information relating to the bodies that oversee remuneration. Disclosures should include:

i. Name, composition and mandate of the main body overseeing remuneration.

Name: Nomination and Compensation Committee

Composition: Chairman and 2 Members

Mandate:

- Review and approve the implementation of the compensation frame work.
- Review and approve Human Capital Policy.
- Review and recommend annual bonus, Salary Review or Promotion for senior management team reporting to CEO, Hiring of grade 19 and above staff.

ii. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Kornferry, AON

iii. Description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

Fulltime Employees of the Bank and the outsource staff (Excluding contractual staff).

iv. Description of the types of employees considered as material risk-takers and as senior managers.

Senior Manager - Head of Division reporting to CEO and COO (Division Heads).

Material Risk Takers- Grade 18 and above.

Information relating to the design and structure of remuneration processes. Disclosures should include:

v. Overview of the key features and objectives of remuneration policy

The Bank's Reward & Recognition policies are built on the "Pay for Performance" theme and is linked to a Performance Management system focusing on four key areas i.e. Financials, Customers, Processes and Learning & Development. This proven methodology enables the bank to achieve and sustain high standards of performance.

The Bank's Reward & Recognition policies are prudently governed by the Board Nomination and Compensation Committee who ensure that the bank adopts market driven remunerations practices. The committee also plays a key role in safeguarding the bank by ensuring adherence to the regulatory requirements and encouraging sound remuneration practices

The Remuneration Committee meets as per the prescribed schedule to review the proposed organizational changes, regulatory changes, revision of proposed organizational structural changes, employees remuneration changes as reviewed and recommended by the internal Human Resources Committee. • Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

vi. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

Teller Allowance Standardization: The teller allowance was paid with different slabs based on the length of service. Approved pay AED1,000 for all teller staff irrespective of the LOS.

vii. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

As part of revision of corporate governance exercise, the Bank is in the process of developing control functions pay structure through an independent consultant to create a revised pay structure for control functions in the Bank to align with Central Bank's requirements.

However, the Bank currently adopts a pay for performance methodology to assess the individual performance of the staff. This ensures that we are not rewarding for financial achievements only, but all other areas (process, customer, learning & development) which are important from the Organizational perspective. Hence, the overall rating derived from the Performance Management process, using the performance management, is a balanced assessment of the

individual's performance across the key result areas. This performance rating is then linked to the rewards as applicable.

- viii. Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.**

The Bank doesn't have this at the moment.

Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:

- ix. An overview of main performance metrics for bank, top-level business lines and individuals.**

The Bank follows an established Performance Management exercise with a stipulated bell-curve to determine the performance. The performance exercise is divided into 3 parts, namely; setting up of KPI at the beginning of year, midterm review of set KPI against achievement, Final year end revision of KPI versus achievement to arrive at the rankings.

- x. Discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.**

The overall bank's strategic plan is defined by the Strategic Division in consultation and deliberations with all Divisional Heads and finally discussed and made at the Management Committee level. Based on these strategic plans, individual business plans are derived. Generally, business plans are cascaded down to department plans then to team goals and to individual goals. The individual goals or KPI are transformed into the 4 quarters of performance management cycles. The assessment of KPI through performance management results in performance ratings and the individual employee is rewarded based on the performance ratings.

- xi. Discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.**

Employees with a performance rating of 1 and 2 on a performance rating scale of 5 will be generally not qualified for a performance bonus. However, the management may exceptionally consider employees with rating 2 for a performance bonus. Rating 2 and 1 is considered as "poor" performance.

Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:

- xii. Discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.**

- xiii. Discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.**

Currently, there is no deferrals policy. We are in process of formulating through the external consultant, which we will incorporate the Central Banks regulations pertaining to deferral of variable remuneration.

Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:

- xiv. An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms).**

Cash only variable pay (performance bonus)

- xv. A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees, a description the factors that determine the mix and their relative importance.**

Cash only variable pay (performance bonus) based on the rating scale and employee level.

REM1: Remuneration awarded during the financial year

	Remuneration Amount	Senior Management	Other Material Risk-takers
1	Number of employees	25	61
2	Total fixed remuneration (3 + 5 + 7)	20,015.308	40,979.299
3	Of which: cash-based	20,015.308	40,979.299
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	Number of employees	25	61
10	Total variable remuneration (11 + 13 + 15)	1,369.501	2,358.280
11	Of which: cash-based	1,369.501	2,358.280
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)	21,384.809	43,337.579