



# SHARJAH ISLAMIC BANK

## Pillar III Disclosure

30<sup>th</sup> September 2023

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## 1) Overview of Risk Management

### 1.1. Introduction & basis of preparation

The purpose of the document is to fulfil regulatory disclosure requirements based on the revised Basel Banking framework commonly known as "International regulatory framework or Basel III Accord". The "Basel III" framework contains capital requirements for credit risk (including credit risk mitigation techniques), operational risk and market risk.

### 1.2. Scope of pillar 3 disclosures:

The Basel banking framework contains three main pillars:

- Pillar 1 -Minimum quantitative (capital) requirements
- Pillar 2- Supervisory Review Process.
- Pillar 3-Disclosure requirements in order to reach market discipline by transparency to the public

### 1.3. Summary of Basel 3 requirements

The Bank complies with the Basel III standards and guidance notes, which have been implemented in the UAE. Basel regulation has evolved to comprise three pillars concerned with minimum capital requirements (Pillar 1), supervisory review (Pillar 2), and market discipline (Pillar 3).

**Pillar 1:** The first Pillar deals, amongst other things, with the minimum capital requirements. Capital requirements are to be calculated for credit risk, market risk and operational risk. The capital charge for each risk category has to be calculated using an approach that is suitable and sufficient for the individual bank.

**Pillar 2:** Pillar 2 constitutes risks that are not covered under Pillar 1 assessment. Risk management best practices are at the heart of Pillar 2. Banks must undertake an ICAAP (Internal Capital Adequacy Assessment Process) that looks at all risks to which the bank is exposed. ICAAP allows bank and supervisors to assess on whether the bank is required to hold additional capital to cover the three Pillar 1 risk types or to cover other risks.

**Pillar 3:** Pillar 3 includes a set of disclosure requirements, which are intended to improve the ability of market participants to assess banks' risk management processes, capital structures & adequacy, and exposures. This transparency is designed to incentivize banks to implement sound and robust risk management frameworks.



#### 1.4. Significant capital adequacy, liquidity and funding related disclosure requirements

Capital adequacy, funding, liquidity and related disclosures in Pillar 3 report has been prepared in accordance with Central Bank of UAE Pillar 3 disclosure requirements as stipulated in Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSD/N/2022/5280 dated 30 December 2022) and Explanatory Notes on Pillar 3 Disclosure requirements, the underlying BCBS guidance "updated Pillar 3 disclosure requirements" issued in May 9 2022.

**This report should be read in conjunction with the risk disclosures in audited financial statements.**

#### 1.5. Sharjah Islamic Bank (SIB) approach to pillar 1.

- **Credit risk:** the Bank uses the standardised approach for calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit-rating agencies wherever available in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors.
- **Market risk:** the Bank uses the standardised approach for calculating regulatory market risk capital requirements.
- **Operational risk:** the Bank uses basic Indicator approach (BIA) for computing capital requirements for operational risk. Bank's operational risk is estimated as a percentage (alpha factor 15%) of the gross income (calculated as the average of the previous three financial years).

#### 1.6. Minimum capital requirement

CBUAE Requirement	CBUAE Requirement
CET 1 must be at 7.0% of Risk Weighted Assets (RWA)	7.0%
Tier 1 Capital must be at least 8.5% of RWA	8.5%
Total capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA	10.5%
In addition to the minimum CET1 capital of 7.0% of RWA, bank must maintain a Capital Conservative Buffer (CCB) of 2.5% of RWAs in the form of CET1 capital	2.5%
Countercyclical Buffer (CCyB) requirement will vary between 0% to 2.5% of RWA and be communicated by the Central Bank with an adequate notice period.	0 to 2.5%
Minimum Capital Required (Total Capital + Capital Conservative Buffer) = 10.5% + 2.5%	13%



### 1.7. Basis of consolidation

The Bank's Pillar 3 disclosures are presented on a consolidated basis incorporating all its subsidiaries excluding commercial entities. In accordance with paragraph 825 of International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee, general disclosures of credit risk provided in this report have a wide range of information about overall credit exposure and may not be necessarily based on information prepared for regulatory purposes.

### 1.8. Internal controls and verification

The key features of internal controls around Pillar 3 reporting are as follows:

- Segregation of duties – maker-checker process is strictly followed in compiling Pillar 3 report;
- Data-sourcing and reconciliation – data is sourced from multiple systems which are reconciled with the general ledger, sub ledgers and audited financial statements;
- Reviews – Pillar 3 report undergoes several rounds of reviews by Finance and Risk functions;
- Internal audit – Internal audit provides independent and objective assurance of disclosures in Pillar 3 report.
- Attestation is obtained from Senior Management that Pillar 3 report has been prepared in accordance with the board-agreed internal control policies and procedures.

### 1.9. Ownership

Some of the major shareholders above 5% mentioned below

Shareholder	Percentage
Sharjah Asset Management LLC	28.46
Kuwait Finance House	18.18
Sharjah Social Security Fund	9.09

### 1.10. Board

The Board of Directors ('the Board') is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within the set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by Board Committees and Management Committees.

### 1.11. Executive Committee (EC) of the Board of Directors

The Executive Committee is one of the Board committees formed to assist the Board in achieving its strategic and operational objectives. The Committee assists the Board of Directors in fulfilling its responsibilities as follows:



- The Committee has the power to approve credit and investment facilities, within the financing authority delegated to it by the Board.
- To appoint independent legal and financial advisors as needed.
- Approve the Bank's IT Budget, Capital expenditure, and financial facilities within the limits delegated to it.
- Presenting issues to the Board of Directors based on the recommendations of senior management in addition to submitting relevant proposals to the Board of Directors when necessary to obtain the necessary approvals.

#### **1.12. Group Audit Committee (GAC)**

The Board of Directors is responsible for adopting and applying the prudent governance approach of the Bank and its subsidiaries. To achieve these objectives, the board has formed the Group Audit Committee and set the general framework for that committee to enable it to effectively exercise its duties and supervisory role.

This committee reports directly to the Board of Directors and submits the necessary reports to it as a supportive function to the Bank's Board of Directors with regard to its supervisory responsibility towards financial reports, the internal control system, the group's internal audit, external audit, Sharia audit, compliance with laws, legislation, and rules of professional and ethical conduct.

#### **1.13. Group Board Risk Committee (GBRC)**

The BRC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Group and the control processes with respect to such risks;
- Reviewing the risk profile of the Group;
- Managing the Risk Management Compliance and control activities of the Group;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the Group is exposed.

#### **1.14. Board Nomination & Compensation Committee (BNCC)**

The Nominations and Compensation Committee is one of the committees emanating from the Bank's Board of Directors. The following are the main tasks entrusted to the Nominations and Remunerations Committee:

- Oversee the process of appointing qualified individuals to become members of the Board of Directors at the annual general meeting of shareholders and assist the Board of Directors in selecting candidates for senior management positions.



- Assist the Board of Directors in approving remunerations for senior management and oversee the development and operation of the remuneration policies, system and related oversight process.
- Assisting the Board of Directors in the annual self-evaluation of the Board and the independent evaluation by an external party, which includes the performance of the Board of Directors, its members and committees in the Bank and the Bank's remuneration system.

#### 1.15. Management Committee (MANCOM)

The purpose of the Management Committee (**MANCOM**) is to:

- Act as a management tool and decision making executive body of the Bank, involving the requirements and development relating to all areas across the Bank.
- Facilitate in reviewing, formulating, evaluating and providing meaningful decisions on critical issues which are or may impact our organization.
- Monitor timely execution of all such mandated initiatives and problem resolutions so as to periodically measure our collective success.
- Ensuring every member actively participates in cross-functional discussions on issues not directly related to one's own area of operation with a basic purpose of raising and addressing issues which are important from a group wide perspective.

#### 1.16. Investment Committee (IC)

The purpose of the IC is to review the quality of the Group's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

#### 1.17. IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans





### 1.18. Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

### 1.19. Information Security Working Group Committee (ISWGC)

The purpose of the Information Security Working Group Committee (ISWGC) is to ensure that there is clear direction and visible management support for information security initiatives. The committee shall be responsible for the following:

- To provide oversight of information security policies, procedures, plans, and execution intended to provide confidentiality, availability, and integrity of the information.
- To formulate the tasks related to Information Security Management System (ISMS) rollout like Risk Management, Policy and Procedure Deployment, Information Security Awareness, Information Security Incident Monitoring, Measurement of control effectiveness, etc.
- To oversee the effectiveness of the information security controls with respect to its information systems, including network security and data security.
- To monitor the significant development in information security related projects, incidents handling and risk mitigation.
- To review the changes to significant threats and exposures of information assets against cyberattacks, insider activity, error or control failure.

### 1.20. Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the finances portfolio and the sufficiency of provisions thereof.

### 1.21. Disciplinary Committee (DC)

DC reviews all the cases in the bank and its subsidiaries of alleged misconduct of staff members and to endorse disciplinary action in the event of any violation.

### 1.22. Group Enterprise Risk Management (GERM)

In order to manage credit, market, operational and IT security risks, GERM is in place. Its role includes the following:

- Develop a strategy, policy framework for risk management such that these are aligned with business requirements;
- Provide support to the Group in implementation of the framework;
- Bring together analysis of risk concentrations and sensitivities across the Group;
- Act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.





2) Key Metrics (at Consolidated Group Level) and RWA – (KM1)

		a	b	c	d	e
		Q3 / 2023	Q2 / 2023	Q1 / 2023	Q4 / 2022	Q3 / 2022
	<b>Available capital (amounts) -</b>	<b>AED 000</b>				
<b>1</b>	Common Equity Tier 1 (CET1)	6,010,969	5,759,622	5,643,411	5,525,983	5,788,412
<b>1a</b>	Fully loaded ECL accounting model	5,938,567	5,690,783	5,530,571	5,368,690	5,692,429
<b>2</b>	Tier 1	7,847,469	7,596,122	7,479,911	7,362,483	7,624,912
<b>2a</b>	Fully loaded ECL accounting model Tier 1	7,775,067	7,527,283	7,367,071	7,205,190	7,528,929
<b>3</b>	Total capital	8,345,008	8,083,830	7,957,288	7,841,322	8,084,473
<b>3a</b>	Fully loaded ECL accounting model total capital	8,272,606	8,014,991	7,844,448	7,684,029	7,988,490
	<b>Risk-weighted assets (amounts)</b>					
<b>4</b>	Total risk-weighted assets (RWA)	42,551,202	41,772,380	40,946,161	41,074,599	39,311,052
	<b>Risk-based capital ratios as a percentage of RWA</b>					
<b>5</b>	Common Equity Tier 1 ratio (%)	14.13%	13.79%	13.78%	13.45%	14.72%
<b>5a</b>	Fully loaded ECL accounting model CET1 (%)	13.96%	13.62%	13.51%	13.07%	14.48%
<b>6</b>	Tier 1 ratio (%)	18.44%	18.18%	18.27%	17.92%	19.40%
<b>6a</b>	Fully loaded ECL accounting model Tier 1 ratio (%)	18.27%	18.02%	17.99%	17.54%	19.15%
<b>7</b>	Total capital ratio (%)	19.61%	19.35%	19.43%	19.09%	20.57%
<b>7a</b>	Fully loaded ECL accounting model total capital ratio (%)	19.44%	19.19%	19.16%	18.71%	20.32%
	<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
<b>8</b>	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
<b>9</b>	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
<b>10</b>	Bank D-SIB additional requirements (%)	0%	0%	0%	0%	0%
<b>11</b>	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
<b>12</b>	CET1 available after meeting the bank's minimum capital requirements (%)	7.13%	6.79%	6.78%	6.45%	7.72%
	<b>Leverage Ratio</b>					
<b>13</b>	Total leverage ratio measure	67,231,633	64,964,178	64,046,812	62,925,786	57922992
<b>14</b>	Leverage ratio (%) (row 2/row 13)	11.67%	11.69%	11.68%	11.70%	13.16%
<b>14a</b>	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	11.56%	11.59%	11.50%	11.45%	13.00%
<b>14b</b>	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-	-	-	-
	<b>Liquidity Coverage Ratio</b>					
<b>15</b>	Total HQLA	-	-	-	-	-
<b>16</b>	Total net cash outflow	-	-	-	-	-
<b>17</b>	LCR ratio (%)	-	-	-	-	-
	<b>Net Stable Funding Ratio</b>					



		a	b	c	d	e
		Q3 / 2023	Q2 / 2023	Q1 / 2023	Q4 / 2022	Q3 / 2022
<b>18</b>	Total available stable funding	-	-	-	-	-
<b>19</b>	Total required stable funding	-	-	-	-	-
<b>20</b>	NSFR ratio (%)	-	-	-	-	-
<b>ELAR</b>						
<b>21</b>	Total HQLA	10,548,453	8,913,861	8,166,724	9,414,770	6,888,095
<b>22</b>	Total liabilities	55,485,266	53,367,131	52,844,560	51,567,536	47,023,820
<b>23</b>	Eligible Liquid Assets Ratio (ELAR) (%)	19.01	16.70	15.45	18.26	14.65
<b>ASRR</b>						
<b>24</b>	Total available stable funding	44,863,893	42,871,130	42,655,108	43,028,794	43,087,148
<b>25</b>	Total Advances	34,773,726	33,618,961	32,423,814	33,222,529	32,403,645
<b>26</b>	Advances to Stable Resources Ratio (%)	77.51	78.42	76.01	77.21	75.20

**Fully Loaded** – means banks regulatory capital compared with a situation where the transitional arrangements had not been applied. As per CBUAE circular no. 04/2020 Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements

As per CBUAE regulation, Prudential filter that permits Banks to add back increase in IFRS 9 provisions (stage 1 and stage 2) to the regulatory capital over a transition period of 5 years, on a proportionate basis. The increase in IFRS 9 provision requirement is determined by calculating difference between IFRS 9 provision as 31 December 2019 and IFRS9 provision as at the reporting date. The proportion of the increase in the IFRS 9 provision that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will be phased out over a 5-year transition period. (100%, 100%, 75%, 50% and 25% from FY 2020 TO 2024)

There is an increase seen in CET 1 ratio from last Quarter Q2-2023 13.79% to Q3-2023 14.13%, Total Capital ratio increased from last Quarter Q2-2023 19.35% to Q3-2023 19.61%. Increase in ratio seen, due to increase in profit.



### 3) Overview of Risk Management, Key Prudential Metrics and RWA (OV1)

Minimum capital requirement for total Capital Adequacy Ratio disclosed below includes minimum requirement of 10.5%, which include the capital conservation buffer of 2.5%.

AED 000

Sl. No		a	b	c
		RWA –AED -000		Minimum Capital Requirements
		Q3/ 2023	Q2 /2023	Q3/2023
<b>1</b>	<b>Credit risk (excluding counterparty credit risk)</b>	<b>39,803,084</b>	<b>39,016,632</b>	<b>5,174,401</b>
<b>2</b>	Of which: standardized approach (SA)	39,803,084	39,016,632	5,174,401
<b>3</b>	Counterparty credit risk (CCR)	0	0	0
<b>4</b>	Of which: standardized approach for counterparty credit risk	0	0	0
<b>5</b>	Equity investments in funds - look-through approach	8,167	8,670	1,062
<b>6</b>	Equity investments in funds - mandate-based approach	-	-	-
<b>7</b>	Equity investments in funds - fall-back approach	-	-	-
<b>8</b>	Settlement risk	-	-	-
<b>9</b>	Securitisation exposures in the banking book	-	-	-
<b>10</b>	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
<b>11</b>	Of which: securitisation standardised approach (SEC-SA)	-	-	-
<b>12</b>	<b>Market risk</b>	<b>164,349</b>	<b>171,978</b>	<b>21,365</b>
<b>13</b>	Of which: standardised approach (SA)	164,349	171,978	21,365
<b>14</b>	<b>Operational risk</b>	<b>2,583,769</b>	<b>2,583,769</b>	<b>335,890</b>
<b>15</b>	<b>Total</b>	<b>42,551,202</b>	<b>41,772,380</b>	<b>5,531,676</b>

Credit Risk Weighted Assets (CRWAs) increased by AED 787 million due to an overall increase in the volume of financing receivables, due from banks, and investment in securities.

Market Risk Weighted Assets (MRWAs) decreased due to a reduction in exposure to the Euro and Saudi Riyal (SAR) currencies.



#### 4) Leverage Ratio

Basel III introduced a 3% minimum leverage ratio, which is calculated on quarterly basis. The group does not see any material changes for this reporting period which remained stable and above the CBUAE minimum requirement.

##### 1. Summary comparison of accounting assets vs leverage ratio exposure LR1

		AED 000
		Q3/ 2023
<b>1</b>	Total consolidated assets as per published financial statements	63,409,423
<b>2</b>	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(34,557)
<b>3</b>	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
<b>4</b>	Adjustments for temporary exemption of central bank reserves (if applicable)	-
<b>5</b>	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
<b>6</b>	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
<b>7</b>	Adjustments for eligible cash pooling transactions	-
<b>8</b>	Adjustments for derivative financial instruments	-
<b>9</b>	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
<b>10</b>	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,922,646
<b>11</b>	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
<b>12</b>	Other adjustments	1,934,120
<b>13</b>	<b>Leverage ratio exposure measure</b>	<b>67,231,632</b>



## 2. Leverage ratio common disclosure template – (LR2)

		a	b
		Q3 / 2023	Q2 / 2023
<b>On-balance sheet exposures</b>		<b>AED 000</b>	
<b>1</b>	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	60,684,107	59,408,334
<b>2</b>	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
<b>3</b>	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
<b>4</b>	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
<b>5</b>	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
<b>6</b>	(Asset amounts deducted in determining Tier 1 capital)	-	-
<b>7</b>	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)</b>	60,684,107	59,408,334
<b>Derivative exposures</b>			
<b>8</b>	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	27
<b>9</b>	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	0.34
<b>10</b>	(Exempted CCP leg of client-cleared trade exposures)	-	-
<b>11</b>	Adjusted effective notional amount of written credit derivatives	-	-
<b>12</b>	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
<b>13</b>	<b>Total derivative exposures (sum of rows 8 to 12) *1.4 (Beta Factor)</b>	-	38.276
<b>Securities financing transactions</b>			
<b>14</b>	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	3,746,037	2,837,566
<b>15</b>	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
<b>16</b>	CCR exposure for SFT assets	878,843	801,529
<b>17</b>	Agent transaction exposures	-	-
<b>18</b>	<b>Total securities financing transaction exposures (sum of rows 14 to 17)</b>	4,624,880	3,639,095
<b>Other off-balance sheet exposures</b>			
<b>19</b>	Off-balance sheet exposure at gross notional amount	3,297,399	3,194,730
<b>20</b>	(Adjustments for conversion to credit equivalent amounts)	(1,374,753)	(1,277,981)
<b>21</b>	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
<b>22</b>	<b>Off-balance sheet items (sum of rows 19 to 21)</b>	1,922,646	1,916,749
<b>Capital and total exposures</b>			
<b>23</b>	<b>Tier 1 capital</b>	7,847,469	7,596,122
<b>24</b>	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	67,231,633	64,964,216
<b>Leverage ratio</b>			
<b>25</b>	<b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>	11.67%	11.69%
<b>25a</b>	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.67%	11.69%
<b>26</b>	CBUAE minimum leverage ratio requirement	3%	3%
<b>27</b>	<b>Applicable leverage buffers</b>	-	-



## 5) Liquidity

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach for managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

The Group's board of directors set the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries. All liquidity policies and procedures are subject to review and approval by ALCO.

1. Governance of liquidity risk management: ALCO is the primary committee responsible for liquidity and funding risk management based on guidelines approved by the Board Risk Management Committee (BRMC). Liquidity policies and framework are reviewed by the ALCO and approved by the BRMC prior to implementation.
2. Funding strategy: The Bank's liquidity and funding positions are supported by the Bank's significant government and retail deposit base, accompanied by funding from wholesale markets. The Bank's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Bank's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Bank accesses the wholesale markets through the issuance of debt instruments, time deposits to meet short-term obligations.
3. An explanation of how stress testing is used. A liquidity stress test program is in place to ensure liquidity stress tests are systematically performed to determine the impact on the counterbalancing capacity under the "bank-specific" and "market wide" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.
4. An outline of the bank's contingency funding plans. Contingency funding plan is in place to identify early warning signals of a liquidity problem. The contingency funding plan also sets out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem.
5. Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to the bank. The primary tools for monitoring liquidity and funding positions are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity and funding positions are reported to the ALCO on a monthly basis and to BRMC on a quarterly basis.



## 1. Eligible Liquid Assets Ratio (ELAR)

1	High Quality Liquid Assets 30th September 2023	Nominal amount AED 000 Q3 -2023	Eligible Liquid Asset AED 000 Q3 -2023
1.1	Physical cash in hand at the bank + balances with the CBUAE	10,116,358	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	10,116,358	10,116,358
1.3	UAE local governments publicly traded debt securities	432,095	-
1.4	UAE Public sector publicly traded debt securities		
	Sub Total (1.3 to 1.4)	432,095	432,095
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		-
<b>1.6</b>	<b>Total</b>	<b>10,548,453</b>	<b>10,548,453</b>
<b>2</b>	Total liabilities		55,485,266
<b>3</b>	<b>Eligible Liquid Assets Ratio (ELAR)</b>		<b>19.01%</b>

The group has AED 10.5 billion eligible liquid assets, which is 19.01% above the CBUAE requirement of 10% of total liabilities of AED 55 billion.

## 2. Advances to Stables Resource Ratio (ASRR)

30 <sup>th</sup> Sept- 2023	Items	Amount AED 000
<b>1</b>	<b>Computation of Advances</b>	
<b>1.1</b>	Net Lending (gross loans - specific and collective provisions + interest in suspense)	32,855,131
<b>1.2</b>	Lending to non-banking financial institutions	185,224
<b>1.3</b>	Net Financial Guarantees & Stand-by LC (issued - received)	587,395
<b>1.4</b>	Interbank Placements	1,145,976
<b>1.5</b>	<b>Total Advances</b>	<b>34,773,726</b>
<b>2</b>	<b>Calculation of Net Stable Resources</b>	
<b>2.1</b>	Total capital + general provisions	8,359,336
	Deduct:	-
<b>2.1.1</b>	Goodwill and other intangible assets	0
<b>2.1.2</b>	Fixed Assets	320,588
<b>2.1.3</b>	Funds allocated to branches abroad	
<b>2.1.4</b>	Unquoted Investments	4,277,745
<b>2.1.5</b>	Investment in subsidiaries, associates and affiliates	1,150,000
<b>2.1.6</b>	<b>Total deduction</b>	<b>5,748,333</b>
<b>2.2</b>	Net Free Capital Funds	2,611,003
<b>2.3</b>	Other stable resources:	-
<b>2.3.1</b>	Funds from the head office	0
<b>2.3.2</b>	Interbank deposits with remaining life of more than 6 months	760,559
<b>2.3.3</b>	Refinancing of Housing Loans	0
<b>2.3.4</b>	Borrowing from non-Banking Financial Institutions	596,954
<b>2.3.5</b>	Customer Deposits	39,060,786
<b>2.3.6</b>	Capital market funding/ term borrowings maturing after 6 months from reporting date	1,834,591
<b>2.3.7</b>	Total other stable resources	42,252,890
<b>2.4</b>	Total Stable Resources	44,863,893
<b>3</b>	Advances TO STABLE RESOURCES RATIO	77.51

The group maintained ASRR of 77.51% in Q3-2023, which is below the regulatory limit of 100%





## 6) Abbreviation

- ALCO – Asset Liability Committee
- ASRR – Advance to Stable Resource Ratio
- BIA – Basic Indicator Approach
- BRMC – Board Risk Management Committee
- CCB – Capital Conservative Buffer
- CCF – Credit Conversion Factor
- CCP – Central Counterparty
- CCyB – Countercyclical Buffer
- CET – Common Equity
- CRM – Credit Risk Mitigation
- ELAR – Eligible Liquid Assets Ratio
- ICAAP – Internal Capital Adequacy Assessment Process
- RWA – Risk weighted assets
- SIB – Sharjah Islamic Bank