Habib Bank Limited, United Arab Emirates

Pillar III Disclosures

As of December 31, 2021

TABLE OF CONTENTS

Page

1. Introduction and overview

Legal Status and activities

Habib Bank Limited - UAE Branches operates as a branch of Habib Bank Limited with its Head Office ("Head Office") in Pakistan. In the United Arab Emirates ("UAE"), it operates through its six branches (2020: six branches) located in the emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of the UAE ("UAE Central Bank"). Habib Bank Limited, is listed on the Pakistan Stock Exchange.

The principal activities of Habib Bank Limited - UAE Branches (hereafter these branches are referred to as the "Bank") are to provide retail and corporate banking services in the UAE. These financial statements represent the combined statement of financial position and results of the six branches (2020: six branches) of the Bank in the UAE. The registered address of the Bank is P.O. Box 888, Dubai, UAE.

Purpose and basis of preparation

The Bank is regulated by the Central Bank of the United Arab Emirates ("CBUAE") and follows the Pillar III disclosure requirement guidelines issued by the CBUAE. In February 2017, new Basel III capital regulations issued by CBUAE came into effect for all Banks in the UAE. Additional guidelines for Basel III were issued over the course of 2019/2020 in consultations with the UAE Banks.

This document presents Pillar III disclosures in line with CBUAE guidance which complements the Basel III minimum capital requirements and the supervisory review process of the Bank. These disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 21 respectively.

1.1 Applicability of Pillar III disclosure templates

Below is the list of the CBUAE prescribed Pillar III disclosure templates which are not mandatory / applicable to the Bank and have not been included in this document.

Topic	Table	Information Overview
Prudential valuation adjustments	PV1	Prudent valuation adjustments
Leverage ratio	LR1	Summary comparison of accounting assets vs leverage ratio exposure measure (January 2014 standard)
Credit risk	CRC	Qualitative information on the mitigation of credit risk
	CR3	Credit risk mitigation techniques - overview
	CRD	Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk
Counterparty credit risk (CCR)	CCRA	Qualitative disclosure related to CCR
	CCR1	Analysis of CCR by approach
	CCR3	Standardised approach - CCR exposures by regulatory portfolio and risk weights
	CCR5	Composition of collateral for CCR exposure
	CCR6	Credit derivatives exposures
	CCR8	Exposures to central counterparties
Securitisation	SECA	Qualitative disclosures related to securitisation exposures
	SEC1	Securitisation exposures in the banking book
	SEC2	Securitisation exposures in the trading book
	SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor
	SEC4	Securitisation exposures in the trading book and associated capital requirements - bank acting as investor
Remuneration Policy	REM2	Special payments
	REM3	Deferred remuneration

2. Overview of Risk Management and RWA

2.1 Key metrics (KM1)

AED in '000

		2021	2020
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	281,612	342,077
1a	Fully loaded ECL accounting model	277,644	338,949
2	Tier 1	281,612	342,077
2a	Fully loaded ECL accounting model Tier 1	277,644	338,949
3	Total capital	307,304	362,141
3a	Fully loaded ECL accounting model total capital	303,336	359,013
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	2,187,737	1,764,367
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	12.87%	19.39%
5a	Fully loaded ECL accounting model CET1 (%)	12.69%	19.21%
6	Tier 1 ratio (%)	12.87%	19.39%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.69%	19.21%
7	Total capital ratio (%)	14.05%	20.53%
7a	Fully loaded ECL accounting model total capital ratio (%)	13.87%	20.35%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.53%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	3.03%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.55%	10.03%
	Leverage Ratio		
13	Total leverage ratio measure	2,942,548	
14	Leverage ratio (%) (row 2/row 13)	9.57%	
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.44%	
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.57%	
	Liquidity Coverage Ratio *		
15	Total HQLA		
16	Total net cash outflow		
17	LCR ratio (%)		
	Net Stable Funding Ratio *		
18	Total available stable funding		
19	Total required stable funding		
20	NSFR ratio (%)		
	ELAR		
21	Total HQLA	676,746	398,973
22	Total liabilities	2,412,331	1,817,400
23	Eligible Liquid Assets Ratio (ELAR) (%)	28.05%	21.95%
	ASRR		
24	Total available stable funding	2,189,900	1,839,666
25	Total Advances	1,346,923	1,104,293
26	Advances to Stable Resources Ratio (%)	61.51%	60.03%

**As per CBUAE regulations, Liquidity Coverage Ratio and Net Stable Funding Ratio are not applicable on the bank being a branch of a foreign bank. The bank uses Eligible Liquid Asset Ratio (ELAR) and Lending to Stable Resources Ratio (LSRR) as an alternate.*

The capital ratio as of December 31, 2021 reduced by 648 bps due to loss of AED 59 million and increase in lending as COVID impact subsided. During 2021, changes in capital adequacy regulations also gone live effective from June 30, 2021 in a phased approach. The ratio however remained above the regulatory requirement of 13% (including 2.5% capital conservation buffer).

The Bank has also started to report leverage ratio requirements from 31 December 2021 and remains comfortably above the minimum 3%. Liquidity ratios (ELAR and ASRR) also remain well-buffered with ASRR showing increase during 2021 as a result of increase in lending.

2.2 Bank risk management approach (OVA)

Business and Overall Risk Profile

Habib Bank Limited UAE (hereafter "HBL-UAE" or 'the Bank'), foreign branch of Habib Bank Limited Pakistan (hereafter "HBL"), principal revenue stream is generated through wholesale banking model in addition to other products offer by the Bank to the customer. The Bank also offers traditional deposit products such as current and savings accounts to the customers, which are mainly used to finance the asset book. The bank also considers deploying liquidity in FI which are low risk assets, in fixed income securities and other treasury products to generate revenues and maintain a balanced risk profile.

The primary risks to the Bank arise from extending credit to corporate and institutional banking. While carrying the business the Bank is also exposed to a range of other risk types which includes market, operational, liquidity, compliance, reputational, country and legal risk. The Bank is proactively monitoring and enhancing the risk management strategies that drive the direction of its risk management processes, product range and risk diversification strategies.

Corporate and Risk Governance

HBL-UAE overall risk management responsibility resides with the Board of Directors (hereafter "the Board", "BOD") of Habib Bank Limited. The Board ensures effective risk governance, control and oversight of the Bank processes with the help of Board and management level committees at Head Office and through HBL-UAE management committees. Though, Board remains the ultimate responsible for the domestic and foreign branch operations and the financial stability of the Bank.

In order to effectively discharge this responsibility, the Board is assisted by various Board Committees based on their respective Board approved 'Term of Reference' (TOR), namely Board Audit Committee (BAC), Board Risk Management Committee (BMRC), Board Human Resource and Remuneration Committee (BHRRC), Board Compliance and Conduct Committee (BCNCC), Board Development Finance Committee (BDFC), Board IT Committee (BITC), Board Oversight Committee -International Governance (BOC- IG), Board Nomination and Remuneration Committee (BNRC) and Shariah Board (SB). These committees are supported by the management level committees formalized at Habib Bank Limited Pakistan which are also responsible to oversee the international operations and respective committees.

HBL-UAE management actively manages risk, primarily through the risk department with oversight by the Management Committee (MANCOM), Integrated Risk Management Committee (IRMC), Assets & Liabilities Committee (ALCO), Compliance Committee of Management (CCM), Information Technology Steering Committee (ITSC) and Branch Risk and Control Committee (BRCC). To ensure overall governance is in placed the Bank has formalized UAE Corporate Governance (UAEGC) committee based on the Board approved TOR which comprises of HBL-UAE management and HBL Pakistan members.

Risk Management Function

The Bank has a well-developed and robust risk management framework in line with the Group Risk Management and HBL-UAE local regulatory requirement which is developed and implemented based on the local operations, size and complexity, and target market diversification. The Bank's risk management framework is based on strong Board oversight, multi-tier management supervision, efficient systems, documented risk appetite, and clearly articulated policies and procedures.

The Board of Directors provides the strategic direction for effective risk management and ensures that a robust risk management framework is in place including the required human resources, policies, procedures and systems. It is supported in this task by the Board Risk Management Committee (BRMC) as well as by various management committees.

For effective implementation of the risk management framework, the Risk Management function, headed by the Chief Risk Officer (CRO), operates independently of business units within the HBL. Risk Management is responsible for the development and implementation of risk policies and for monitoring the risks associated with various activities of the Bank. The CRO reports to the President, with a functional reporting line to the BRMC.
CRO is responsible for ensure effective functioning of Risk Management and implementation of ERM framework across the bank. CRO has been delegated by the BRMC to ensure development & implementation of risk policies, processes, tools and systems, in light of regulations and best market practice. Leading risk strategy and risk appetite framework of the bank, CRO remain responsible for active contribution in key decision-making processes of the bank.

To discharge the responsibility of effective risk management, CRO ensure strong, independent and dynamic risk management function with all required financial, system and physical resources.

For international operations, CRO has a dedicated direct report Head of International & FI Risk at HBL who remain responsible for risk management implementation across international location of Habib Bank Limited. Head of Risk Management UAE monitor the overall risk profile and manage the risk function within the HBL-UAE branch in line with CBUAE requirement. To maintain the independence Head of Risk Management UAE reports to Head of International & FI Risk.

The Risk Management function comprises of the following areas:
- Credit Policy & Analytics
- Credit Approvals
- Credit Administration
- Program Based Lending Risk
- Market & Liquidity Risk Management
- Enterprise Risk Management

Due to the branch operation, some of the role remain centralized at HBL however for all local HBL UAE requirement the deliverables are oversighted by Head Risk Management UAE and Head International & FI Risk. This structure enables the knowledge enrichment and broaden the understanding consider the availability of market practices wherever can be adopted.

Risk Management Framework

The management of HBL UAE is committed to manage processes with effective risk management and compliance to ensure a viable balance sheet for long term. The Board of Directors has ultimate responsibility for setting HBL UAE risk appetite for ensuring risk is managed effectively. The Board and management foster a risk and compliance culture and follows the 'three line of defense' which ensure the segregation between risk owner, risk oversight and assurance role. Board have empowered all level employees to raise grievances, improper behavior by using whistle blowing mechanism and Operational risk incident reporting. Management is also flexible and promote suggestions to purse the Bank's strategic goals. The management believes in transparency and acknowledgement of risk and accordingly take necessary action to ensure timely risk is mitigated or managed within the Bank's approved risk appetite.

Risk Management Framework is developed to ensure a comprehensive management of risks throughout the Bank, HBL employs a risk management framework that is applicable to all levels of the organization with strong Board oversight. In 2021, a Risk Governance function has been introduced at HBL, whose role is to formulate credit policies and procedures and provide oversight related to portfolio management and automation. The Bank has strong credit management practices that include regular Early Alert Committee meetings and rapid portfolio reviews to help ensure the strength and resilience of its credit portfolio. In 2021, to strengthened usage of internal credit risk rating framework the Bank gone through Obligor Risk Rating model validation to ensure the effectiveness of models are in place and can be used effectively.

Risk management systems continued to evolve to facilitate business growth whilst limiting the effect of any residual risks. Market and liquidity risk indicators are reviewed on a monthly basis by the Market & Liquidity Risk Committee and by Global ALCO at HBL. A comprehensive structure is in place to ensure that the Bank does not exceed its tolerance for market risk. Policies and procedures are in place to govern operational risk management practices in a systematic and consistent manner. Key tools such as Risk & Control Self-Assessment, Key Risk Indicators and Operational Loss Data Management are used to gauge the likelihood and severity of operational risk incidents. The Bank's operational risk profile and fraud risk assessment are regularly shared with senior management and Board if required.

The Enterprise Risk Management (ERM) function, set up at HBL in 2020, applies to all functions within HBL, ensuring a robust and consistent approach to risk management at all levels of the organization. HBL's ERM framework outlines the components, key principles and concepts of ERM; suggests a common risk language; and provides a clear direction and guidance for integrated risk management within the Bank. This is expected to bring synergies across the various risk management components and strengthen the risk identification, monitoring and controlling mechanism across HBL including foreign branches. During the year, ERM implemented a New Product Initiative Assessment process which aims to comprehensively identify, assess and mitigate all risks within new products and services, to ensure that they are adequately addressed before launch.
Other risks are also managed by HBL under various explicit framework available which includes but not limited to Anti-Money Laundering, Information Security risk.

For Basel reporting, the Bank has adopted the Standardized Approach for credit risk and the Basic Indicator Approach for operational risk. In addition, the Bank has adopted the simple approach for recognizing eligible collateral for credit risk mitigation. The Bank's goal is to develop resources internally to embed Basel related processes and methodologies in its risk practices. The Bank follows the Standardized Approach for market risk. The Bank has various other internal tools / MIS used for risk assessment and management reporting.

Stress Testing

Stress testing is an important tool of the risk management and is considered an integral part of the ICAAP under regulatory requirement. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the Bank. Relevant factors in this concept are size of the Bank, sophistication and diversification of its activities, materiality of different risk types and the Bank's vulnerability to them.

The determination of the most plausible scenarios is based on largely qualitative analysis and includes assessing various scenarios (with a risk focus) to determine how the particular scenario and sensitivity test could disrupt Bank performance and transform competitive dynamics.

The Bank has developed the stress and sensitivity test based on qualitative analysis and expert judgment. For stressing of risks that are driven by factors internal to bank or risks that don't have any external/macroeconomic dependency, appropriate parameters are used to define mild, medium and severe stress scenarios and a sensitivity approach is used to determine and quantify the level of risk based on fixed parameters. This included developing scenarios with a risk focus to determine how the particular scenario could disrupt the Banks performance and capital position. The risks and associated capital value are aggregated together without any diversification benefit being applied and the shock / parameter sensitivity was applied independently to each risk factor, based on a top down approach with some sensitivity analysis being conducted to determine the level of shock to be applied to each risk factor independently.

2.3 Overview of RWA (OV1)

The Risk Weighted Assets (RWAs) of the Bank witnessed an increase during 2021 as compared to last year due to following:

- Increase in lending as COVID impacts in the economy subsided to an extent and
- Introduction of revised RWA standards effective June 30, 2021 in a phased manner - where the change in methodology for Credit RWA computation on derivatives went through a revamp and thereby resulted in higher RWA requirements as per Row 6 above

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		RWA		Minimum capital requirements
		2021	2020	2021
1	Credit risk (excluding counterparty credit risk)	1,993,587	1,605,132	259,166
2	Of which: standardised approach (SA)	1,993,587	1,605,132	259,166
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)	61,756	-	8,028
7	Of which: standardised approach for counterparty credit risk	61,756	-	8,028
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
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	5,436	12,997	707
21	Of which: standardised approach (SA)	5,436	12,997	707
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	126,958	146,238	16,505
24	Amounts below thresholds for deduction (subject to 250% risk weight)	23,273	32,102	-
25	Floor adjustment	-	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**2,187,737**	**1,764,367**	**284,406**

3. Linkages between financial statements and regulatory exposures

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

Below table represents each assets and liability item on the Balance sheet along with relevant treatment under capital adequacy standards:

AED '000

31 December 2021	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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
Assets							
Cash and balances with the UAE Central Bank [1]	536,962	536,962	536,962	-	-	-	-
Due from other banks [1]	72,927	72,927	72,927	-	-	-	-
Due from the Head Office and other branches [1]	62,853	62,853	62,853	-	-	-	-
Loans and advances - net [1]	1,357,918	1,357,918	1,357,918	-	-	-	-
Investment securities [1]	574,338	574,338	574,338	-	-	-	-
Customer acceptances [1]	7,480	7,480	7,480	-	-	-	-
Deferred tax asset [2]	24,861	23,274	23,274	-	-	-	1,587
Other assets [1]	53,578	53,578	53,578	-	-	-	-
Property and equipment [1 & 3]	13,117	12,359	12,359	-	-	-	758
Total Assets	**2,704,034**	**2,701,689**	**2,701,689**	**-**	**-**	**-**	**2,345**
Liabilities							
Due to other banks	159	159	-	-	-	-	159
Due to the Head Office and other branches	244,068	244,068	-	-	-	-	244,068
Customer deposits	2,110,785	2,110,785	-	-	-	-	2,110,785
Customer acceptances [4]	7,480	7,480	-	-	-	-	7,480
Other liabilities	54,610	54,610	-	-	-	-	54,610
Total liabilities	**2,417,102**	**2,417,102**	**-**	**-**	**-**	**-**	**2,417,102**

[1] All are subject to credit risk framework

[2] Deferred tax asset on unused tax losses are deducted from capital. Remaining Deferred tax assets are subject to credit risk framework (subject to threshold deductions as per Basel framework).

[3] Deducted from capital as per Basel framework

[4] These are already covered under Credit RWA per assets breakdown above.

3.2 Main sources of differences between regulatory exposure amounts and carrying values (LI2)

The below table represents each asset, liability and off-balance sheet item on the Balance sheet along with relevant treatment under capital adequacy standards:

AED '000

	31 December 2021	a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	2,701,689	2,701,689	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	2,701,689	2,701,689	-	-	-
4	Off-balance sheet amounts [1]	267,742	205,986	-	61,756	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions [2]	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**2,969,431**	**2,907,675**	**-**	**61,756**	**-**

[1] Trade contingents and commitments which are subject to credit risk framework whereas Derivatives are subject to Counterparty credit risk framework.

[2] This represents provisions and interest in suspense

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

HBLUAE being a branch in UAE, the capital return and Pillar 3 disclosures are only done for the UAE branch without any consolidation involved.

The exposure amounts subject to capital framework are as per financial statements net of Provisions and Interest in suspense as detailed in LI1 and LI2

Intangible assets, Deferred Tax Assets on unused tax losses (currently NIL for the Bank) and Deferred tax assets above certain thresholds (currently NIL for the Bank) are deducted from Capital and not considered under credit risk framework in accordance with the CBUAE Capital Adequacy Standards.

Certain on/off Balance sheet items are subject to more than one type of risk as specified in forms LI1 and LI2. Also, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into equivalent credit exposures in accordance with the CBUAE Capital Adequacy Standards.

The Credit equivalent amount for derivatives is computed based on the Standardized approach for Counterparty Credit Risk wherein the Bank calculates EAD separately for each netting set, as the sum of the Replacement Cost (RC) of the netting set plus the calculated Potential Future Exposure (PFE) for the netting set, with the sum of the two multiplied by a factor of 1.4 in accordance with the CBUAE Capital Adequacy Standards on Counterparty Credit Risk.

4. Composition of Capital

4.1 Composition of regulatory capital (CC1)

The capital base of the Bank primarily consists of office assigned capital, accumulated reserves, general provisions net of capital deductions (intangibles, deferred tax assets).

31 December 2021		AED '000 a Amounts	b CC2 reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	-	
2	Retained earnings	(114,295)	
3	Accumulated other comprehensive income (and other reserves)	21,212	
4	*companies)*	-	
5	Common share capital issued by third parties (amount allowed in group CET1)	373,072	**(a)**
6	**Common Equity Tier 1 capital before regulatory deductions**	**279,989**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles including mortgage servicing rights (net of related tax liability)	758	**(b)**
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	1,587	**(c)**
11	Cash flow hedge reserve	-	
12	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	-	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	(3,968)	
24	**Total regulatory adjustments to Common Equity Tier 1**	**(1,623)**	
25	**Common Equity Tier 1 capital (CET1)**	**281,612**	
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
27	OF which: classified as equity under applicable accounting standards	-	
28	Of which: classified as liabilities under applicable accounting standards	-	
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-	
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-	
32	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	-	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
36	CBUAE specific regulatory adjustments	-	
37	Total regulatory adjustments to additional Tier 1 capital		
38	**Additional Tier 1 capital (AT1)**	-	
39	**Tier 1 capital (T1= CET1 + AT1)**	**281,612**	

31 December 2021

AED '000

		a	b
		Amounts	**CC2 reference**
	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	25,692	
45	**Tier 2 capital before regulatory adjustments**	**25,692**	
	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)**	**25,692**	
52	**Total regulatory capital (TC = T1 + T2)**	**307,304**	
53	**Total risk-weighted assets**	**2,187,737**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	12.87%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	12.87%	
56	**Total capital (as a percentage of risk-weighted assets)**	14.05%	
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.50%	
58	**Of which: capital conservation buffer requirement**	2.50%	
59	**Of which: bank-specific countercyclical buffer requirement**	0.00%	
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	0.00%	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	3.55%	
	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
	Amounts below the thresholds for deduction (before risk weighting)		
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
66	Significant investments in common stock of financial entities	-	
67	Mortgage servicing rights (net of related tax liability)		
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
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)*	-	

4.2 Reconciliation of regulatory capital to balance sheet (CC2)

The below table is to be read in conjunction with LI1 and LI2 where each asset and liability item on the Balance sheet along with relevant treatment under capital adequacy standards is specified:

AED '000

31 December 2021	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances with the UAE Central Bank	536,962	536,962	
Due from other banks	72,927	72,927	
Due from the Head Office and other branches	62,853	62,853	
Loans and advances - net	1,357,918	1,357,918	
Investment securities	574,338	574,338	
Customer acceptances	7,480	7,480	
Deferred tax asset	24,861	23,274	**(c)**
Other assets	53,578	53,578	
Property and equipment	13,117	12,359	**(b)**
Total assets	**2,704,034**	**2,701,689**	
Liabilities			
Due to other banks	159	159	
Due to the Head Office and other branches	244,068	244,068	
Customer deposits	2,110,785	2,110,785	
Customer acceptances	7,480	7,480	
Other liabilities	54,610	54,610	
Total liabilities	**2,417,102**	**2,417,102**	
Shareholders' equity			
Allocated capital	373,072	373,072	**(a)**
Statutory reserve	22,282	22,282	
Retained earnings	(114,295)	(116,640)	
Fair value and other reserve	5,873	5,873	
Total shareholders' equity	**286,932**	**284,587**	

4.3 Main features of regulatory capital instruments (CCA)

The capital of HBLUAE branch represents the amount received from the Head Office as "Allocated capital" in accordance with the Federal Law No 2 of 2015, Decretal Federal Law no 14 of 2018 and the Minimum Capital for Banks Regulation (Circular No. 12/2021) issued by the Central Bank of the UAE ("CBUAE"). Relevant details as below:

	31 December 2021	Quantitative / qualitative information
1	Issuer	Habib Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Federal Law No 2 of 2015 Federal Law No 14 of 2018 Circular No 12/2021 of CBUAE
	Regulatory treatment	
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 373.072 million
10	Accounting classification	Assigned Capital

Item 4-6 and 11-31 are not applicable for the Bank, hence, the same has been excluded in the above template.

5. Leverage Ratio

5.1 Leverage ratio common disclosure template (LR2)

31 December 2021		AED '000
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,703,359
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-
6	(Asset amounts deducted in determining Tier 1 capital)	(2,345)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**2,701,014**
Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	6,027
9	Add-on amounts for PFE associated with *all* derivatives transactions	74,018
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)**	**80,045**
Securities financing transactions		
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
16	CCR exposure for SFT assets	-
17	Agent transaction exposures	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	-
Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	629,587
20	(Adjustments for conversion to credit equivalent amounts)	(468,097)
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)**	**161,489**
Capital and total exposures		
23	**Tier 1 capital**	**281,612**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**2,942,548**
Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.57%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**9.57%**
26	CBUAE minimum leverage ratio requirement	**3.00%**
27	**Applicable leverage buffers**	**-**

6. Liquidity

6.1 Liquidity Risk Management (LR1)

Liquidity risk is the risk that the Bank may be unable to meet its cash obligations as they become due, or to fund assets, at a reasonable cost, because of the inability to liquidate assets, or to obtain adequate funding. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Measurement of Liquidity Risk

The Bank follows a comprehensive liquidity risk management policy duly approved by the Board. The policy provides necessary guidelines for establishing a robust liquidity risk management framework which helps in identifying the key liquidity and funding risks to which the bank is exposed, describes how these risks are identified, measured, monitored and reported, and prescribes the techniques and resources used to manage and mitigate these risks. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of the Bank's liquidity under normal and crisis situations (stress testing). The Bank also has a Contingency Funding Plan in place to address liquidity issues in times of crisis. This plan identifies early warning indicators to preempt unforeseen liquidity crises. Triggers are used to ascertain potential stress scenarios.

The Bank's ALCO is responsible for the formulation of overall strategy and oversight of asset and liability management. Liquidity Risk is monitored using a range of metrics, including Eligible Liquid Assets Ratio (ELAR) and Lending to Stables Resource Ratio (LSRR); liquidity gaps and various liquidity ratios are regularly monitored by Market Risk Management. Liquidity risk is reviewed by ALCO on a monthly basis.

It is the policy of the bank to maintain adequate liquidity at all times, for all currencies and hence to be in a position, in the normal course of business, to meet all its obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitments made.

The bank uses a variety of ratios/tools to quantify liquidity risk. HBL Management monitors the same for trends and impact analysis. In addition to the liquidity gap on monthly basis, the keys measure used by the Bank for measuring liquidity risk are Eligible liquid asset ratio and the Lending to stable resources ratio (regulatory ratio's) which stood at 28.05% and 61.51% respectively as at 31st December 2021.

Additionally, the Bank uses the following ratios on a continuous basis for measuring liquidity risk, these measures are monitored internally and reported to respective committees.

- Advances to Deposit Ratio (ADR)
- Advances to Natural Funding Ratio (ANFR)
- Concentration Ratio (largest deposit ratio)

Contingency Funding Plan

The Contingency Funding Plan (CFP) is a projection of future cash flows and funding sources of the bank under a crisis. As part of liquidity management and measurement the Treasury function in collaboration with Risk Management prepares the CFP and reviews it on a periodic basis (at least annually) to identify the stress scenarios and the funding plan for such scenarios to ensure readiness for stress situation.

Below table analyses the maturities of assets and liabilities based on the remaining period at the reporting date:

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
At 31 December 2021								
Assets								
Cash and balances with the UAE Central Bank	536,962	-	536,962	-	-	-	-	536,962
Due from other banks	72,927	-	72,927	-	-	-	-	72,927
Due from the Head Office and other branches	5,187	57,666	62,853	-	-	-	-	62,853
Loans and advances	471,199	723,908	1,195,107	162,811	-	162,811	-	1,357,918
Investment securities	79,990	18,031	98,021	440,533	35,784	476,317	-	574,338
Customer acceptances	7,480	-	7,480	-	-	-	-	7,480
Deferred tax asset	-	-	-	-	-	-	24,861	24,861
Other assets	-	-	-	-	-	-	53,578	53,578
Property and equipment	-	-	-	-	-	-	13,117	13,117
Total Assets	1,173,745	799,605	1,973,350	603,344	35,784	639,128	91,556	2,704,034
Liabilities								
Borrowings from other banks	159	-	159	-	-	-	-	159
Due to the Head Office and other branches	208,271	35,797	244,068	-	-	-	-	244,068
Customer deposits	1,547,390	563,395	2,110,785	-	-	-	-	2,110,785
Customer acceptances	7,480	-	7,480	-	-	-	-	7,480
Other liabilities	-	-	-	-	5,564	5,564	49,046	54,610
Total liabilities	1,763,300	599,192	2,362,492	-	5,564	5,564	49,046	2,417,102
Net liquidity gap	(589,555)	200,413	(389,142)	603,344	30,220	633,564	42,510	286,932
Capital and reserves								
Allocated capital								373,072
Statutory reserve								22,282
Retained earnings								(114,295)
Fair value reserve								5,873
Total								286,932

6.2 Eligible Liquidity Asset Ratio (ELAR)

The following table presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

AED '000

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	344,325	
1.2	UAE Federal Government Bonds and Sukuks	94,989	
	Sub Total (1.1 to 1.2)	439,314	439,314
1.3	UAE local governments publicly traded debt securities	58,583	
1.4	UAE Public sector publicly traded debt securities	-	
	Sub total (1.3 to 1.4)	58,583	58,583
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	**Total**	**497,897**	**497,897**
2	Total liabilities		2,350,731
3	**Eligible Liquid Assets Ratio (ELAR)**		**21.18%**

The above represents simple average of 3 monthly ELAR returns as submitted to CBUAE in Q4'21.

6.3 Advances to Stable Resources Ratio (ASRR)

The following table presents the breakdown of the Bank's Advances to Stable Resources Ratio (ASRR), as per the CBUAE Liquidity Regulations.

The above represents simple average of 3 monthly ELAR returns as submitted to CBUAE in Q4'21.

AED '000

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	438,669
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	2,692
	1.4	Interbank Placements	933,946
	1.5	**Total Advances**	1,375,307
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	323,857
		Deduct:	
	2.1.1	Goodwill and other intangible assets	758
	2.1.2	Fixed Assets	12,313
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	**Total deduction**	13,071
	2.2	**Net Free Capital Funds**	310,786
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	8,769
	2.3.2	Interbank deposits with remaining life of more than 6 months	21,727
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	125,187
	2.3.5	Customer Deposits	1,721,637
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	**Total other stable resources**	1,877,319
	2.4	**Total Stable Resources (2.2+2.3.7)**	2,188,105
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**62.85**

7. Credit Risk

7.1 General qualitative information about credit risk (CRA)

Credit risk is defined as the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises from the bank's dealings with individuals, businesses, financial institutions, sovereigns etc. While loans are the largest and most obvious source of credit risk; it also stems from activities both on and off-balance sheet. In the Bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement, and other financial transactions. Alternatively, losses may result from reduction in the portfolio value due to actual or perceived deterioration in credit quality.

Credit Policy of the bank identifies the sources of credit risk in the bank's business operations in terms of business areas, product types, collateral etc. Credit Risk carries out the following main activities pertaining to credit risk management:

- Formulation of credit risk framework comprising policies, procedures, methodologies, tools and MIS etc.
- Credit Approvals as per CAA
- Management of implementation of tools for measuring credit risk (ORR, etc.) and systems

Measurement of Credit Risk

The risk identification process starts at the credit origination stage based on the underwriting rules and guidelines defined in the Credit Policy. Detailed analysis is carried out for all credit proposals originating from business functions including assessment of credit risk of the customers covering aspects such as their business operations, financials, regulatory environment, macro-economic factors etc. Credits originated under Product Programs are reviewed in line with the rules / guidelines specified in the respective Programs.

The tools used at this stage are the internal Obligor Risk Rating (ORR) framework, risk appetite approved for credit risk and regulatory requirement for Large exposure and any other regulatory requirement, as applicable.

Based on a comprehensive reporting framework, continuous monitoring of the credit portfolio and the risks attached thereto is carried out at different levels including businesses, BRR, CAD, Risk and HOK.

The monitoring mechanism includes Large exposure (Per Party), Past Due Obligation Statements, Early Warning Mechanism, Classification and Provisioning on a regular basis.

Obligor Risk Rating (ORR) Framework

The Bank has an obligor credit rating framework for borrowers. Internal Obligor Risk Rating is also being performed for externally non-rated financial institution customers.

The obligor ratings are assigned at the time of credit initiation and then reviewed on an annual basis. An interim review is carried out in case there is any material adverse change in the industry or borrower's business. A higher review frequency may be followed for borrowers on watch list or considered high-risk.

While the originating unit proposes a credit rating, the final decision on the risk rating of a particular customer rests with Credit Risk Management function. Credit Risk Management based on its credit judgment based on including but not limited to industry and/or customer outlook or on the basis of recommendation by Business Unit (with proper justification) can assign an ORR different than the derived ORR. Original approval authority (within Credit Risk Management) can approve upgrade of derived ORR by 1 notch. Two (2) or more notches upgrade can only be approved by CRO or the President in HBL Head office (Pakistan). The ratings only become effective once approved by Credit Risk Management.

Business Risk Review (BRR) reviews and validates these ratings periodically as part of their Credit Review process.

For definition of default please refer note 2.3(d) of annual financial statements.

7.2 Credit quality of assets (CR1)

AED '000

31 December 2021		a	b	c	d	e	f
		Gross carrying values of		Allowances/Impairments	for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	332,558	1,380,504	355,144	331,442	23,702	1,357,918
2	Debt securities	-	574,338	6,943	-	6,943	567,395
3	Off-balance sheet exposures	-	205,830	280	-	280	205,550
4	**Total**	**332,558**	**2,160,672**	**362,367**	**331,442**	**30,925**	**2,130,863**

7.3 Changes in stock of defaulted loans (CR2)

31 December 2021		AED '000
1	**Defaulted loans and debt securities at the end of the previous reporting period**	326,121
2	Loans and debt securities that have defaulted since the last reporting period	37,558
3	Returned to non-default status	-
4	Amounts written off	36,041
5	Other changes	4,920
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**332,558**

7.4 Additional disclosure related to the credit quality of assets (CRB)

Qualitative Disclosure

Please refer note 2.3(d) of annual financial statements where past due criteria and credit impairment is covered.

As at Dec'21, an amount of AED 9.18mn is technical overdue for more than 90 days and is not impaired. The overdue is due to non-completion of the revised security documentation however the deferment is duly approved by the syndicate and the customer is current on their interest obligation (as per the revised terms).

Quantitative Disclosure

Please refer 3.1 of annual financial statements, Concentration of risks of financial assets with credit risk exposure on page 33, Concentration of risks of financial assets with credit risk exposure on page 35 and note 30 Maturity Profile of Assets and Liabilities on page 61.

Ageing analysis of accounting past-due exposures

	AED '000
90 - 120 days	1,020
120– 180 days	2,304
Over 180 days	341,396
Total past dues	**344,720**

-

Industry analysis of accounting past-due exposures

	AED '000
Trade	184,987
Others	77,363
Transport, Storage & Communicatior	58,347
Manufacturing	23,994
Loans to Individuals/HNIs/Others	29
Grand Total	**344,720**

Geographic analysis of accounting past-due exposures

	AED '000
United Arab Emirates	272,238
Other Asia	72,482
Grand Total	**344,720**

Breakdown of restructured exposures between impaired and not impaired exposures
Restructured accounts as of Dec'21 amounts to AED 23.390 million, of which impaired is AED 22.882 million and remaining AED 0.508mn are performing.

7.5 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

The table below identifies the exposures broken down into Basel asset categories along with credit risk mitigation impacts and related RWA. The RWA density below reflects the RWA as a proportion of exposures post CCF and CRM.

AED '000

31 December 2021		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	978,512	-	978,512	-	326,903	33.4%
2	Public Sector Entities	974	-	974	-	974	100.0%
3	Multilateral development banks	-	-	-	-	-	0.0%
4	Banks	1,162,399	-	1,162,399	-	1,087,476	93.6%
5	Securities firms	-	-	-	-	-	0.0%
6	Corporates	381,879	267,742	474,819	107,450	457,943	78.6%
7	Regulatory retail portfolios	2,401	-	2,401	-	2,397	99.8%
8	Secured by residential property	2,552	-	2,552	-	893	35.0%
9	Secured by commercial real estate	75,082	-	75,082	-	75,082	100.0%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	0.0%
11	Past-due loans	344,797	-	10,298	-	14,889	144.6%
12	Higher-risk categories	-	-	-	-	-	0.0%
13	Other assets	71,051	-	71,051	-	88,786	125.0%
14	**Total**	**3,019,647**	**267,742**	**2,778,088**	**107,450**	**2,055,343**	**71.2%**

7.6 Standardised approach – exposures by asset classes and risk weights (CR5)

The table below identifies the exposures broken down by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardised approach).

AED '000

31 December 2021		a	b	c	d	e	f	g	h	i
	Risk weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	660,625	-	-	-	-	299,857	18,030	-	978,512
2	Public Sector Entities	-	-	-	-	-	974	-	-	974
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	40,314	33,906	-	18,843	-	1,065,461	3,875	-	1,162,399
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	115,305	-	-	-	-	406,826	-	60,138	582,269
7	Regulatory retail portfolios	-	-	-	-	18	2,383	-	-	2,401
8	Secured by residential property	-	-	2,552	-	-	-	-	-	2,552
9	Secured by commercial real estate	-	-	-	-	-	75,082	-	-	75,082
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	1,115	9,183	-	10,298
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	17,175	-	-	-	-	30,603	-	23,273	71,051
14	**Total**	**833,419**	**33,906**	**2,552**	**18,843**	**18**	**1,882,301**	**31,088**	**83,411**	**2,885,538**

8. Market Risk

8.1 General qualitative disclosure requirements related to market risk (MRA)

Market Risk is the risk that the value of positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

The Bank manages its market risk exposure arising due to volatility in market driven variable, such as foreign exchange rates. The Bank uses mark-to-market to assess securities and FX portfolio on daily basis.

HBL-UAE does not invest in trading portfolio therefore the Bank's portfolio is comprising of instruments which are not held with trading intent and include financial investment in debt instruments measured at fair value through other comprehensive income.

The Bank's exposure to market risk is governed by a policy approved by the Board. The policy sets out the nature of risk which may be taken. The Bank has also set Risk appetite based on the Board approved risk appetite threshold and Compliance with the Bank's risk appetite and risk limits and the Bank's exposure to market risks are reviewed at monthly meetings of ALCO and quarterly meetings of the Integrated Risk Management Committee (IRMC).

HBLUAE has a dedicated independent unit of Market Risk, to monitor the market risk profile of the Bank. Breaches of limit is reported to Senior Management and escalated as per the escalation mechanism.

Measurement of Market Risk
A detailed Market Risk Policy is in place, identifying methodologies used for measuring and managing market risk. This policy defines the risk assessment / quantification methodologies for market risk.

The Bank has separate and clear definitions of trading and investment books. Currently all activities of HBL UAE fall into the Investment/ Banking Book classification.

Trading activities which are generally restricted to FX are executed on behalf of clients on a fully hedged basis. The banks' assets are typically funded by liabilities in the same currency to eliminate foreign exchange exposure. As part of improvement of risk management monitoring FX gap limits were introduced during 2021. The market risk arising from foreign exchange activities remain insignificant for the Bank.

Market Risk Management for treasury products is performed through application of limits which includes Intraday limit, FX gap limits, Dealer limits, Net Open Position Limit and Earnings at Risk Limit.

The Bank uses a range of risk measurement metrics to monitor and manage the risks that the business is exposed to such as Value-at-Risk (VaR) for FX portfolio, Sensitivity stress tests, Sensitivity measures including Interest Sensitivities (DV01) and PVBP.

8.2 Market risk under the standardised approach (MR1)

The following table provides the components of capital requirement under the standardized approach for market risk:

	31 December 2021	AED '000 RWA
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	5,436
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	
8	Securitisation	-
9	**Total**	**5,436**

9. Interest Rate Risk in the banking book (IRRBB)

9.1 IRRBB risk management objectives and policies (IRRBBA)

Interest Rate Risk in Banking Book refers to the risk of loss in earnings or economic value of the Bank's Banking book because of movement in interest rate. The Bank analyze its profit rate risk in banking books in line with the following categories.

- **Re-pricing risk:** this risk refers to the loss in the earnings or economic value due to the changes in the overall level of interest rates. This risk arises due to the mismatch in the re-pricing dates of the Banking book assets and liabilities.

- **Yield curve risk:** this risk refers to the loss in earnings and economic value of the book caused by the change in the relative levels of interest rate of different tenors. This risk also arises due to the mismatch in the re-pricing of the Banking book assets and liabilities.

- **Repricing gap:** The bank monitor repricing gap on monthly basis and the same is also presented and discussed as part of ALCO monitoring. While preparing repricing gap certain assumptions are utilized including non-rate sensitive assets are excluded the assets and liabilities are grouped into the time intervals. The Bank's gap is used in obtaining the difference between rate sensitive assets and rate sensitive liabilities, which is used to obtain the interest rate risk impact. NII is being assessed as part of this assessment.

- **Economic value approach:** this approach is used to analyze the dynamic behavior of economic value of equity with response to varying interest rate shock. Economic value of asset and economic value of liability is assessed to determine the next impact on economic value of equity due to change in interest rate risk.

Interest Rate Risk on Banking Book arises due to the mismatch in maturity or repricing of assets and liabilities. Banking Book is defined as the bank's structural position and includes all positions (assets and liabilities) excluding trading portfolio. Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings or economic value of the Bank's Banking Book as a consequence of movement in interest rates. Rate Sensitive Assets and Liabilities can be defined as balance sheet items the values of which are sensitive to interest rate movements. Hence, their values can be affected favorably or adversely with changes in interest rates therefore Rate Sensitive Gaps is a tool used to assess a bank's exposure to interest rate movement. The Banks uses Earning at Risk and Economic Value of Equity to measure and monitor the interest rate risk. Risk Management is monitoring on monthly basis to ensure necessary action can be taken in case of any concern arises.

Measurement of Interest Rate Risk in Banking Book
The Bank uses the following tools for measuring and monitoring interest rate risk on the banking book. The analysis is performed at least on a monthly basis. The analysis helps in estimating and managing the impact of interest rate volatility on the Bank's earnings and on the economic value of equity within the regulatory threshold.

Economic Value of Equity (EVE)
Variation in market interest rates can affect the economic value of a bank's assets and liabilities. During 2021 the Bank adopted the IRRBB guideline and adopted the six-stress scenario and the models were validated. Six shocks scenarios are as follows:

a. Parallel shock up (+200bps)
b. Parallel shock down (-200bps)
c. Steepening of curve / shock (short rates down and long rate up)
d. Flattening of curve/ shock (short rates up and long rates down)
e. Short rates shock up
f. Short rates shock down

This approach analyzes the dynamic behavior of economic value of equity with response to varying interest rate scenarios. The EVE is the difference between the economic value of assets and economic value of liabilities in response to a change in the interest rate.

Earnings-at-Risk (EAR)

EAR measure is used to identify the impact of changes in profit rate on accrual earnings. This is the traditional approach to interest rate risk on the Banking Book. The Board has setup the limit based on the impact of a basis points change in interest rates to the earnings of the bank over a one-year horizon.

9.2 Repricing maturity assigned to non-maturity deposits (NMD) (IRRBBA1)

- Average repricing maturity assigned to NMDs is 3.098 years
- Longest repricing maturity assigned to NMDs is 10 years.

9.3 Quantitative information on IRRBB (IRRBB1)

In reporting currency (AED '000)	ΔEVE	ΔNII
Period		
Parallel up	2,127	18,499
Parallel down	(6,613)	(18,499)
Steepener	30,881	
Flattener	(9,225)	
Short rate up	(20,485)	
Short rate down	20,875	
Maximum	(20,485)	
Period	**T**	**T-1**
Tier 1 capital	281,612	

10. Operational Risk

10.1 General qualitative information on a bank's operational risk

The Basel committee defines Operational risk as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has also adopted the same definition in line with Basel committee and CBUAE requirement. Operational Risks may arise out of employee, customer or third-party frauds, natural disasters, technology failures, process breakdowns, unethical business practices etc. Operational risk is an integral part of any business or activity. All organizations (including banks) assume operational risk and try to manage it in one form or the other. Banks have the potential of facing huge losses arising from operational risk due to their nature of business. Operational risk spans across the whole bank. The Bank has adopted 'Sound Practices for the Management and Supervision of Operational Risk' and Basel Operational risk guideline which supports the Bank and strengthen Operational Risk Management processes and complies with CBUAE Operational Risk Management guideline.

Measurement of Operational Risk

Operational Risk Management is housed within Risk Management and a comprehensive ORM Framework is in place which address all the significant aspects of ORM i.e. people, processes, systems and external events. The Bank has adopted operational risk tools which includes loss data management, Risk and Control Assessments and Key Risk Indicators (KRIs). Operational Risk Coordinators have been assigned from all relevant departments of the Bank and are responsible for implementation of the Framework in coordination with the Risk Management department. The Bank uses the Basic Indicator Approach (BIA) under Basel. Key ORM tools such as Risk Control Self-Assessment (RCSA), KRIs and Operational Loss Data are used to gauge the likelihood and severity of operational risk. The Bank uses stress testing to proactively assess impacts to the bank. RCSA exercises are conducted at regular intervals across the Bank. Operational risk reports are regularly submitted to the senior management at HBL.

The total capital requirement for Operational Risk as at 31 December 2021 is AED 16.5 million.

11. Remuneration Policy

11.1 Remuneration Policy (REMA)

Introduction

The remuneration policy for HBLUAE (the "Bank") is consistent with the approach for Habib Bank Limited (the "Group") and is aligned with the remuneration regulations in the UAE and in the Pakistan where the Group is headquartered.

HBL Management is committed to provide a total compensation package that enables the Bank to attract and retain highly skilled, talented and motivated employees for all positions. Our goal is three-fold:

- To compete for qualified staff in an evolving environment,
- To pay employees equitably and fairly
- To be fiscally responsible

Additionally, Risk aligned remuneration methodology exists to evaluate and reward employees whilst enhancing individual accountability and mitigate risks associated with the decisions undertaken based on the job assigned. In UAE, we ensure that bank's remuneration policies, standards and practices are aligned to the Corporate Governance Regulations and Standards of the Central Bank of the UAE.

Board Human Resources & Remuneration Committee (BHR&RC) has the responsibility for setting the remuneration policy principles, overseeing implementation of the remuneration policy and overseeing the remuneration of all employees.

Disclosures

The qualitative disclosures in relation to the Bank's remuneration policy are set out below in accordance with the template issued by the Central Bank of the UAE.

A. Information relating to the bodies that oversee remuneration		
A1	Name of the Board	As there is no Board in UAE, oversight of the Bank's remuneration policy is therefore provided by Board Human Resources & Remuneration Committee (BHR&RC), which is a Board level committee of the Group.
A2	Composition of the Board	The committee comprises of 3 members including Chairman appointed by the Board. Members are non-executive directors preferably independent directors. The Committee is supported by Functional Head, Human Resources.
A3	Mandate of the Board	The BHR&RC has independent oversight and control to review and recommend HR policies and strategies to be approved by the Board including policies related to remuneration and reward practices as well as career & developmental plans.
A4	Scope of the Bank's remuneration policy, including the extent to which it is applicable to foreign subsidiaries and branches	The Group's remuneration policy applies globally, across all branches and subsidiaries. In some instances, local variations to Group policies do exist. However, where this happens, HBL always aims to align with the local regulations.
A5	Types of employees considered as Material Risk Takers and Senior Managers	The Risk Aligned Remuneration framework identifies employees who are either responsible for material risk taking or risk controlling activities within the Bank based on the defined qualitative and quantitative criteria as approved by the Board. The criterion applied identifies employees as either 'Material Risk Takers' (MRTs) or 'Material Risk Controllers' (MRCs) based on the job position, role, decision making authority and Scope / portfolio of responsibility.

B. Information relating to the design and structure of remuneration processes		
B1	Overview of the key features and objectives of remuneration policy	The remuneration policy provides guidance over remuneration approach, decisions and governance. Overall, remuneration policy is designed to: ▪ Reward performers over the long-term, whilst avoiding excessive and unnecessary risk-taking, and ▪ Promote sound and effective risk management through remuneration structures Additionally, in order to support the attraction, retention and motivation of a diverse, future-ready workforce to deliver on our purpose, long-term strategy and shareholder returns, BHR&RC sets out the principles we use to make remuneration decisions that are fair, transparent and competitive in order to support us in embedding a performance-oriented, inclusive and innovative culture and in delivering a differentiated employee experience.
B2	Review of Remuneration Policy	There were no changes made to the remuneration policy during the past year by the Board HR&RC.
B3	Remuneration of Risk and Compliance Employees	The fixed remuneration of employees in Control Functions (including Compliance, Internal Audit and Risk) reflects the skills and experience of each individual and is reviewed annually, considering market information, the individual's performance and affordability. Reporting hierarchy and compensation decisions of control functions are independent of the UAE business and managed directly by Head Office in Pakistan. The methodology ensures that employees in Control Functions are remunerated in accordance with the achievement of objectives linked to their functions. Overall, the remuneration approach and structure of employees in Control Functions is in line with market practice to attract and retain talent.

C. Ways in which current and future risks are taken into account in the remuneration processes		
C1	Overview of the key risks	The remuneration approach is designed to promote sound risk management by aligning employee incentives with the longer-term interests of the Bank, taking into account the timeframe over which financial risks crystallize. Good conduct and the demonstration of appropriate behaviors are rewarded. The banks face a number of incremental risks in its operations arising from the impact of COVID-19 and the resultant working arrangements. General risk and control issues include Technology risk, Operational Risk, data privacy and data sovereignty issues, and risk management culture.
C2	Measurement of risks and impact on Remuneration	To implement a risk aligned remuneration framework in a transparent manner, risk adjusted performance scorecards have been defined for each MRT & MRC that assists not only

		in tracking performance accomplishments but also for managing risks associated with performance decisions. The methodology for payment of variable performance bonus has also been aligned to enhance accountability based on performance and the time horizon of risks associated with the decisions. Below are some of the key features of risk aligned remuneration policy: - 30% of the annual performance bonus will be deferred for a period of three subsequent years to be paid proportionally on annual basis i.e. 33% of deferred bonus to be paid on annual basis. - The deferral methodology is implemented for employees at General Manager level or those classified as MRTs/MRCs. Clawback and Malus has also been made part of the policy guidelines whereby in case of any adverse risk incident attributable to the employee may negatively impact the performance bonus deferred or earned depending on the materiality and severity of the incident.

D. Ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration		
D1	Overview of main performance metrics for bank, top-level business lines and individuals	At a Bank and business level, balanced scorecards play an integral role in evaluating the performance that determines the discretionary variable remuneration. The scorecards take into consideration financial and non-financial targets, including those related to conduct and remediation programs. This incentivizes improvements in shareholder returns whilst ensuring that returns are not generated by excessive risk-taking. Measures in the scorecards are determined in alignment with the Bank's strategy. At an individual level, we have a clearly defined performance management framework where employees have objectives aligned with our strategy.
D2	Linking Individual Remuneration with Bank-wide and Individual Performance	The overall remuneration decisions are made on the basis of Bank wide accomplishments and are approved by the Board, HR&RC for implementation. In line with our Pay for Performance philosophy, the annual revision in remuneration & variable reward is directly linked to the overall Banks and Units performance as well as individual performance accomplishment, employee's grade and their compensation positioning in comparison to others in that grade.
D3	Measures to adjust Remuneration in the event of weak Performance Metrics	The Bank has a performance measurement system which rates every employee on a scale of 1 to 5 (where 1 being the lowest and 5 being the highest) based on their performance accomplishments. The annual remuneration decisions are made based on the performance ranking of each employee as well as unit and Bank wide performance.

		Furthermore, the performance for MRTs and MRCs is negatively impacted, whereby in case of any adverse risk incident attributable to the employee may negatively impact the performance bonus deferred or earned depending on the materiality and severity of the incident.

E. Ways in which the bank seeks to adjust remuneration to take account of longer-term performance		
E1	Bank's policy on deferral and vesting of variable remuneration	As per Bank's policy, employee's compensation & reward structure is linked not only to his/her individual performance but also with the overall performance of the Bank. Risk Aligned Remuneration policy further enhances accountability by identifying material risk takers and material risk controllers in the Bank. Furthermore, based on the policy guidelines, a portion of the variable pay of all General Managers and for MRTs/ MRCs would be deferred for a period of 3 years to be vested equally on annual basis. Clawback and Malus has also been made part of the policy guidelines whereby in case of any adverse risk incident attributable to the employee may negatively impact the performance bonus deferred or earned depending on the materiality and severity of the incident.

F. Different forms of variable remuneration that the bank utilizes and the rationale for using these different forms		
F1	Different forms of variable Remuneration	The Bank currently employs the concept of variable pay in the form of performance bonus which is paid out as a cash reward.

11.2 Remuneration awarded during the financial year (REM1)

AED '000

	Remuneration Amount		**Senior Management**
1	Fixed Remuneration	Number of employees	1
2		Total fixed remuneration (3 + 5 + 7)	1,366
3		Of which: cash-based	1,366
4		Of which: deferred	-
5		Of which: shares or other share-linked instruments	-
6		Of which: deferred	-
7		Of which: other forms	-
8		Of which: deferred	-
9	Variable Remuneration	Number of employees	1
10		Total variable remuneration (11 + 13 + 15)	334
11		Of which: cash-based	334
12		Of which: deferred	37
13		Of which: shares or other share-linked instruments	-
14		Of which: deferred	-
15		Of which: other forms	-
16		Of which: deferred	-
17	**Total Remuneration (2+10)**		**1,700**