Habib Bank Limited, United Arab Emirates

Pillar III Disclosures

As of June 30, 2022

TABLE OF CONTENTS

Page

1. Introduction and overview ... 3
   1.1 Applicability of Pillar III disclosure templates ... 3
2. Overview of Risk Management and RWA ... 4
   2.1 Key metrics (KM1) ... 4
   2.2 Bank risk management approach (OVA) ... 5
   2.3 Overview of RWA (OV1) ... 8
3. Composition of Capital ... 9
   3.1 Composition of regulatory capital (CC1) ... 9
   3.2 Reconciliation of regulatory capital to balance sheet (CC2) ... 11
   3.3 Main features of regulatory capital instruments (CCA) ... 11
4. Leverage Ratio ... 12
   4.1 Leverage ratio common disclosure template (LR2) ... 12
5. Liquidity ... 13
   5.1 Eligible Liquidity Asset Ratio (ELAR) ... 13
   5.2 Advances to Stable Resources Ratio (ASRR) ... 13
6. Credit Risk ... 14
   6.1 General qualitative information about credit risk (CRA) ... 14
   6.2 Credit quality of assets (CR1) ... 15
   6.3 Changes in stock of defaulted loans (CR2) ... 15
   6.4 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4) ... 15
   6.5 Standardised approach – exposures by asset classes and risk weights (CR5) ... 16
7. Market Risk ... 17
   7.1 General qualitative disclosure requirements related to market risk (MRA) ... 17
   7.2 Market risk under the standardised approach (MR1) ... 17

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 (2021: 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 (2021: 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

		Jun 30, 2022	Mar 31, 2022	Dec 31, 2021
	Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	218,559	243,141	281,612
1a	Fully loaded ECL accounting model	215,583	240,165	277,644
2	Tier 1	218,559	243,141	281,612
2a	Fully loaded ECL accounting model Tier 1	215,583	240,165	277,644
3	Total capital	239,004	265,733	307,304
3a	Fully loaded ECL accounting model total capital	236,028	262,757	303,336
	Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	1,770,430	1,938,258	2,187,737
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	12.34%	12.54%	12.87%
5a	Fully loaded ECL accounting model CET1 (%)	12.18%	12.39%	12.69%
6	Tier 1 ratio (%)	12.34%	12.54%	12.87%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.18%	12.39%	12.69%
7	Total capital ratio (%)	13.50%	13.71%	14.05%
7a	Fully loaded ECL accounting model total capital ratio (%)	13.33%	13.56%	13.87%
	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.00%	3.21%	3.55%
	Leverage Ratio			
13	Total leverage ratio measure	2,576,954	2,589,672	2,942,548
14	Leverage ratio (%) (row 2/row 13)	8.48%	9.39%	9.57%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	8.37%	9.27%	9.44%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.48%	9.39%	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	727,162	555,477	676,746
22	Total liabilities	2,143,005	2,115,581	2,412,331
23	Eligible Liquid Assets Ratio (ELAR) (%)	33.93%	26.26%	28.05%
	ASRR			
24	Total available stable funding	1,985,799	1,963,021	2,189,900
25	Total Advances	1,186,503	1,249,392	1,346,923
26	Advances to Stable Resources Ratio (%)	59.75%	63.65%	61.51%

**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 June 30, 2022 in comparison to March 31, 2022 reduced by 21 bps mainly due to increase in unrealized loss by AED 25 million on FVOCI securities; however, remained above the regulatory requirement of 13% (including 2.5% capital conservation buffer).

The Bank's leverage ratio requirement remains comfortably above the minimum 3%. Liquidity ratios (ELAR and ASRR) also remain well-buffered.

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 to 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 operations, 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. The management believes in transparency and acknowledgement of risk and accordingly take necessary action to ensure risk is mitigated or managed timely, 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.

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 a decrease during Q2 ‘22 as compared to last quarter due reduction in funded advances.

AED '000

		RWA		Minimum capital requirements
		Jun 30, 2022	Mar 31, 2022	Jun 30, 2022
1	Credit risk (excluding counterparty credit risk)	1,585,868	1,746,315	206,163
2	Of which: standardised approach (SA)	1,585,868	1,746,315	206,163
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)	49,693	61,040	6,460
7	Of which: standardised approach for counterparty credit risk	49,693	61,040	6,460
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	7,911	3,945	1,028
21	Of which: standardised approach (SA)	7,911	3,945	1,028
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	126,958	126,958	16,505
24	Amounts below thresholds for deduction (subject to 250% risk weight)	21,402	22,684	2,782
25	Floor adjustment	-	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**1,770,430**	**1,938,258**	**230,156**

3. Composition of Capital

3.1 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).

	30 June 2022	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	(114,297)	
3	Accumulated other comprehensive income (and other reserves)	(40,859)	
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**	**217,916**	
	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)	746	**(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	(2,976)	
24	**Total regulatory adjustments to Common Equity Tier 1**	**(643)**	
25	**Common Equity Tier 1 capital (CET1)**	**218,559**	
	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)**	**218,559**	

30 June 2022		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	20,445	
45	**Tier 2 capital before regulatory adjustments**	**20,445**	
	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)**	**20,445**	
52	**Total regulatory capital (TC = T1 + T2)**	**239,004**	
53	**Total risk-weighted assets**	**1,770,430**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	12.34%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	12.34%	
56	**Total capital (as a percentage of risk-weighted assets)**	13.50%	
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.**	3.00%	
	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)*	-	

3.2 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

30 June 2022	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	489,348	489,348	
Due from other banks	38,600	38,600	
Due from the Head Office and other branches	26,646	26,646	
Loans and advances - net	1,134,146	1,134,146	
Investment securities	575,636	575,636	
Customer acceptances	9,938	9,938	
Deferred tax asset	22,989	21,402	**(c)**
Other assets	62,506	62,506	
Property and equipment	11,799	11,053	**(b)**
Total assets	**2,371,608**	**2,369,275**	
Liabilities			
Due to other banks	504	504	
Due to the Head Office and other branches	146,428	146,428	
Customer deposits	1,930,900	1,930,900	
Customer acceptances	9,938	9,938	
Other liabilities	59,897	59,897	
Total liabilities	**2,147,667**	**2,147,667**	
Shareholders' equity			
Allocated capital	373,072	373,072	**(a)**
Statutory reserve	22,282	22,282	
Retained earnings	(113,648)	(115,981)	
Fair value and other reserve	(57,765)	(57,765)	
Total shareholders' equity	**223,941**	**221,608**	

3.3 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:

	30 Jun 2022	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.

4. Leverage Ratio

4.1 Leverage ratio common disclosure template (LR2)

AED '000

		Jun 30, 2022	Dec 31, 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,370,931	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)	(2,333)	(2,345)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**2,368,598**	**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)	15,168	6,027
9	Add-on amounts for PFE associated with *all* derivatives transactions	72,221	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)**	**87,389**	**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	738,081	629,587
20	(Adjustments for conversion to credit equivalent amounts)	(617,114)	(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)**	**120,967**	**161,489**
Capital and total exposures			
23	**Tier 1 capital**	**218,559**	**281,612**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**2,576,954**	**2,942,548**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**8.48%**	**9.57%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**8.48%**	**9.57%**
26	CBUAE minimum leverage ratio requirement	**3.00%**	**3.00%**
27	**Applicable leverage buffers**	**-**	**-**

5. Liquidity

5.1 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	312,093	
1.2	UAE Federal Government Bonds and Sukuks	294,990	
	Sub Total (1.1 to 1.2)	607,083	607,083
1.3	UAE local governments publicly traded debt securities	54,900	
1.4	UAE Public sector publicly traded debt securities	-	
	Sub total (1.3 to 1.4)	54,900	54,900
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	**Total**	**661,983**	**661,983**
2	Total liabilities		2,135,097
3	**Eligible Liquid Assets Ratio (ELAR)**		**31.00%**

The above represents simple average of 3 monthly returns submitted to CBUAE from April '22 to June '22.

5.2 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.

AED '000

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	379,992
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	2,001
	1.4	Interbank Placements	812,752
	1.5	**Total Advances**	1,194,745
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	260,845
		Deduct:	
	2.1.1	Goodwill and other intangible assets	763
	2.1.2	Fixed Assets	11,270
	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**	12,033
	2.2	**Net Free Capital Funds**	248,812
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	4,058
	2.3.2	Interbank deposits with remaining life of more than 6 months	-
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	93,844
	2.3.5	Customer Deposits	1,610,170
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	**Total other stable resources**	1,708,071
	2.4	**Total Stable Resources (2.2+2.3.7)**	1,956,883
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**61.05**

The above represents simple average of 3 monthly returns submitted to CBUAE from April '22 to June '22.

6. Credit Risk

6.1 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. The originating business unit proposes a credit rating, however the final decision rests with Credit Risk Management function, which has the authority to override the risk rating based on its credit judgment, including but not limited to industry and/or customer outlook, management risk etc.

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.

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.

6.2 Credit quality of assets (CR1)

AED '000

30 June 2022		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	334,351	1,158,563	358,768	333,386	25,382	1,134,146
2	Debt securities	-	575,636	5,376	-	5,376	570,260
3	Off-balance sheet exposures	-	192,823	167	-	167	192,656
4	**Total**	**334,351**	**1,927,022**	**364,311**	**333,386**	**30,925**	**1,897,062**

6.3 Changes in stock of defaulted loans (CR2)

30 June 2022		AED '000
1	**Defaulted loans and debt securities at the end of the previous reporting period**	332,558
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	-
5	Other changes	1,793
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**334,351**

6.4 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

30 June 2022		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	949,928	-	949,928	-	248,338	26.1%
2	Public Sector Entities	738	-	738	-	738	100.0%
3	Multilateral development banks	-	-	-	-	-	0.0%
4	Banks	919,583	-	919,583	-	849,234	92.3%
5	Securities firms	-	-	-	-	-	0.0%
6	Corporates	387,658	242,431	476,273	52,503	431,564	81.6%
7	Regulatory retail portfolios	3,081	-	3,081	-	3,078	99.9%
8	Secured by residential property	2,233	-	2,233	-	782	35.0%
9	Secured by commercial real estate	-	-	-	-	-	0.0%
10	Equity Investment in Funds (EIF)	-	-	-	-	7,639	0.0%
11	Past-due loans	337,407	-	963	-	963	100.0%
12	Higher-risk categories	-	-	-	-	-	0.0%
13	Other assets	87,773	-	87,773	-	93,225	106.2%
14	**Total**	**2,688,401**	**242,431**	**2,440,572**	**52,503**	**1,635,561**	**65.6%**

6.5 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

30 June 2022		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	701,590	-	-	-	-	248,338	-	-	949,928
2	Public Sector Entities	-	-	-	-	-	738	-	-	738
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	33,794	24,484	-	37,210	-	820,821	3,274	-	919,583
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	88,556	-	-	-	-	382,511	-	57,709	528,776
7	Regulatory retail portfolios	-	-	-	-	12	3,069	-	-	3,081
8	Secured by residential property	-	-	2,233	-	-	-	-	-	2,233
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	963	-	-	963
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	26,651	-	-	-	-	39,720	-	21,402	87,773
14	**Total**	**850,591**	**24,484**	**2,233**	**37,210**	**12**	**1,496,160**	**3,274**	**79,111**	**2,493,075**

7. Market Risk

7.1 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. Compliance with the Bank's risk appetite and risk limits along with the Bank's exposure to market risk 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, 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 and PVBP.

7.2 Market risk under the standardised approach (MR1)

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

		AED '000
30 June 2022		**RWA**
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	7,911
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	
8	Securitisation	-
9	**Total**	**7,911**