بنك الشارقة
Bank of Sharjah

Pillar 3 Report

31 December 2023

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1. Introduction

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through six branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

2. Purpose and Basis of preparation

The CBUAE supervises Bank of Sharjah ("BOS" or the "Bank") and its subsidiaries (together referred to as the "Group") on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital requirements are computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

The disclosures have been prepared in line with the disclosures template introduced by the CBUAE guidelines on disclosure requirements published in November 2020, November 2021 and December 2022 respectively.

The annual Pillar III report of the Group for the year ended 31 December 2023 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank, its wholly owned subsidiaries (together referred to as "The Group"). The report should be read in conjunction with the Group's Consolidated Financial Statements for the year ended 31 December 2023.

The complete listing of all direct subsidiaries of Bank of Sharjah PJSC as at 31 December 2023 is as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Year of acquisition	Country of incorporation	Principal activities
	2023	2022				
Emirates Lebanon Bank SAL	**100%**	100%	1965	2008	Lebanon	Financial institution
El Capital FZC	**100%**	100%	2007	2017	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	**100%**	100%	2007	2007	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2007	2007	U.A.E.	Investment
Polyco General Trading LLC	**100%**	100%	2008	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2010	2010	U.A.E.	Investment & Real estate development activities
BOS Funding Limited	**100%**	100%	2015	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	**90%**	90%	2010	2017	U.A.E.	Developing of real estate & related activities
BOS Repos Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
BOS Derivatives Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
GTW Holding LTD	**100%**	**100%**	2022	2022	U.A.E. (ADGM)	Facilitate the sale of real estate assets
GDLR Holding LTD	**100%**	**100%**	2022	2022	U.A.E. (ADGM)	Facilitate the sale of real estate assets
BOS Real Estate Egypt	**100%**	-	2023	2023	Egypt	Real estate development activities

3. Overview of Pillar III

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel III, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided on the consolidated level.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

The minimum capital adequacy requirements as set out by the Central Bank of UAE are as follows:
- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

In addition to CET 1 ratio of 7% of RWAs, a capital conservation buffer (CCB) of 2.5% of RWAs shall be maintained in the form of CET 1. Further, counter cyclical buffer (CCyB) requirement shall be met by using CET 1. The level of CCyB to be notified by 'the Central Bank'. There is no CCyB requirement during the current year. The Group has not complied with all the externally imposed capital requirements and has prepared the capital adequacy ratios excluding the hyperinflation impact and currency translation resulting from the Lebanese operations.

Following are the changes in the revised standards which have been adopted:
- The Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar 2 Standard: Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investment in Funds, Securitisation, Counterparty Credit Risk, Leverage Ratio
- Credit Value Adjustment (CVA) for Pillar I and III

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

3.1 Verification

The Pillar 3 Disclosures for the year 2023 have been reviewed by the Group's internal and statutory auditors.

3.2 Implementation of Basel III standards and guidelines

The Group is compliant with Standardised Approach for Credit, Market and the Basic Indicator Approach for Operational Risk (Pillar 1) as applicable in 2023.

4. Key Metrics (KM1)

Key prudential regulatory metrics have been included in the following table:

		Dec 2023	Sep 2023	Jun 2023	Dec 2022
Available capital (amounts)		**AED 000**	**AED 000**	**AED 000**	**AED 000**
1	Common Equity Tier 1 (CET1)	3,700,274	3,912,860	4,003,001	3,247,735
1a	Fully loaded ECL accounting model	3,651,240	3,856,939	3,956,383	3,134,690
2	Tier 1	3,700,274	3,912,860	4,003,001	3,247,735
2a	Fully loaded ECL accounting model Tier 1	3,651,240	3,856,939	3,956,383	3,134,690
3	Total capital	4,024,445	4,240,350	4,334,303	3,618,792
3a	Fully loaded ECL accounting model total capital	3,975,411	4,184,429	4,287,685	3,505,747
Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	27,437,506	27,905,075	28,205,402	31,428,477
Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	**13.49%**	**14.02%**	**14.19%**	**10.33%**
5a	Fully loaded ECL accounting model CET1 (%)	**13.31%**	**13.82%**	**14.03%**	**9.97%**
6	Tier 1 ratio (%)	**13.49%**	**14.02%**	**14.19%**	**10.33%**
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**13.31%**	**13.82%**	**14.03%**	**9.97%**
7	Total capital ratio (%)	**14.67%**	**15.20%**	**15.37%**	**11.51%**
7a	Fully loaded ECL accounting model total capital ratio (%)	**14.49%**	**15.00%**	**15.20%**	**11.15%**
Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**2.50%**	**2.50%**	**2.50%**	**2.50%**
9	Countercyclical buffer requirement (%)	**-**	**-**	**-**	**-**
10	Bank D-SIB additional requirements (%)	**-**	**-**	**-**	**-**
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	**2.50%**	**2.50%**	**2.50%**	**2.50%**
12	CET1 available after meeting the bank's minimum capital requirements (%)	**4.17%**	**4.70%**	**4.87%**	**1.01%**
Leverage Ratio					
13	Total leverage ratio measure	40,742,956	39,735,830	40,863,645	43,531,026
14	Leverage ratio (%) (row 2/row 13)	**9.08%**	**9.85%**	**9.80%**	**7.46%**
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	**8.96%**	**9.71%**	**9.68%**	**7.20%**
14b	"Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)"	**9.08%**	**9.85%**	**9.80%**	**7.46%**
Liquidity Coverage Ratio					
15	Total HQLA	-	-	-	-
16	Total net cash outflow	-	-	-	-
17	LCR ratio (%)	-	-	-	-
Net Stable Funding Ratio					
18	-	-	-	-	-
19	Total required stable funding	-	-	-	-
20	NSFR ratio (%)	-	-	-	-
ELAR					
21	Total HQLA	6,068,218	4,407,093	3,958,740	4,853,306
22	Total liabilities	36,269,375	35,056,917	32,176,995	36,222,861
23	Eligible Liquid Assets Ratio (ELAR) (%)	**16.73%**	**12.57%**	**12.30%**	**13.40%**
ASRR					
24	Total available stable funding	31,721,223	31,057,765	30,688,053	30,413,466
25	Total Advances	24,284,750	24,296,922	24,158,111	25,554,239
26	Advances to Stable Resources Ratio (%)	**76.56%**	**78.23%**	**78.72%**	**84.02%**

5. Overview of Risk Management and Risk Weighted Assets (OVA)

Please refer Note 36 of the Group's annual financial statements for the risk management framework including: risk governance structure, risk profile and risk measurement systems of the Bank, risk reporting to the board and senior management and risk mitigation.

The Group operates a wide-ranging stress testing program that support risk management and capital planning. It includes execution of stress tests mandated by regulators. The group's stress testing is supported by dedicated teams and infrastructure. The testing program assesses capital strength and enhances resilience to external shocks, thereby helping to understand and mitigate risks and informed decision making on capital levels.

5.1 Overview of Risk Weighted Assets (RWAs) (OV1)

The following table provides an overview of total RWAs forming the denominator of the risk-based capital requirements. Further breakdown of RWAs are presented in subsequent parts.

		RWA		Minimum capital requirements
		Dec 2023	Sep 2023	Dec 2023
		AED 000	AED 000	AED 000
1	Credit risk (excluding counterparty credit risk)	25,877,852	26,155,121	2,717,174
2	Of which: standardised approach (SA)	25,877,852	26,155,121	2,717,174
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	55,817	44,109	5,861
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	272,735	298,052	28,637
21	Of which: standardised approach (SA)	272,735	298,052	28,637
22	Of which: internal models' approach (IMA)	-	-	-
23	Operational risk	1,231,102	1,407,793	129,266
24	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
25	Floor adjustment	-	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**27,437,506**	**27,905,075**	**2,880,938**

5. Overview of Risk management (continued)

5.1 Overview of Risk Management and Risk Weighted Assets (RWA) (continued)

Pursuant to the above regulation, CBUAE issued a regulation for a 'Prudential Filter' that permits Banks to add back increase in IFRS 9 provisions (stage 1 and stage 2) to the regulatory capital over a transition period of 5 years, on a proportionate basis. The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 provision as of 31 December 2019 and the IFRS 9 provision as at the respective reporting date. The proportion of the increase in IFRS 9 provisions that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will be phased out over a 5-year transition period as follows:

Years	2020	2021	2022	2023	2024
Proportion of provision	100%	100%	75%	50%	25%

5.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E. For December 2022, differences are arising for the reason that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the application of IAS 29 *Financial reporting in Hyperinflationary Economies* and IAS 21 *The Effect of Changes in Foreign Exchange Rates*. However, the capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank, and thus the computation of the capital adequacy ratio does not include the effect of IAS 29 and IAS 21, currency translation resulting from the Lebanese operations.

5. Overview of Risk management (continued)

5.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1) (continued)

31 December 2023	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Assets							
Cash and balances with central Banks	4,558,295	4,558,295	4,558,295	-	-	-	-
Deposits and balances due from Banks	618,633	618,633	618,633	-	-	-	-
Loans and advances, net	22,067,850	22,067,850	22,067,850	-	-	-	-
Investments measured at fair value	359,472	359,472	359,472	-	-	134,706	-
Investments measured at amortised cost	7,367,938	7,367,938	7,367,938	-	-	-	-
Investment properties	1,102,753	1,102,753	1,102,753	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-
Assets acquired in settlement of debt	1,078,084	1,078,084	1,078,084	-	-	-	-
Other assets	1,252,050	1,252,050	1,252,050	-	-	-	-
Derivative assets held for risk management	202	202	202	-	-	-	-
Property and equipment	209,613	209,613	209,613	-	-	-	-
Subsidiary held for sale	844,790	844,790	844,790	-	-	-	-
Total Assets	**39,459,680**	**39,459,680**	**39,459,680**	**-**	**-**	**134,706**	**-**
Liabilities							
Customers' deposits	26,342,597	26,342,597	-	-	-	-	26,342,597
Deposits and balances due to Banks	1,916,341	1,916,341	-	-	-	-	1,916,341
Repo borrowings	1,702,312	1,702,312	-	-	-	-	1,702,312
Other liabilities	1,987,917	1,987,917	-	-	-	-	1,987,917
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Issued bonds	4,004,998	4,004,998	-	-	-	-	4,004,998
Total Liabilities	**35,954,165**	**35,954,165**	**-**	**-**	**-**	**-**	**35,954,165**

5. Overview of Risk management (continued)

5.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1) (continued)

31 December 2022	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Assets							
Cash and balances with central Banks	3,949,107	7,086,256	7,086,256	-	-	-	-
Deposits and balances due from Banks	113,897	146,389	146,389	-	-	-	-
Loans and advances, net	21,623,267	22,811,098	22,811,098	-	-	-	-
Investments measured at fair value	434,308	464,158	464,158	-	-	154,367	-
Investments measured at amortised cost	7,335,160	7,390,969	7,390,969	-	-	-	-
Investment properties	1,158,109	1,158,109	1,158,109	-	-	-	-
Other intangible assets	22,055	22,111	-	-	-	-	22,111
Assets acquired in settlement of debt	1,227,821	1,259,863	1,259,863	-	-	-	-
Other assets	1,254,145	1,351,327	1,351,327	-	-	-	-
Derivative assets held for risk management	6,388	6,388	6,388	-	-	-	-
Property and equipment	278,074	293,340	293,340	-	-	-	-
Total Assets	**37,402,331**	**41,990,008**	**41,967,897**	**-**	**-**	**154,367**	**22,111**
Liabilities							
Customers' deposits	25,281,131	27,772,968	-	-	-	-	27,772,968
Deposits and balances due to Banks	662,333	662,797	-	-	-	-	662,797
Repo borrowings	5,003,552	5,003,552	-	-	-	-	5,003,552
Other liabilities	1,901,538	2,074,822	-	-	-	-	2,074,822
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Issued bonds	3,059,421	3,059,421	-	-	-	-	3,059,421
Total Liabilities	**35,907,975**	**38,573,560**	**-**	**-**	**-**	**-**	**38,573,560**

5. Overview of Risk management (continued)

5.3 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

31 December 2023		Total	Items subject to: Credit risk framework	Counterparty credit risk framework	Market risk framework
		AED 000	AED 000	AED 000	AED 000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	39,594,386	39,459,680	-	134,706
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**40,755,630**	**39,459,680**	**-**	**134,706**
4	Off-balance sheet amounts Excluding Derivatives	3,465,800	3,465,800	-	-
5	Differences due to different netting rules	(736,570)	(736,570)	-	-
6	Differences due to consideration of provisions and interest in suspense	1,897,813	1,897,813	-	-
7	**Exposure amounts considered for regulatory purposes**	**44,221,429**	**44,086,723**	**-**	**134,706**

31 December 2022		Total	Items subject to: Credit risk framework	Counterparty credit risk framework	Market risk framework
		AED 000	AED 000	AED 000	AED 000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	42,122,264	41,967,897	-	154,367
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**42,122,264**	**41,967,897**	**-**	**154,367**
4	Off-balance sheet amounts Excluding Derivatives	4,532,322	4,532,322	-	-
5	Differences due to different netting rules	(888,055)	(888,055)	-	-
6	Differences due to consideration of provisions and interest in suspense	2,933,762	2,933,762	-	-
7	**Exposure amounts considered for regulatory purposes**	**48,700,293**	**48,545,926**	**-**	**154,367**

5. Overview of Risk management (continued)

5.4 Explanations of differences between accounting and regulatory exposure amounts (LIA)

The major differences between carrying values and amounts considered for regulatory purposes are:

- Off-balance sheet amounts subject to credit risk including undrawn portions of facilities, trade finance commitments and guarantees post conversion factor ('CCF').
- Credit risk adjustments, including ECL and interest in suspense (IIS) which are grossed up regulatory exposures.
- The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E. In December 2022, differences are arising for the reason that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the application of IAS 29 Financial reporting in Hyperinflationary Economies and IAS 21 The Effect of Changes in Foreign Exchange Rates. However, the capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank, and thus the computation of the capital adequacy ratio does not include the effect of IAS 29 and IAS 21, currency translation resulting from the Lebanese operations.

6. Composition of Capital

6.1 Capital Management

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

6. Composition of Capital (continued)

6.2 Regulatory Capital

The Group's capital base is divided into three main categories, namely CET1, AT1 and Tier 2, depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under CBUAE guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- Tier 2 capital comprises qualifying subordinated debt, and undisclosed reserve.

6. Composition of Capital (continued)

6.3 Composition of Regulatory Capital (CC1)

This provides a breakup of the elements constituting the Group's capital:

		Dec 2023 AED 000	Dec 2022 AED 000
	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	3,000,000	2,200,000
2	Retained earnings	405,527	(278,935)
3	Accumulated other comprehensive income (and other reserves)	295,620	1,016,240
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**3,701,147**	**2,937,305**
	Common Equity Tier 1 capital regulatory adjustments	-	-
7	Prudent valuation adjustments	-	-
8	Goodwill (net of related tax liability)	875	23,362
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	(2)	(6,528)
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	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
18	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
19	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (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**	**873**	**16,834**
25	**Common Equity Tier 1 capital (CET1)**	**3,700,274**	**2,920,471**
	Additional Tier 1 capital: instruments	-	-
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-

6. Capital Management (continued)

6.3 Composition of Regulatory Capital (CC1) (continued)

		Dec 2023	Dec 2022
		AED 000	AED 000
27	OF which: classified as equity under applicable accounting standards	-	-
28	Of which: classified as liabilities under applicable accounting standards	-	-
29	Directly issued capital instruments subject to phase-out from additional Tier 1	-	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	-
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-	-
32	**Additional Tier 1 capital before regulatory adjustments**	-	-
	Additional Tier 1 capital: regulatory adjustments	-	-
33	Investments in own additional Tier 1 instruments	-	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
36	CBUAE specific regulatory adjustments	-	-
37	Total regulatory adjustments to additional Tier 1 capital	-	-
38	**Additional Tier 1 capital (AT1)**	-	-
39	**Tier 1 capital (T1= CET1 + AT1)**	**3,700,274**	**3,247,735**
	Tier 2 capital: instruments and provisions	-	-
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
41	Directly issued capital instruments subject to phase-out from Tier 2	-	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
43	Of which: instruments issued by subsidiaries subject to phase-out	-	-
44	Provisions	324,171	371,057
45	**Tier 2 capital before regulatory adjustments**	**324,171**	**371,057**
	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)**	**324,171**	**371,057**
52	**Total regulatory capital (TC = T1 + T2)**	**4,024,445**	**3,618,792**
53	**Total risk-weighted assets**	**27,437,506**	**31,428,477**

6. Capital Management (continued)

6.3 Composition of Regulatory Capital (CC1) (continued)

		Dec 2023	Dec 2022
		AED 000	AED 000
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	13.49%	10.33%
55	Tier 1 (as a percentage of risk-weighted assets)	13.49%	10.33%
56	Total capital (as a percentage of risk-weighted assets)	14.67%	11.51%
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)	4.17%	1.01%
58	Of which: capital conservation buffer requirement	4.17%	1.01%
59	Of which: bank-specific countercyclical buffer requirement	-	-
60	Of which: higher loss absorbency requirement (e.g. DSIB)	-	-
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	6.49%	3.33%
		-	-
	The CBUAE Minimum Capital Requirement	-	-
62	Common Equity Tier 1 minimum ratio	7.00%	7.00%
63	Tier 1 minimum ratio	8.50%	8.50%
64	Total capital minimum ratio	10.50%	10.50%
	Amounts below the thresholds for deduction (before risk weighting	-	-
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	-
66	Significant investments in common stock of financial entities	-	-
67	Mortgage servicing rights (net of related tax liability)	-	-
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	Applicable caps on the inclusion of provisions in Tier 2	-	-
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	-
70	Cap on inclusion of provisions in Tier 2 under standardised approach	-	-
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	-	-
73	Current cap on CET1 instruments subject to phase-out arrangements	-	-
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
75	Current cap on AT1 instruments subject to phase-out arrangements	-	-
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-	-
77	Current cap on T2 instruments subject to phase-out arrangements	-	-
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	-	-

6. Capital Management (continued)

6.4 Reconciliation of regulatory capital to balance sheet (CC2)

The following table enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation, and to show the link between the Bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1. Variances between the financial and regulatory consolidated balance sheets are consistent with LI1 disclosure.

	31 December 2023		31 December 2022	
	Balance sheet as published in the financial statements	Under regulatory scope of consolidation	Balance sheet as published in the financial statements	Under regulatory scope of consolidation
	AED 000	AED 000	AED 000	AED 000
Assets				
Cash and balances with central Banks	4,558,295	4,558,295	3,949,107	6,565,551
Deposits and balances due from Banks	618,633	618,633	113,897	96,241
Loans and advances, net	22,067,850	22,067,850	21,623,267	22,397,830
Investments measured at fair value	359,472	359,472	434,308	515,800
Investments measured at amortised cost	7,367,938	7,367,938	7,335,160	4,417,179
Investment properties	1,102,753	1,102,753	1,158,109	1,091,543
Other intangible assets	-	-	22,055	23,362
Assets acquired in settlement of debt	1,078,084	1,078,084	1,227,821	1,492,699
Other assets	1,252,050	1,252,050	1,254,145	1,360,200
Derivative assets held for risk management	202	202	6,388	9,083
Property and equipment	209,613	209,613	278,074	300,700
Subsidiary held for sale	844,790	844,790	-	-
Total assets	**39,459,680**	**39,459,680**	**37,402,331**	**38,270,188**
Liabilities				
Customers' deposits	26,342,597	26,342,597	25,281,131	26,491,847
Deposits and balances due to Banks	1,916,341	1,916,341	662,333	238,405
Repo borrowings	1,702,312	1,702,312	5,003,552	750,000
Other liabilities	1,987,917	1,987,917	1,901,538	2,226,078
Derivative liabilities held for risk management	-	-	-	8,922
Issued bonds	4,004,998	4,004,998	3,059,421	5,353,179
Total liabilities	**35,954,165**	**35,954,165**	**35,907,975**	**35,068,431**
Share capital	3,000,000	3,000,000	2,200,000	2,200,000
Statutory reserve	1,050,000	1,050,000	1,050,000	1,050,000
Contingency reserve	-	-	640,000	640,000
General and impairment reserve	190,316	190,316	147,624	220,972
Investment fair value reserve	(754,382)	(754,382)	(706,370)	(680,288)
Currency translation reserve	(386,675)	(386,675)	(1,911,502)	-
Retained earnings/ (Accumulated losses)	404,932	404,932	71,551	(236,263)
Non-controlling interest	1,324	1,324	3,053	7,336
Total equity	**3,505,515**	**3,505,515**	**1,494,356**	**3,201,757**

6. Capital Management (continued)

6.5 Main features of regulatory capital instruments (CCA)

	31 December 2023	Quantitative/ qualitative information
1	Issuer	Bank of Sharjah PJSC
2	Unique identifier	AEB000101011
3	Governing law(s) of the instrument	Laws of Emirate of Sharjah
	Regulatory treatment	
4	Transitional Basel III rules	CET1
5	Post-transitional Basel III rules	CET1
6	Eligible at solo/group/group and solo	Group
7	Instrument type	Ordinary share
8	Amount recognised in regulatory capital (AED Mn)	3,000
9	Nominal amount of instrument (AED Mn)	3,000
9a	Issue price	NA
9b	Redemption price	NA
10	Accounting classification	Equity
11	Original date of issuance	22 Dec 1973
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issue call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
116	Subsequent call dates, if applicable	NA
	Coupons/ dividends	
17	Fixed or floating dividend	Floating
18	Coupon rate or any related index	NA
19	Existence of a dividend stopper	NA
20a	Full discretionary, partially discretionary or mandatory (in terms of timing)	NA
20b	Full discretionary, partially discretionary or mandatory (in terms of amount)	NA
21	Existence of step-up or other incentive to redeem	NA
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	NA
24	Write-down feature	NA
25	If write-down, write-down trigger(s)	NA
26	If write-down, full or partial	NA
27	If write-down, permanent or temporary	NA
28	If temporary write-down, description of writeup mechanism	NA
28a	Type of subordination	NA
29	Position in subordination hierarchy in liquidation	NA
30	Non-compliant transitioned features	NA
31	If yes, specify non-compliant transitioned features	NA

7. Leverage Ratio

7.1 Summary comparison of accounting assets versus leverage ratio exposure (LR1)

The following table reconciles the total assets in the published financial statements to the leverage ratio exposure measure.

		Dec 2023	Sep 2023	Dec 2022
		AED 000	AED 000	AED 000
1	Total consolidated assets as per published financial statements	39,459,680	38,448,144	42,095,365
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-	-	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-	-	-
7	Adjustments for eligible cash pooling transactions	-	-	-
8	Adjustments for derivative financial instruments	115,036	161,138	37,158
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(1,403,846)	(1,430,161)	(2,454,454)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-
12	Other adjustments	2,454,400	2,556,709	(18,214)
13	**Leverage ratio exposure measure**	**40,625,270**	**39,735,830**	**39,659,855**

7. Leverage Ratio (continued)

7.2 Leverage ratio common disclosure template (LR2)

The table below provides a breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements, and buffers as of period end.

		Dec 2023	Sep 2023	Dec 2022
		AED 000	AED 000	AED 000
	On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	38,448,283	37,431,136	40,909,267
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)	-	22,222	(4,371)
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)**	**38,448,283**	**37,453,358**	**40,904,896**
	Derivative exposures		-	
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,313	35,734	3,429
9	Add-on amounts for PFE associated with *all* derivatives transactions	113,723	103,182	28,032
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)**	**115,036**	**138,916**	**31,461**
	Securities financing transactions	-	-	-
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	117,536	-	126,535
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-		-
16	CCR exposure for SFT assets	147	-	449
17	Agent transaction exposures	-	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**117,683**	**-**	**126,984**
	Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	3,465,800	3,573,717	4,532,322
20	(Adjustments for conversion to credit equivalent amounts)	(1,403,846)	(1,430,161)	(2,064,637)
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)**	**2,061,954**	**2,143,556**	**2,467,685**
	Capital and total exposures			
23	**Tier 1 capital**	**3,700,274**	**3,912,860**	**3,247,735**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**40,742,956**	**39,735,830**	**43,531,026**
	Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.08%**	**9.85%**	**7.46%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.08%	9.85%	7.46%
26	CBUAE minimum leverage ratio requirement	4.00%	4.00%	4.00%
27	**Applicable leverage buffers**	**5.08%**	**5.85%**	**3.36%**

8. Credit Risk

8.1 General qualitative information about credit risk (CRA)

✓ **How the business model translates into the components of the Bank's credit risk profile**

Credit risk is the most significant risk facing the Bank in the normal course of business. It is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms causing a financial loss to the bank. Obligors may be borrowers, issuers, counterparties or guarantors.

To identify, monitor and manage credit risk, BOS developed a key set of credit principles representing the pillar of its credit policy. Credit risk is managed through a framework that sets out policies and procedures and delegations covering the measurement and management of credit risk with a clear segregation of duties and accountabilities.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank further limits risk through diversification of its assets by economic and industry sectors. The Bank has also put in place three lines of defence to ensure that the oversight of credit risk has appropriate independence.

Policies relating to credit are reviewed and approved by the Bank’s Board periodically. The Board is responsible for setting the credit policy of the Bank. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality. The Banks Risk Appetite also sets out the acceptable parameters relating to Credit Risk and credit concentrations.

✓ **Criteria and approach used for defining credit risk management policy and for setting credit risk**

All credit applications are subject to the Banks Credit policies, underwriting standards which are established within the boundaries of the Risk Appetite statement. The Credit Risk policy was developed by the Risk department in the second line of defence and approved by the Board. These policies and processes define the standards and criteria for the approval, monitoring and remedial action of the Banks credit risk. The Bank is selective and cautious when onboarding new customers to the Bank or are in industries that require specialisation. In addition, the Bank sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Board Credit Committee or respective Management Credit Committee under the supervision of the Board.

✓ **Structure and organisation of the credit risk management and control function**

The Credit Risk Unit is a unit within the Risk Department and is separate from the Business Unit. The Unit is responsible to ensure that the process of assessing credit risk is appropriate and reflective of Bank’s objectives and the circumstances applicable at the time of analysis. Its main duties include:

validating credit proposals and risk ratings against the policy and risk appetite of the Bank. It also monitors the ongoing credit risk exposures and identifies early warning signs of deterioration.

8. Credit Risk (continued)

8.1 General qualitative information about credit risk (CRA) (continued)

All credit facilities post approval are administered and monitored by the Credit Administration Department. The department is a support function, its main responsibilities is managing the disbursement and monitoring process to ensure compliance with credit approvals and obtaining all relevant documents and securities.
Both the Credit Risk Review Unit and Credit Administration Department are independent from the business underwriting teams and have a reporting line into the Chief Risk Officer (CRO). The CRO reports independently to the Board Risk Committee (BRC).

8.2 Relationships between the credit risk management, risk control, compliance and internal audit functions

All credit proposals submitted by the credit teams are independently reviewed by the Credit Risk department and must be respectively approved by the required level of delegation which will include either the Head of Credit Risk, the Management Credit Committee or the Board Credit Committee. The Management Credit Committee includes the CEO, CRO and the Head of Credit Risk. All proposals requiring approval by the Board Credit Committee will first be presented to the Management Credit Committee for their recommendation.

Credit Administration ensures that all credit risk data is reported into the independent credit risk systems and that it is timely accurate and completed.

Compliance teams ensures that guidelines are complied with, in the due diligence process for anti-money laundering laws and regulations, among other, such as confidentiality and conflicts of interests, as well as related parties, PEPs and insider trading.

Internal Audit as the third line of defence reviews the end-to end credit approval and management process from the origination to approval, loan booking and monitoring and reports its findings to the Board Audit Committee for review.

8.3 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

It is the responsibility of the Credit Risk Management to define, construct and maintain an independent credit risk reporting framework for the Bank that effectively, consistently and meaningfully communicates portfolio exposures. The reports that are provided to the Board and the Credit Committee, include but not limited to overall portfolio trends, risk ratings, IFRS 9 staging and provisions, portfolio deterioration and migration, large customer exposures, industry and other concentration limits, stress test and scenario planning, Central Bank classifications and compliance with relevant regulations relating to credit risk.

These reports are presented to the BRC who will escalate key issues to the Board of Directors.

8. Credit Risk (continued)

8.4 Credit quality of assets (CR1)

The table provides a comprehensive picture of the credit quality of the Group's (on- and off-balance sheet) assets.

31 December 2023		Gross carrying values of		Allowances/ Impairments	Of which ECL provisions		Net values
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	2,016,498	21,782,721	1,731,369	396,248	1,335,121	22,067,850
2	Debt securities	-	7,596,303	3,599	-	3,599	7,592,704
3	Off-balance sheet exposure	56,327	2,126,418	30,263	6	30,257	2,152,482
Total		**2,072,825**	**31,505,442**	**1,765,231**	**396,254**	**1,368,977**	**31,813,036**

31 December 2022		Gross carrying values of		Allowances/ Impairments	Of which ECL provisions		Net values
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	1,303,274	22,095,170	1,775,177	396,792	1,378,385	21,623,267
2	Debt securities	10,474	7,615,347	10,720	6,936	3,784	7,615,101
3	Off-balance sheet exposure	5,361	2,122,322	33,163	1,389	31,774	2,094,520
Total		**1,319,109**	**31,832,839**	**1,819,060**	**405,117**	**1,413,943**	**31,332,888**

8.5 Changes in Stock of Defaulted Loans (CR2)

The following table identifies the changes in the Bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

		31 December 2023	31 December 2022
		AED 000	AED 000
1	Defaulted loans at the end of the previous reporting period	1,303,274	1,518,909
2	Impact of IAS 21 on the opening balance	(14,644)	(6,120)
3	Loans and Debt securities that have defaulted since the last year	304,470	367,521
4	Returned to non-default status	(3,246)	(42,184)
5	Amounts written off & other changes	426,644	(534,852)
6	**Defaulted loans at the end of the reporting period**	**2,016,498**	**1,303,274**

8. Credit Risk (continued)

8.6 Credit Risk Mitigation Techniques (CR3)

31 December 2023		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees
		AED 000	AED 000	AED 000	AED 000
1	Loans	6,552,656	17,246,564	13,556,388	-
2	Debt securities	371,537	7,000,000	7,000,000	-
3	**Total**	**6,924,193**	**24,246,564**	**20,556,388**	**-**
4	Of which defaulted	1,035,545	980,953	644,886	-

31 December 2022		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees
		AED 000	AED 000	AED 000	AED 000
1	Loans	6,140,107	17,258,337	13,156,038	554
2	Debt securities	299,176	7,047,870	7,047,870	-
3	**Total**	**6,439,283**	**24,306,207**	**20,203,908**	**554**
4	Of which defaulted	590,922	718,803	493,354	3

8.7 Additional Disclosure related to the Credit Quality of Assets (CRB)

Definition of Default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

8. Credit Risk (continued)

8.8 Past due exposures but not impaired

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

31 December 2023	Less than 30 days AED 000	31 to 89 days AED 000	More than 90 days AED 000	Total AED 000
Loans and advances	**496**	**9,979**	**1,172,380**	**1,182,855**
31 December 2022	**Less than 30 days AED 000**	**31 to 89 days AED 000**	**More than 90 days AED 000**	**Total AED 000**
Loans and advances	32	644	430,606	431,282

8.9 Renegotiated Financial Assets

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	31 December 2023 AED 000	31 December 2022 AED 000
Loans and advances	**6,092,722**	5,766,663

8. Credit Risk (continued)

8.10 Gross Credit Exposure - Currency Classification

The Group's gross credit exposure by foreign and local currency, both funded and non-funded is detailed below:

31 December 2023

	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Other Currencies	1,049,796	552,460	734,276	406,247	1,624,632	**4,367,411**	207,829	377,810	**585,639**	**4,953,050**
AED	22,749,423	4,005,835	16,939	6,965,290	3,250,293	**36,987,780**	-	1,868,761	**1,868,761**	**38,856,541**
Total	**23,799,219**	**4,558,295**	**751,215**	**7,371,537**	**4,874,925**	**41,355,191**	**207,829**	**2,246,571**	**2,454,400**	**43,809,591**

31 December 2022

	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Other Currencies	1,044,511	890,364	92,340	386,161	1,294,553	**3,707,929**	212,625	323,123	**535,748**	**4,243,677**
AED	22,353,933	3,211,891	23,240	6,960,885	3,113,145	**35,663,094**	4,837	2,587,688	**2,592,527**	**38,255,619**
Total	**23,398,444**	**4,102,255**	**115,580**	**7,347,046**	**4,407,698**	**39,371,023**	**217,462**	**2,910,811**	**3,128,275**	**42,499,296**

8. Credit Risk (continued)

8.11 Gross Credit Exposure by Maturity

The following table lists the Group's gross exposures by Residual Maturity:

31 December 2023	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	No fixed maturity AED'000	Total AED'000
Assets					
Cash and balances with central Banks	4,512,959	-	-	45,336	4,558,295
Deposits and balances due from Banks	55,664	195,669	367,300	-	618,633
Loans and advances, net	6,231,351	2,700,308	13,136,191	-	22,067,850
Investments measured at fair value	-	-	-	359,472	359,472
Investments measured at amortised cost	178,774	6,998,413	190,751	-	7,367,938
Investment properties	-	-	-	1,102,753	1,102,753
Assets acquired in settlement of debt	-	-	-	1,078,084	1,078,084
Other assets	1,252,050	-	-	-	1,252,050
Derivative assets held for risk management	202	-	-	-	202
Property and equipment	-	-	-	209,613	209,613
Subsidiary held for sale	-	844,790	-	-	844,790
Total assets	12,231,000	10,739,180	13,694,242	2,795,258	39,459,680
Liabilities					
Customers' deposits	12,945,957	12,778,800	617,840	-	26,342,597
Deposits and balances due to Banks	1,916,341	-	-	-	1,916,341
Repo-borrowing	1,702,312	-	-	-	1,702,312
Other liabilities	1,987,917	-	-	-	1,987,917
Issued Bonds	-	2,203,530	1,801,468	-	4,004,998
Total liabilities	18,552,527	14,982,330	2,419,308	-	35,954,165
Net liquidity gap	(6,321,527)	(4,243,150)	11,274,934	2,795,258	3,505,515

8. Credit Risk (continued)

8.11 Gross Credit Exposure by Maturity (continued)

The following table lists the Group's gross exposures by Residual Maturity:

31 December 2022	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	No fixed maturity AED'000	Total AED'000
Assets					
Cash and balances with central Banks	3,836,726	1,070	30,931	80,380	**3,949,107**
Deposits and balances due from Banks	113,897	-	-	-	**113,897**
Loans and advances, net	4,648,385	2,268,136	14,706,746	-	**21,623,267**
Investments measured at fair value	-	-	-	434,308	**434,308**
Investments measured at amortised cost	29	7,171,284	163,417	430	**7,335,160**
Investment properties	-	-	-	1,158,109	**1,158,109**
Other intangibles	-	-	-	22,055	**22,055**
Assets acquired in settlement of debt	-	-	-	1,227,821	**1,227,821**
Other assets	1,040,793	5,252	208,100	-	**1,254,145**
Derivative assets held for risk management	6,388	-	-	-	**6,388**
Property and equipment	-	-	-	278,074	**278,074**
Total assets	**9,646,218**	**9,445,742**	**15,109,194**	**3,201,177**	**37,402,331**
Liabilities					
Customers' deposits	11,866,690	12,997,814	416,627	-	**25,281,131**
Deposits and balances due to Banks	662,333	-	-	-	**662,333**
Repo-borrowing	5,003,552	-	-	-	**5,003,552**
Other liabilities	1,880,601	1,417	19,520	-	**1,901,538**
Issued Bonds	459,018	397,269	2,203,134	-	**3,059,421**
Total liabilities	**19,872,194**	**13,396,500**	**2,639,281**	**-**	**35,907,975**
Net liquidity gap	**(10,225,976)**	**(3,950,758)**	**12,469,913**	**3,201,177**	**1,494,356**

8. Credit Risk (continued)

8.12 Gross Credit Exposure by Geography

The Group's gross credit exposure by Geography both funded and non-funded is detailed below:

31 December 2023	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
United Arab Emirates	23,053,577	4,558,295	13,019	7,190,459	3,616,337	**38,431,687**	207,829	2,183,161	2,390,990	**40,822,677**
GCC excluding UAE	32,887	-	35,472	181,078	-	**249,437**		33,791	33,791	**283,228**
Middle East	14,566	-	616,518	-	1,256,967	**1,888,051**	-	27,754	27,754	**1,915,805**
Asia	10,905	-	491	-	-	**11,396**	-	-	-	**11,396**
Africa	7,478	-	-	-	-	**7,478**	-	-	-	**7,478**
USA	-	-	33,814	-	-	**33,814**	-	-	-	**33,814**
Europe	4,424	-	43,276	-	1,621	**49,321**	-	937	937	**50,258**
Others	675,382	-	8,625	-	-	**684,007**	-	928	928	**684,935**
Total	**23,799,219**	**4,558,295**	**751,215**	**7,371,537**	**4,874,925**	**41,355,191**	**207,829**	**2,246,571**	**2,454,400**	**43,809,591**

8. Credit Risk (continued)

8.12 Gross Credit Exposure by Geography

The Group's gross credit exposure by Geography both funded and non-funded is detailed below:

31 December 2022	Loans and receivables	Cash & deposits with Central Bank	Due from Banks	Debt securities	Other assets	Total funded	Financial guarantees	Other off-balance sheet exposures	Total non-funded	Grand Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
United Arab Emirates	22,331,699	3,922,056	19,872	7,120,851	3,927,933	**37,322,411**	213,485	2,826,803	**3,040,288**	**40,362,699**
GCC excluding UAE	21,476	-	44,844	181,078	-	**247,398**	63	37,033	**37,096**	**284,494**
Middle East	75,889	180,199	1,347	10,407	478,192	**746,034**	3,002	44,130	**47,132**	**793,166**
Asia	20,689	-	166	-	-	**20,855**	-	-	**-**	**20,855**
Africa	9,162	-	-	-	-	**9,162**	-	-	**-**	**9,162**
USA	36,637	-	14,142	-	-	**50,779**	-	93	**93**	**50,872**
Europe	4,435	-	31,048	34,710	1,573	**71,766**	912	1,391	**2,303**	**74,069**
Others	898,457	-	4,161	-	-	**902,618**	-	1,361	**1,361**	**903,979**
Total	**23,398,444**	**4,102,255**	**115,580**	**7,347,046**	**4,407,698**	**39,371,023**	**217,462**	**2,910,811**	**3,128,275**	**42,499,296**

8. Credit Risk (continued)

8.13 Gross Credit Exposure by Economic Activity

The group's gross credit exposure by Economic activity both funded and non-funded is detailed below:

31 December 2023	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Trading	3,659,109	-	-	-	-	**3,659,109**	-	438,776	**438,776**	**4,097,885**
Personal loans	4,486,526	-	-	-	-	**4,486,526**	-	131,796	**131,796**	**4,618,322**
Services	6,371,799	-	-	-	-	**6,371,799**	207,829	139,018	**346,847**	**6,718,646**
Manufacturing	2,893,831	-	-	-	-	**2,893,831**	-	182,041	**182,041**	**3,075,872**
Construction	795,020	-	-	-	-	**795,020**	-	929,747	**929,747**	**1,724,767**
Government	713,768	-	-	7,000,000	-	**7,713,768**	-	293,982	**293,982**	**8,007,750**
Public utilities	-	-	-	-	-	**-**	-	1,298	**1,298**	**1,298**
Mining and quarrying	939,718	-	-	-	-	**939,718**	-	1,122	**1,122**	**940,840**
Transport and communication	193,508	-	-	-	-	**193,508**	-	6,505	**6,505**	**200,013**
Financial institution	685,447	4,558,295	751,215	-	-	**5,994,957**	-	106,376	**106,376**	**6,101,333**
Others	824,397	-	-	371,537	4,874,925	**6,070,859**	-	15,910	**15,910**	**6,086,769**
Government related entities	2,236,096	-	-	-	-	**2,236,096**	-	-	**-**	**2,236,096**
Total	**23,799,219**	**4,558,295**	**751,215**	**7,371,537**	**4,874,925**	**41,355,191**	**207,829**	**2,246,571**	**2,454,400**	**43,809,591**

8. Credit Risk (continued)

8.13 Gross Credit Exposure by Economic Activity (continued)

The group's gross credit exposure by Economic activity both funded and non-funded is detailed below:

31 December 2022	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Trading	3,694,148	-	-	-	-	**3,694,148**	4,837	558,448	**563,285**	**4,257,433**
Personal loans	3,977,585	-	-	-	-	**3,977,585**	14	182,544	**182,558**	**4,160,143**
Services	6,370,729	-	-	-	-	**6,370,729**	208,648	566,922	**775,570**	**7,146,299**
Manufacturing	2,789,570	-	-	-	-	**2,789,570**	2,988	307,714	**310,702**	**3,100,272**
Construction	966,101	-	-	-	-	**966,101**	63	727,008	**727,071**	**1,693,172**
Government	1,393,802	-	-	6,971,292	-	**8,365,094**	-	-	**-**	**8,365,094**
Public utilities	46	-	-	-	-	**46**	-	2,400	**2,400**	**2,446**
Mining and quarrying	935,340	-	-	-	-	**935,340**	-	2,654	**2,654**	**937,994**
Transport and communication	234,022	-	-	-	-	**234,022**	-	11,407	**11,407**	**245,429**
Agriculture	107	-	-	-	-	**107**	-	19	**19**	**126**
Financial institution	706,856	4,102,255	115,580	-	-	**4,924,691**	912	140,245	**141,157**	**5,065,848**
Others	1,008,438	-	-	375,754	4,407,698	**5,791,890**	-	92,376	**92,376**	**5,884,266**
Government related entities	1,321,700	-	-	-	-	**1,321,700**	-	319,074	**319,074**	**1,640,774**
Total	**23,398,444**	**4,102,255**	**115,580**	**7,347,046**	**4,407,698**	**39,371,023**	**217,462**	**2,910,811**	**3,128,273**	**42,499,296**

8. Credit Risk (continued)

8.14 Impaired Loans by Geography

31 December 2023	Overdue (Gross of Interest in suspense) AED 000	Interest in suspense AED 000	Overdue (Net of Interest in suspense) AED 000	Expected Credit Losses (ECL) AED 000
United Arab Emirates	2,311,462	299,428	2,012,034	391,784
GCC excluding UAE	-	-	-	-
Middle East	5,182	718	4,464	4,464
Asia	-	-	-	-
Total	**2,316,644**	**300,146**	**2,016,498**	**396,248**

31 December 2022	Overdue (Gross of Interest in suspense) AED 000	Interest in suspense AED 000	Overdue (Net of Interest in suspense) AED 000	Expected Credit Losses (ECL) AED 000
United Arab Emirates	1,450,114	172,806	1,277,308	383,600
GCC excluding UAE	-	-	-	-
Middle East	19,364	268	19,096	13,192
Asia	6,870	-	6,870	-
Total	**1,476,348**	**173,074**	**1,303,273**	**396,792**

8.15 Impaired Loans by Economic Activity

	31 December 2023		31 December 2022	
	Net of Interest in Suspense AED 000	Expected Credit Losses (ECL) AED 000	Net of Interest in Suspense AED 000	Expected Credit Losses (ECL) AED 000
Trading	1,192,856	208,950	882,876	202,832
Manufacturing	129,117	50,803	115,090	53,824
Services	611,018	87,385	124,225	71,781
Personal loans	76,883	42,494	61,850	34,213
Construction	6,529	6,528	11,512	7,809
Transport and communication	-	-	577	43
Financial institution	-	-	4	4
Others	95	88	107,140	26,286
Total	**2,016,498**	**396,248**	**1,303,274**	**396,792**

8. Credit Risk (continued)

8.16 Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects (CR4)

The following table illustrates the effect of CRM on capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
31 December 2023	**On-balance sheet amount AED 000**	**Off-balance sheet amount AED 000**	**On-balance sheet amount AED 000**	**Off-balance sheet amount AED 000**	**RWA AED 000**	**RWA Density**
Sovereigns and their central Banks	11,971,186	-	11,971,186	-	-	-
Public Sector Entities	2,562,998	166,024	2,597,979	166,024	2,112,055	76%
Multilateral development Banks	-	-	-	-	-	-
Banks	615,105	1,551	614,355	1,551	256,449	42%
Securities firms	3,528	-	3,528	-	3,335	95%
Corporates	9,150,967	3,230,668	7,907,791	3,230,668	7,298,688	66%
Regulatory retail portfolios	73,595	67,558	46,494	67,558	48,341	42%
Secured by residential property	2,414,402	-	2,414,402	-	1,899,749	79%
Secured by commercial real estate	3,124,613	-	3,124,613	-	3,124,613	100%
Equity Investment in Funds (EIF)	-	-	-	-	-	-
Past-due loans	5,217,176	-	5,217,176	-	7,295,569	140%
Higher-risk categories	-	-	-	-	-	-
Other assets	3,881,748	-	3,881,748	-	3,839,052	99%
Total	**39,015,318**	**3,465,801**	**37,779,271**	**3,465,801**	**25,877,852**	**63%**

8. Credit Risk (continued)

8.16 Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects (CR4) (continued)

The following table illustrates the effect of CRM on capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
31 December 2022	**On-balance sheet amount AED 000**	**Off-balance sheet amount AED 000**	**On-balance sheet amount AED 000**	**Off-balance sheet amount AED 000**	**RWA AED 000**	**RWA Density**
Sovereigns and their central Banks	14,300,625	-	14,300,625	-	3,144,414	22%
Public Sector Entities	1,342,847	14,017	1,334,437	14,017	1,197,143	89%
Multilateral development Banks	-	-	-	-	-	-
Banks	141,703	25,071	122,297	25,071	48,795	33%
Securities firms	4,688	-	4,688	-	4,507	96%
Corporates	11,018,112	4,387,378	9,033,520	4,387,378	9,757,652	73%
Regulatory retail portfolios	199,357	105,856	149,931	105,856	156,509	61%
Secured by residential property	1,677,693	-	1,677,693	-	1,423,483	85%
Secured by commercial real estate	6,265,441	-	6,265,441	-	6,265,441	100%
Equity Investment in Funds (EIF)	-	-	-	-	-	-
Past-due loans	2,954,500	-	2,954,500	-	4,304,207	146%
Higher-risk categories	-	-	-	-	-	-
Other assets	3,541,353	-	3,541,353	-	3,365,162	95%
Total	**41,446,319**	**4,532,322**	**39,384,485**	**4,532,322**	**29,667,313**	**68%**

8. Credit Risk (continued)

8.17 Exposures by Asset classes and Risk Weights (CR5)

The following table presents the breakdown of credit risk exposures under the standardised approach by asset class and risk weight.

Exposures amount (post CCF and post-CRM).

31 December 2023	Risk weights											
RWA weights / Asset Classes	0% AED 000	20% AED 000	35% AED 000	50% AED 000	75% AED 000	100% AED 000	150% AED 000	Others 250% AED 000	Others 85% AED 000	Others 2% AED 000	Others 1250% AED 000	Total credit exposures AED 000
Sovereigns	11,971,186	-	-	-	-	-	-	-	-	-	-	11,971,186
Public Sector Entities	555,794	-	-	192,307	-	2,015,902	-	-	-	-	-	2,764,003
Multilateral development Banks	-	-	-		-		-	-	-	-	-	-
Banks	-	172,091	-	443,569	-	246	-	-	-	-	-	615,906
Securities firms	-	240	-	-	-	3,288	-	-	-	-	-	3,528
Corporates	3,839,022	-	-	-	-	7,294,442	-	-	4,995	-	-	11,138,459
Regulatory retail portfolios	63,566	-		-	8,578	41,908	-	-	-	-	-	114,052
Secured by residential property	-	-	758,017	-	87,768	1,568,617	-	-	-	-	-	2,414,402
Secured by commercial real estate	-	-	-	-	-	3,124,613	-	-	-	-	-	3,124,613
Equity Investment in Funds (EIF)	-	-	-	-	-		-	-	-	-	-	-
Past-due loans	-	-	-	-	-	1,060,390	4,156,786	-	-	-	-	5,217,176
Higher-risk categories	-	-	-	-	-			-	-	-	-	-
Other assets	180,042	76,188				3,228,925	396,593	-	-	-	-	3,881,748
Total	**16,609,610**	**248,519**	**758,017**	**635,876**	**96,346**	**18,338,331**	**4,553,379**	**-**	**4,995**	**-**	**-**	**41,245,073**

8. Credit Risk (continued)

8.17 Exposures by Asset classes and Risk Weights (CR5) (continued)

31 December 2022	Risk weights											
RWA weights / Asset Classes	0% AED 000	20% AED 000	35% AED 000	50% AED 000	75% AED 000	100% AED 000	150% AED 000	Others 250% AED 000	Others 85% AED 000	Others 2% AED 000	Others 1250% AED 000	Total credit exposures AED 000
Sovereigns	11,076,344	-	-	159,734	-	3,064,547	-	-	-	-	-	14,300,625
Public Sector Entities	140,737	-	-	21,148	-	1,186,569	-	-	-	-	-	1,348,454
Multilateral development Banks	-	-	-	-	-	-	-	-	-	-	-	-
Banks	-	83,418	-	63,677	-	273	-	-	-	-	-	147,368
Securities firms	-	227	-	-	-	4,461	-	-	-	-	-	4,688
Corporates	3,630,601	-	-	-	-	9,572,667	-	-	217,630			13,420,898
Regulatory retail portfolios	73,235	-	-	-	104,175	78,377	-	-	-	-	-	255,787
Secured by residential property	45	-	381,286	-	25,315	1,271,047	-	-	-	-	-	1,677,693
Secured by commercial real estate	-	-	-	-	-	6,265,441	-	-	-	-	-	6,265,441
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	255,085	2,699,415	-	-	-	-	2,954,500
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	357,765	56,956	-	-	-	2,672,354	454,278	-	-	-	-	3,541,353
Total	**15,278,727**	**140,601**	**381,286**	**244,559**	**129,490**	**24,370,821**	**3,153,693**	**-**	**217,630**	**-**	**-**	**43,916,807**

8. Credit Risk (continued)

8.17 Exposures by Asset Classes and Risk Weights (CR5) (continued)

As per the revised capital adequacy standards and guidelines applicable from 2021, Claims on GCC sovereign in non-domestic currency attract risk weight based on country rating, previously risk weighted at 0%. Accordingly, there is a shift in sovereign exposure from 0% to 20% RW. Also, short term claims on banks in foreign currency can now attract preferential risk weight, resulting in increase in 20% RW bucket. Other movements are mostly volume driven.

8.18 Qualitative disclosure requirements related to credit risk mitigation techniques (CRC)

(a) Core features of policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

(b) Core features of policies and processes for collateral evaluation and management

Collateral is a form of security that the borrower provides to the lender, to secure the loan in case it is not repaid from the returns as established at the time of availing the facility. Examples of acceptable security would be cash margins, fixed deposits under lien, guarantees or fixed assets such as property, vehicles or equipment.

Requesting adequate collateral or guarantees to cover partially or wholly the loan amount is used to mitigate the default risk as a secondary source of repayment.
Consideration of collateral will depend on may factors, including the ability of the Bank to liquidate and the potential volatility in market value of the asset.

The Bank's Credit Policy includes specific guidelines on the evaluation process for collateral. The policy includes the procedure for the empanelment of Professional Valuers and a register of approved list of valuers. This process is overseen by the Risk department to ensure there is independence in the evaluation process and that appropriately qualified valuers are used.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers)

The Bank credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk. The Bank manages its concentration risk through its Risk Appetite and Credit Policy statements. Information on key concentration risks is provided to the Board Risk Committee. The Bank further limits risk through diversification of its assets by economic and industry sectors.

8. Credit Risk (continued)

8.18 Qualitative disclosure requirements related to credit risk mitigation techniques (CRC) (continued)

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers) (continued)

Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit derivatives and guarantees. Loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank has credit policies and procedures in place setting out the criteria for collateral to be recognized as a credit risk mitigants, including requirements concerning legal certainty, priority, concentration and liquidity. Collateral types that are eligible as risk mitigates include: cash margins, fixed deposits, residential/ commercial property, assets such as motor vehicles, plant and machinery, marketable securities, commodities, standby letters of credit and certain guarantees. The Bank accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. The Bank also enters into collateralized reverse repurchase agreements.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Board Credit Committee and are monitored by the Financial Institutions Group on a daily basis.

8.19 Qualitative disclosures on Bank's use of external credit ratings under the standardized approach for credit risk (CRD)

The group follows the standardized approach which requires Banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') to determine the risk weightings applied to rated counterparties. CBUAE had advised following ECAIs to be used for the rating purpose:

- Moody's Investor Service ('Moody's'); and
- Fitch ratings ('Fitch')

Based on the rating processes of these ECAIs, the CBUAE has established the following tables:

Moody's	Fitch
Aaa to Aa-	AAA to AA-
A1 to A3	A+ to A-
Baa1 to Baa3	BBB+ to BBB-
Ba1 to Ba3	BB+ to BB-
B1 to B3	B + to B-
Below B-	Below B-
Unrated	Unrated

If there is only one rating, that rating should be used to determine the risk weight of the exposure. If there are two rating that map to different risk weights, the higher risk weight must be applied.

If there are three or more ratings with different risk weights, the corresponding to the two lowest risk weights should be referred to. If this give rise to the same risk weight, that risk weight should be applied. If different, the higher risk weight should be applied.

9. Counterparty credit risk (CCR)

9.1 Analysis of Counterparty Credit Risk by approach (CCR1)

The following table provides counterparty credit risk requirements and is aligned to the Standardised Approach required by CBUAE to calculate CCR.

	31 December 2023	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
		AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
1	SA-CCR (for derivatives)	938	81,231	-	1.4	115,036	55,817
2	Internal Model Method (for derivatives and SFTs)	-	-	-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
5	VaR for SFTs	-	-	-	-	-	-
6	**Total**	**938**	**81,231**	**-**	**1.4**	**115,036**	**55,817**

	31 December 2022	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
		AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
1	SA-CCR (for derivatives)	2,449	28,585	-	1.4	43,447	17,274
2	Internal Model Method (for derivatives and SFTs)	-	-	-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
5	VaR for SFTs	-	-	-	-	-	-
6	**Total**	**2,449**	**28,585**	**-**	**1.4**	**43,447**	**17,274**

9. Counterparty credit risk (CCR) (continued)

9.2 Credit valuation adjustment (CVA) capital charge (CCR2)

The Bank has adopted the standardised approach for calculating risk weighted assets for CVA risk. The process followed by the Bank is as follows:

- Exposure at default (EAD) is calculated based on the Counterparty Credit Risk (CCR) standard.
- Single Name Exposure (SNE) for each counterparty is calculated by multiplying the EAD by the Supervisory Discount Factor (DF) for each netting set.
- Capital is calculated using the formula applicable for Banks.

The final calculation performed is to multiply the capital by 12.5 to derive at the CVA RWA.

The following table provides the CVA regulatory calculations with a breakdown by standardised approach.

		31 December 2023		**30 June 2023**	
		EAD post-CRM	**RWA**	**EAD post-CRM**	**RWA**
		AED 000	**AED 000**	**AED 000**	**AED 000**
1	All portfolios subject to the Standardised CVA capital charge	**115,036**	**55,817**	93,331	31,049
2	All portfolios subject to the Simple alternative CVA capital charge	**-**	**-**	-	-

9. Counterparty credit risk (CCR) (continued)

9.3 Standardized approach CCR exposures by regulatory portfolio and risk weights (CCR3)

The following table provides risk weights of the counterparty credit risk requirements and in aligned to the Standardised Approach by Regulatory portfolio

31 December 2023

	Credit Exposure							
Regulatory portfolio	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	5,671	109,365	-	-	-	-	115,036
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**5,671**	**109,365**	**-**	**-**	**-**	**-**	**115,036**

9. Counterparty credit risk (CCR) (continued)

9.3 Standardized approach CCR exposures by regulatory portfolio and risk weights (CCR3) (continued)

31 December 2022

	Credit Exposure							
Regulatory portfolio	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	14,831	28,617	-	-	-	-	43,447
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**14,831**	**28,617**	**-**	**-**	**-**	**-**	**43,447**

9. Counterparty credit risk (CCR) (continued)

9.4 Composition of collateral for Counterparty Credit Risk exposure (CCR5)

The following table provides collateral posted and received for derivative transactions.

31 December 2023

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	2,016	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**2,016**	**-**

31 December 2022

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	4,371	-	4,294	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**4,371**	**-**	**4,294**	**-**	**-**

10. Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

10.1 Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 December 2023		31 December 2022	
Market indices	**Change in equity price %**	**Effect on income AED 000**	Change in equity price %	Effect on income AED 000
Global Stock markets	**+1%**	**1,347**	+1%	1,544
Global Stock markets	**-1%**	**(1,347)**	-1%	(1,544)

10.2 Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest Rate Risk (IRR) is defined as the exposure arising from movements in market interest rates. Typical instruments that give rise to IRR are interest bearing and discounted financial instruments and derivatives which are based on the movement of interest rates (foreign exchange forwards, and interest rate swaps). The interest rate risk faced by the Bank could be specific – due to the yield change in the instrument, or general – due to changes in the macro-economic factors governing the market.

The Bank uses two measures to monitor and control interest rate risk in the banking book that include
- Earnings at Risk Impact
- Economic Value of Equity

Accordingly, the Bank's risk appetite for IRRBB is also articulated in terms of the risk to both economic value and earnings. Policy limits are aligned to Bank of Sharjah's overall approach for measuring IRRBB and are targeted to maintain the IRRBB exposures consistent with the risk appetite and the regulatory

10. Market risk (continued)

10.2 Market risk - non-trading or banking book (continued)

i) Interest rate risk (continued)

guidelines. The Treasury department is mandated to manage the interest rate risk with Market Risk Management acting as an independent oversight function. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest-bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2023, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate, including the effect of any associated hedges as at 31 December 2023 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

31 December 2023	**Increase in basis**	**Sensitivity of interest income**	**Sensitivity of equity**
Rates Up	**200 bps**	**(81,103)**	**(81,103)**
Rates Down	**200 bps**	**81,103**	**81,103**

31 December 2022	Increase in basis	Sensitivity of interest income	Sensitivity of equity
Rates Up	200 bps	(6,009)	(6,009)
Rates Down	200 bps	6,009	6,009

10. Market risk (continued)

10.2 Market risk - non-trading or banking book (continued)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2023, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

As the UAE Dirham and other GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below shows the foreign currencies to which the Group has a significant exposure to:

	31 December 2023 AED 000 equivalent short	31 December 2022 AED 000 equivalent short
EURO	**(745)**	(1,367)
GBP	**(390)**	(214)
CHF	**(217)**	(73)
AUD	**(22)**	-

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

	(AED 000)		
Currency exposure as at 31 December 2023	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
EUR	**+5%**	**(37)**	**(37)**
EUR	**-5%**	**37**	**37**
GBP	**+5%**	**(20)**	**(20)**
GBP	**-5%**	**20**	**20**
CHF	**+5%**	**(11)**	**(11)**
CHF	**-5%**	**11**	**11**
AUD	**+5%**	**(1)**	**(1)**
AUD	**-5%**	**1**	**1**

10. Market risk (continued)

10.2 Market risk - non-trading or banking book (continued)

ii) Currency risk (continued)

(AED 000)			
Currency exposure as at 31 December 2022	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
EUR	+5%	(68)	(68)
EUR	-5%	68	68
GBP	+5%	(11)	(11)
GBP	-5%	11	11
CHF	+5%	(4)	(4)
CHF	-5%	4	4

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2023		31 December 2022	
Market indices	**Change in equity price %**	**Effect on equity AED 000**	Change in equity price %	Effect on equity AED 000
Global stock markets	**+1%**	**1,045**	+1%	1,217
Global stock markets	**-1%**	**(1,045)**	-1%	(1,217)

c) Market Risk Capital

The Group calculates market risk capital requirements using Basel III Standardised Approach. The following risk types are covered by Basel III Standardised Approach.

Interest rate risk	Risk arising from fluctuations in the level of interest rates in the market environment and impacts prices of interest rate sensitivities financial instruments.
Equity risk	Risk arising from fluctuations in equity prices, volatilities, and dividend yields.
Foreign exchange risk	Risk arising from fluctuations in foreign exchange rates and impacts transactions denominated in a currency other than the domestic currency of the Group.
Commodity risk	Risk arising from fluctuations in the prices of commodities.
Options Risk	Risk arising from fluctuations in the volatilities and prices/ rates impacts financial instruments with optionality

10. Market risk (continued)

10.3 Market Risk under the Standardised Approach – (MR1)

The following table provides the components of RWAs under the Standardised Approach for market risk:

		31 December 2023 RWA AED 000	31 December 2022 RWA AED 000
1	General Interest rate risk (General and Specific)	-	-
2	Equity risk (General and Specific)	28,288	32,417
3	Foreign exchange risk	349	2,873
4	Commodity risk	-	-
	Options	-	-
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
	Total	**28,637**	**35,290**

10.4 Market Risk

Market risks subject to capital charge are as follows:
• Interest Rate Risk
• Foreign Exchange Risk
• Equity Exposure Risk
• Commodity Risk
• Options Risk

Capital charge on interest rate risk and equity exposure risk is restricted to Bank's 'trading book', while capital charge on Foreign exchange risk applies on the Bank's entire positions.

Realised and unrealised revaluation loss during the year	31 December 2023 AED 000	31 December 2022 AED 000
Realised loss from sales and liquidation	-	-
Realised and unrealised loss on investments measured at fair value through profit or loss	(31,754)	(21,580)
Realised and unrealised loss on investments measured at fair value through other comprehensive income	(49,008)	(25,078)
Total	**(80,762)**	**(46,658)**

Items in table above included in Tier 1/Tier 2 capital	31 December 2023 AED 000	31 December 2022 AED 000
Amount included in Tier 1 capital	(49,008)	(25,078)
Amount included in Tier 2 capital	-	-
Total	**(49,008)**	**(25,078)**

11. Interest rate risk in the banking book (IRRBB)

11.1 IRRBB risk management objectives and policies

a) Overview

Interest Rate Risk in the Banking Book (IRRBB) is defined as the potential loss to the net economic value of equity (EVE), capital and earnings arising from adverse movements in interest rates that affect the banking book positions.

b) Management

The IRRBB strategy is governed by the Board of Directors which delegates the management of Bank's overall strategy with reference to the IRRBB to the Asset and Liability Management Committee (ALCO). ALCO has a mandate to maintain the Bank's IRRBB exposure at levels that are aligned to the Board of Directors' risk appetite towards IRRBB which is expressed through high-level limits included in the Risk Appetite Statement. Detailed IRRBB limits are reviewed by the ALCO and approved by the Board at least on an annual basis or more frequently where such an update appears appropriate. The IRRBB report is required to be presented to ALCO on a monthly basis where ALCO determines, if all risk measures are within limit, whether it is agrees with the Bank's exposure to interest rate movements, considering the senior management view of the market outlook. The Risk Function is responsible for the model update and calibration assures the ALCO that the appropriate IRRBB models have been reviewed and validated by an independent unit on at least an annual basis. It is the responsibility of the Bank's Risk Function to ensure that any updates in the IRRBB framework are promptly reflected in the IRRBB policy, metrics and regular reporting as they are approved by ALCO. The Internal Audit function is responsible for periodic reviews in order to assess, review effectiveness and adherence to the Policy.

c) Measurement

The Bank uses two metrics for measuring the IRRBB:

- The earnings perspective which focuses on the impact interest rate changes might have on a bank's near-term earnings that will focus on assessing the earnings effects that may arise from changes in market interest rates.

- The economic value perspective which focuses on the impact interest rate changes might have on the economic value of the future cash flows and thus on the economic value of both interest rate book and capital.

d) IRRBB Calculations

The main objectives of the IRRBB measurement process consists of the following:

- Calculation of the NII is performed under parallel interest rate scenarios and a predefined holding period (known as a Gapping Period) for a year.
- Calculation of the EVE sensitivity under six regulatory scenarios.

11. Interest rate risk in the banking book (IRRBB)

11.2 Sensitivity of economic value of equity and NII - IRRBB1

The below table indicates the economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

	∆EVE	∆NII	∆EVE	∆NII
	31 December 2023 (AED 000)	31 December 2023 (AED 000)	31 December 2022 (AED 000)	31 December 2022 (AED 000)
Parallel up	(140,805)	107,149	(119,619)	54,007
Parallel down	156,829	(107,149)	147,461	(54,007)
Steepener	(13,614)	-	(111,467)	-
Flattener	(18,014)	-	84,335	-
Short rate up	(76,483)	-	22,253	-
Short rate down	78,649	-	(21,812)	-
Maximum	**(140,805)**	**107,149**	**(119,619)**	**54,007**
Tier 1 capital	**3,700,274**		3,247,735	

Average repricing maturity assigned to NMDs. – 4.59 years
Longest re-pricing maturity assigned to NMDs – 5 years

12. Operational Risk (OR1)

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Group would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group could minimise the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Basel III framework outlines three methods for calculating the risk charge for operational risk – Basic Indicator, Standardised Approach and Advanced Measurement Approach. The Group presently follows the Basic Indicator Approach.

12.1 Policies, frameworks and guidelines for the management of operational risk

Bank of Sharjah's Operational Risk Management Framework is a key component of the overall risk management strategy. By fostering a proactive risk management culture and implementing robust processes and controls, the Bank strives to minimize the impact of operational risks on our business operations and maintain the trust and confidence of our stakeholders. The Bank prioritizes robust risk management practices to safeguard the interests of the stakeholders and ensure the resilience of the Bank's operations.

12. Operational Risk (OR1) (continued)

Objective

The Bank's Operational Risk Management is designed to systematically identify, assess, monitor, and mitigate operational risks across all facets of its operations. By fostering a culture of risk awareness and accountability, the Bank aims to enhance decision-making processes and drive sustainable value creation. The primary objectives include:

- Proactively identifying and assessing operational risks inherent to the business activities
- Implementing effective controls to mitigate identified risks and minimize potential losses
- Monitoring key risk indicators to gauge the effectiveness of risk mitigation efforts
- Continuously enhancing our risk management practices to adapt to evolving threats and regulatory requirements

Key Components of the Operational Risk framework

Governance Structure

The Bank is underpinned by a robust governance structure, with oversight provided by the Board of Directors and Executive Management. The Board approves overarching policies, while management is responsible for implementing and enforcing operational risk management procedures.

Risk Identification and Assessment

The Bank employs a variety of techniques, including risk trainings and loss data analysis, to identify and assess operational risks. This process allows us to quantify the potential impact and likelihood of various risks, enabling informed decision-making and resource allocation.

Control Environment

The Bank control environment is supported by clear policies, procedures, and internal controls designed to mitigate operational risks. The Bank conduct reviews and assessments to ensure the effectiveness of controls and adjust as necessary to address emerging risks.

Incident Management

The Bank maintains robust incident management processes to promptly respond to and mitigate the impact of operational incidents. The Bank conducts thorough Root Cause Analyses to understand the underlying factors contributing to incidents and implement corrective actions to prevent recurrence.

Product and Process Approval

The Bank adheres to a process for authorizing new /modified products, governed by the Product Management Policy and an approving Committee. This process ensures that all new/modified are thoroughly evaluated for potential operational risks. Additionally, the Bank also maintains a change management process, which involves the development, updating, and circulation of Operating Procedures. This ensures that any changes to existing products or processes are carefully assessed and implemented to mitigate operational risks.

12 Operational Risk (OR1) (continued)

Risk & Control Self-Assessment (RCSA) Process

The Bank's Operational Risk Management Policy mandates the use of a comprehensive RCSA program. This program enables early detection and assessment of operational risks that may not have been effectively managed. Through self-assessments, conducted by business units in collaboration with risk management teams, the Bank identifies emerging risks and develop focused action plans to mitigate them. This proactive approach safeguards the Bank against potential operational disruptions and financial losses.

Key Risk Indicators (KRI)

The Bank recognizes the importance of monitoring key risk indicators (KRI) to gauge the effectiveness of our Operational Risk Management efforts. KRIs are predefined metrics that provide early warning signals about the level of risk exposure within the organization. By setting and monitoring KRIs, the Bank promptly identifies areas of concern and take appropriate corrective actions to mitigate potential operational risks. This proactive monitoring helps us maintain a robust control environment and enhance risk management practices.

Business Continuity Planning (BCP)

The Bank has in place comprehensive Business Continuity Plan to ensure the resilience of critical business functions in the event of disruptions. These plans are tested and updated to reflect changes in our operating environment and emerging risks.

Training and Awareness

The Bank prioritizes employee training and awareness initiatives to ensure that all staff members understand their roles and responsibilities in managing operational risks. Training programs cover topics such as risk identification, incident reporting, fraud prevention, and compliance requirements.

12.2 Structure and organization of the Operational Risk Management and Control Function

In Bank of Sharjah, the Operational Risk Management (ORM) function is under the Chief Risk Officer. The Bank has established a formal Operational Risk Management governance structure to provide strategic direction and oversight, ensuring effective management of operational risks.

Key Components

In order to ensure effective achievement of the Bank's goals, the Bank's management created eleven management committees, devoted to the day-to-day management of the business. This structure aims to ensure effective achievement of the Bank's goals, promote transparency, accountability, and ethical behaviour, and comply with regulatory requirements.

Operational Risk has an integral role and encompasses its role involvement in the **- Internal Control Committee –**

12. Operational Risk (OR1) (continued)

The Management Internal Control Committee ensures that:

- Rules and procedures pertaining to various functions across the Bank are updated and implemented accordingly;
- Appropriate organizational measures are taken, particularly with respect to the segregation of duties, aimed at mitigation of the Bank's risk exposures;
- Effective internal controls are in place, monitoring the Bank's activities.

Information Security Committee

The responsibilities of the Information Security Committee include but are not limited to:

- Ensuring the information security policy and the information security objectives are established and are compatible with the strategic direction of the Organization;
- Ensuring that regulatory information security standards, such as the UAE Information Assurance Standards, are implemented and monitored;
- Ensuring the integration of the information security requirements into the Organization's processes;
- Communicating the importance of the effectiveness of information security management to all stakeholders and system owners.

New Product Approval Committee

The Bank has established an approved New Product Policy and formed a dedicated New Product Approval Committee. The New Product Committee is tasked with:

- Conducting thorough risk assessments, ensuring compliance with regulatory standards, and overseeing the safe integration of new products into the Bank's portfolio.
- When new products or processes are being considered, any potential Operational Risks associated with those products or processes must be identified and assessed and, where appropriate, mitigating controls will be put in place in advance of their implementation

The Bank's policy outlines clear responsibilities across all three lines of defence for the implementation of each element of the Operational Risk Management framework. By fostering collaboration and accountability among these lines of defence, we strive to maintain a robust risk management culture and ensure the resilience of our operations.

First Line of Defence

Business, Operations, and Support units are responsible for establishing a controlled environment as part of their day-to-day operations. They identify and assess operational risks inherent in their activities and implement appropriate controls to mitigate these risks.

Second Line of Defence

The Control functions, including Risk Management, provide oversight on business activities by drafting detailed Policies, Procedures, and Guidelines. They ensure that these controls are embedded within the businesses and effectively implemented. Additionally, they monitor for breaches and provide guidance and direction to the first line of defence to strengthen risk management practices.

Third Line of Defence

Internal Audit serves as the third line of defence, providing independent assurance to the Board of Directors. They assess the effectiveness of risk management controls and governance processes, identifying areas for improvement and enhancing overall risk management practices.

12. Operational Risk (OR1) (continued)

12.3 Operational Risk Measurement system

Bank of Sharjah, employs a rigorous operational risk measurement system to accurately quantify and manage operational risks inherent in our business activities. Currently, the Bank utilizes the Basic Indicator Approach (BIA) as our primary method for determining operational risk capital requirements.

Basic Indicator Approach (BIA)

The BIA is a simplified method for calculating operational risk capital, where capital requirements are determined as a fixed percentage of a Bank's gross income. This approach provides a straightforward means of estimating capital needs based on the overall scale of operations.

The calculated operational risk capital is compared to regulatory requirements and internal risk tolerance thresholds to assess capital adequacy. If the calculated capital is insufficient to cover potential losses, additional measures may be taken to enhance risk management practices or allocate additional capital reserves.

The Bank remains dedicated to maintaining robust risk management practices, including the accurate measurement and allocation of operational risk capital. By adhering to regulatory guidelines and implementing sound risk management principles, it aims to safeguard the interests of the stakeholders and maintain the resilience of our operations in the face of operational risks.

12.4 Scope and main context of the reporting framework on Operational Risk to Executive Management and to the Board of Directors

Operational Risk Reporting Framework for Senior Management and the Board

The Bank has established a formal operational risk reporting process to provide comprehensive insights into the Bank's operational risk landscape to both Senior Management and the Board. This reporting framework ensures transparency, accountability, and informed decision-making at all levels of the organization.

The operational risk reporting framework encompasses a wide range of key elements and indicators, including risk appetite, aimed at providing a holistic view of the Bank's operational risk profile. These reports are tailored to address the specific needs and requirements of Senior Management, including the Board Risk Committee (BRC). The main components of the reporting framework include:

Detailed commentary on significant internal and external operational risk events, including their impact and implications for the Bank. This section highlights preventive and corrective measures initiated or proposed by Business Units to mitigate future risks and enhance resilience.

The operational risk reporting framework serves as a vital tool for Senior Management and the Board to assess and manage operational risks effectively. By providing timely and relevant information on key risk indicators and events, we empower decision-makers to take proactive measures to mitigate risks and safeguard the Bank's interests. Through continued enhancements to our reporting processes, the Bank remains dedicated to maintaining a robust risk management framework and ensuring the resilience of the Bank’s operations.

12. Operational Risk (OR1) (continued)

12.5 Risk Mitigation and Risk Transfer used in the management of operational risk

The Bank prioritizes the effective management of operational risks through a robust risk response process that includes risk mitigation, risk acceptance, and risk transfer strategies.

Risk Response Process
The Bank's operational risk response process is structured to identify, assess, and respond to significant operational risk events promptly. All such events are reported and analysed by relevant stakeholders and the Operational Risk Management Unit to determine their root causes and potential impacts on the Bank.

Mitigation Measures
As part of the risk response process, the Bank implements a range of mitigation measures to minimize the likelihood and impact of operational risks. These measures include:

Implementation of Bank-wide Operating Procedures
Standardized procedures are established across all departments to ensure consistency and efficiency in operations while mitigating operational risks.

Clear delegation of authority is defined across departments, specifying roles and responsibilities to mitigate operational risks associated with decision-making processes.

Comprehensive policies and procedures are in place across key areas such as Anti-Money Laundering (AML), Record Retention, Outsourcing, Fraud Investigation, Information Security, and Business Continuity. These policies ensure compliance with regulatory requirements and mitigate associated risks.

Risk Transfer
In addition to mitigation measures, we employ risk transfer strategies to further enhance our operational risk management framework. The Bank invests in risk insurance tailored to specific requirements, including coverage for physical assets, fidelity, and other operational risks. It's important to note that while insurance provides protection against certain risks, it is recognized as a complementary measure and not a substitute for internal operational risk controls and documented procedures.

The Bank remains dedicated to implementing effective risk mitigation and transfer strategies to manage operational risks proactively. By continuously enhancing the Bank's risk response processes and leveraging a combination of internal controls and external protections, the Bank strives to maintain a secure and resilient operating environment for the benefit of the stakeholders.

13. Liquidity risk management (LIQA)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

13. Liquidity risk management (continued)

Executive Committee (EC) & Board Risk Committee (BRC) - In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios. The EC members comprise of the Chairman, four Board Members, in addition to the General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous. The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio reserve requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. In addition, the U.A.E. Central Bank requires that Banks regulated under the Eligible Liquid Asset Ratio (ELAR) regime maintain a stock of High-Quality Liquid Assets (HQLA), as a buffer against unexpected deposit outflows, of a minimum of 10% (reduced during the Covid-19 pandemic to 7%) of all deposits. The Group complies with this regulation at all times, and applies a higher standard in its internal guidelines. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-Bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-Bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the General Manager (operations) and senior executives from treasury, finance, risk, corporate credit, operations, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

13. Liquidity risk management (continued)

13.1 Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Basel III ratios (including ASRR, ELAR, etc.) are also monitored internally and shared with the Board on quarterly basis.

13.2 Eligible Liquid Asset Ratio (ELAR)

	Dec 2023		Sep 2023		Dec 2022	
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
High Quality Liquid Assets	**Nominal Amount**	**Eligible Liquid Assets**	**Nominal Amount**	**Eligible Liquid Assets**	**Nominal Amount**	**Eligible Liquid Assets**
Physical cash in hand at the bank + balance with the CBUAE	4,566,942		3,296,670		3,904,846	
UAE Federal Government Bonds and Sukuks	73,460		73,460		73,460	
Subtotal	**4,640,402**	**4,640,402**	**3,370,130**	**3,370,130**	**3,978,306**	**3,978,306**
UAE local governments publicly traded debt securities	5,000,000		4,125,000			
UAE Public sector publicly traded debt securities	-		-	-	-	
Subtotal	**5,000,000**	**1,427,816**	**4,125,000**	**1,036,963**	**875,000**	**875,000**
Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-	-	-	-	-
Total	**9,640,402**	**6,068,218**	**7,495,130**	**4,407,093**	**4,853,306**	**4,853,306**
Total liabilities		**36,269,375**		**35,056,917**		**36,222,861**
Eligible Liquid Assets Ratio (ELAR)		**16.73%**		**12.57%**		**13.40%**

13. Liquidity risk management (continued)

13.3 Advances to Stables Resources Ratio (ASRR)

	Dec 2023 AED 000	Sep 2023 AED 000	Dec 2022 AED 000
Computation of Advances			
Net Lending (Gross loans - specific and collective provisions + interest in suspense)	23,377,541	23,393,167	24,872,878
Lending to Non-banking financial institutions	25,430	24,780	24,784
Financial Guarantees & Stand-by LC (Issued - Received)	319,049	318,536	656,577
Interbank placements	562,730	560,439	-
Total Advances	**24,284,750**	**24,296,922**	**25,554,239**
Calculation of Net Stable Resources			
Total capital + general provision	4,840,633	5,030,393	4,839,290
Deduct:			
Goodwill and other intangible assets	-	-	22,111
Fixed Assets	1,281,870	1,322,860	1,537,942
Funds allocated to branches abroad	-	-	-
Unquoted Investments	120,221	142,320	239,171
Investment in subsidiaries, associates and affiliates	-	-	-
Total deduction	**1,402,091**	**1,465,180**	**1,799,224**
Net Free Capital Funds	**3,438,542**	**3,565,213**	**3,040,066**
Other stable resources:			
Funds from the head office	-	-	-
Interbank deposits with remaining life of more than 6 months	-	-	-
Refinancing of Housing Loans	-	-	-
Borrowing from non-banking financial institutions	620,596	466,795	755,011
Customer Deposits	23,657,087	23,010,968	24,017,986
Capital market funding/ term borrowings maturing after 6 months from reporting date	4,004,998	4,014,789	2,600,403
Total other stable resources	**28,282,681**	**27,492,552**	**27,373,400**
Total Stable Resources	**31,721,223**	**31,057,765**	**30,413,466**
Advances to stable resources ratio	**76.56%**	**78.23%**	**84.02%**

14 Remuneration Policy

14.1 Remuneration Policy (REMA)

The Board, through the Remuneration, Compensation and Nomination Committee is responsible for approving HR Policies at Bank of Sharjah.

These policies are subject to regular updates to reflect relevant changes in the regulatory landscape.

Bank of Sharjah's Performance metrics include aspects around Key Performance Indicators (KPI's), Behavioral Competencies, Performance against established Business Goals and Training and Development.

Currently, there is no framework that integrates Risk and Reward other than the KPI's. The Bank has set objectives of developing these specific frameworks in 2023 while endeavoring to fully adopt and implement the requirements of the Central Bank of UAE's Corporate Governance Regulations for Banks.

14.2 Remuneration awarded during the financial year (REM1)

		31 December 2023		31 December 2022	
Fixed Remuneration- AED 000		**Senior Management**	**Other Material Risk Takers**	**Senior Management**	**Other Material Risk Takers**
1	Number of employees	**14**	**10**	**12**	**10**
2	Total fixed remuneration (3 + 5 + 7)	**46,991**	**12,784**	**25,673**	**12,598**
3	Of which: cash-based	24,114	11,234	22,655	11,004
4	Of which: deferred	-	-	-	-
5	Of which: shares or other share-linked instruments	-	-	-	-
6	Of which: deferred	-	-	-	-
7	Of which: other forms	22,877	1,550	3,018	1,594
8	Of which: deferred	-	-	-	-
Variable Remuneration- AED 000					
9	Number of employees	**14**	**10**	**12**	**9**
10	Total variable remuneration (11 + 13 + 15)	**9,221**	**2,781**	**7,121**	**1,715**
11	Of which: cash-based	7,841	1,845	6,871	1,715
12	Of which: deferred	-	-	-	-
13	Of which: shares or other share-linked instruments	-	-	-	-
14	Of which: deferred	-	-	-	-
15	Of which: other forms	1,380	936	250	-
16	Of which: deferred	-	-	-	-
17	**Total Remuneration (2+10)- AED 000**	**56,212**	**15,565**	**32,794**	**14,313**

14 Remuneration Policy (continued)

14.3 Special payments (REM2)

31 December 2023						
	Guaranteed Bonuses		Sign on Awards		Severance Payments	
Special Payments	Number of employees	Total amount AED 000	Number of employees	Total amount AED 000	Number of employees	Total amount AED 000
Senior Management	**4**	**5,713**	**1**	**53**	**5**	**19,432**

31 December 2022						
	Guaranteed Bonuses		Sign on Awards		Severance Payments	
Special Payments	Number of employees	Total amount AED 000	Number of employees	Total amount AED 000	Number of employees	Total amount AED 000
Senior Management	3	3,396	1	250	-	-