SHARJAH ISLAMIC BANK

Pillar III Disclosure

31st December 2023

Contents

1) Overview of Risk Management and RWA (OVA)

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 3 Accord". The "Basel 3" 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

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.

1.3. 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.

1.4. 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).

1.5. Minimum capital requirement

CBUAE Requirement
CET 1 must be at 7.0% of Risk Weighted Assets (RWA)
Tier 1 Capital must be at least 8.5% of RWA
Total capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA
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
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.
Minimum Capital Required (Total Capital + Capital Conservative Buffer) =13% (10.5% + 2.5%)

1.6. 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.

1.7. Internal Controls and Verification

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

a) Segregation of duties – maker-checker process is strictly followed in compiling Pillar 3 report;
b) Data-sourcing and reconciliation – data is sourced from multiple systems which are reconciled with the general ledger, sub ledgers and audited financial statements;
c) Reviews – Pillar 3 report undergoes several rounds of reviews by Finance and Risk functions;

d) Internal audit – Internal audit provides independent and objective assurance of disclosures in Pillar 3 report.
e) Attestation is obtained from Senior Management that Pillar 3 report has been prepared in accordance with the board-agreed internal control policies and procedures.
f) External audit will be conducted as per regulatory requirement.

1.8. 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

1.9. 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.

1.10. 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.

1.11. 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.

1.12. 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.

1.13. 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.

1.14. 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.

1.15. 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.

1.16. 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
- Reviewing the Group's IT development, strategic opportunities and plans

1.17. 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.

1.18. 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.

1.19. 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.

1.20. 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.

1.21. Group Risk Management (GRM)

In order to manage credit, market, operational and IT security risks, GRM 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): In accordance with CBUAE regulatory requirements, we are presenting our key prudential metrics related to regulatory capital, leverage ratio and liquidity ratio.

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		a	b	c	d	e
		Q4 /2023	Q3 / 2023	Q2 / 2023	Q1 / 2023	Q4 / 2022
	Available capital (amounts) -					
1	Common Equity Tier 1 (CET1)	5,832,745	6,010,969	5,759,622	5,643,411	5,525,983
1a	Fully loaded ECL accounting model	5,763,000	5,938,567	5,690,783	5,530,571	5,368,690
2	Tier 1	7,669,245	7,847,469	7,596,122	7,479,911	7,362,483
2a	Fully loaded ECL accounting model Tier 1	7,599,500	7,775,067	7,527,283	7,367,071	7,205,190
3	Total capital	8,192,069	8,345,008	8,083,830	7,957,288	7,841,322
3a	Fully loaded ECL accounting model total capital	8,122,324	8,272,606	8,014,991	7,844,448	7,684,029
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	45,124,274	42,551,202	41,772,380	40,946,161	41,074,599
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	12.93%	14.13%	13.79%	13.78%	13.45%
5a	Fully loaded ECL accounting model CET1 (%)	12.77%	13.96%	13.62%	13.51%	13.07%
6	Tier 1 ratio (%)	17.00%	18.44%	18.18%	18.27%	17.92%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16.84%	18.27%	18.02%	17.99%	17.54%
7	Total capital ratio (%)	18.15%	19.61%	19.35%	19.43%	19.09%
7a	Fully loaded ECL accounting model total capital ratio (%)	18.00%	19.44%	19.19%	19.16%	18.71%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
10	Bank D-SIB additional requirements (%)	0%	0%	0%	0%	0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.93%	7.13%	6.79%	6.78%	6.45%
	Leverage Ratio					
13	Total leverage ratio measure	70,006,586	67,231,633	64,964,216	64,046,812	62,925,786
14	Leverage ratio (%) (row 2/row 13)	10.96%	11.67%	11.69%	11.68%	11.70%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	10.86%	11.56%	11.59%	11.50%	11.45%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-	-	-	-
	Liquidity Coverage Ratio					

		a	b	c	d	e
		Q4 /2023	Q3 / 2023	Q2 / 2023	Q1 / 2023	Q4 / 2022
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	8,405,318	10,548,453	8,913,861	8,166,724	9,414,770
22	Total liabilities	57,840,238	55,485,266	53,367,131	52,844,560	51,567,536
23	Eligible Liquid Assets Ratio (ELAR) (%)	14.53	19.01	16.70	15.45	18.26
	ASRR					
24	Total available stable funding	44,541,559	44,863,893	42,871,130	42,655,108	43,028,794
25	Total Advances	35,950,325	34,773,726	33,618,961	32,423,814	33,222,529
26	Advances to Stable Resources Ratio (%)	80.71	77.51	78.42	76.01	77.21

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)

- FY 2023 saw a 9.8% increase in Total RWA by AED 4.04 billion as compared to FY 2022, due to growth in corporate sector and investment in securities.
- CET 1 ratio as of FY 2023 stands at 12.93% VS 13.45% FY2022, decline in ratio seen due to growth in corporate sector and investment securities.
- Tier 1 ratio as of FY 2023 stands at 17.00% VS 17.92% FY2022, decline in ratio seen due to growth in corporate sector and investment securities.
- Total Capital ratio as of FY 2023 stands at 18.15% VS 19.09% FY2022, decline in ratio seen due to growth in corporate sector and investment securities.

Note: The above capital adequacy ratios calculated in line with Basel and CBUAE guidelines. It is important to note that these ratios currently include proposed dividend amounts, which are subject to approval by shareholders at the upcoming Annual General Meeting.

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

The table from the Pillar 3 Disclosure document offers an overview of Risk-Weighted Assets (RWA) and minimum capital requirements for various risk categories as of Q4/2023. It breaks down the RWA into different risk categories, including credit risk (excluding counterparty credit risk), counterparty credit risk (CCR), various approaches to equity investments in funds, and market risk, as well as operational risk. The majority of RWA is attributed to credit risk, followed by operational risk and market risk. This data is critical for understanding the bank's exposure to different types of risks and its corresponding capital requirement to cover potential losses. The table helps in assessing the bank's risk management effectiveness and capital adequacy

Minimum capital requirement 13%

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Sl. No		a	b	c
		RWA		Minimum Capital Requirements
		Q4/ 2023	Q3 /2023	Q4/2023
1	**Credit risk (excluding counterparty credit risk)**	41,825,910	39,803,084	5,437,368
2	Of which: standardized approach (SA)	41,825,910	39,803,084	5,437,368
3	Counterparty credit risk (CCR)	0	0	0
4	Of which: standardized approach for counterparty credit risk	0	0	0
5	Equity investments in funds - look-through approach	9,490	8,167	1,234
6	Equity investments in funds - mandate-based approach	-	-	-
7	Equity investments in funds - fall-back approach	-	-	-
8	Settlement risk	-	-	-
9	Securitisation exposures in the banking book	-	-	-
10	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
11	Of which: securitisation standardised approach (SEC-SA)	-	-	-
12	**Market risk**	166,119	164,349	21,595
13	Of which: standardised approach (SA)	166,119	164,349	21,595
14	**Operational risk**	**3,132,244**	**2,583,769**	**407,192**
15	**Total**	**45,124,274**	**42,551,202**	**5,866,156**

Credit Risk Weighted Assets (CRWAs) increased by AED 2.023 billion in Q4 – 2023 due to an overall increase in the volume of financing receivables, due from banks, and investment in securities.

Market Risk Weighted Assets (MRWAs) increased due to increase in exposure to the GBP, Euro, SAR, KWD and QAR.

Operation Risk Weighted Asset (ORWAs) Bank uses basic indicator approach for ORWAs calculation. For FY 2023 gross income considered is of previous three years i.e. FY 2023, FY 2022 & FY 2021. Increased in ORWAs seen due to increase in Net profit income and Net non-profit income.

4) Linkages between Financial Statements and Regulatory Exposures (LI1)

The table outlines the linkage between financial statements and regulatory exposures at a consolidated group level as of Q4 /2023. It details the carrying values of various asset and liability categories as reported in the published financial statements and under the scope of regulatory consolidation. The table categorizes these values based on their subject to different regulatory frameworks like credit risk, counterparty credit risk, securitization, market risk, and those not subject to capital requirements or subject to deduction from capital. This data is crucial for understanding how financial statement values correlate with regulatory frameworks, impacting the bank's risk profile and capital requirements.

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	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 frame work	Subject to the securitisation frame work	Subject to market risk frame work	Not subject to capital requirements or subject to deduction from capital
Assets –AED 000							
Cash and balances with banks and financial institutions	3,436,612	3,434,856	3,434,856	-	-	-	-
Murabaha and wakalah with financial institutions	10,240,664	10,240,664	10,240,664	-	-	-	-
Investment securities measured at fair value	3,961,739	4,711,739	4,711,739	-	-	-	-
Investment securities measure at amortised cost	9,582,292	9,582,292	9,582,292	-	-	-	-
Investments in Islamic financing	33,030,434	33,588,935	33,588,935	-	-	-	-
Acceptances	209,135	209,135	209,135				
Investment properties	2,822,991	1,948,093	1,948,093	-	-	-	-
Properties held-for-sale	526,215	382,354	382,354	-	-	-	-
Other assets	1,117,292	1,054,975	1,054,975	-	-	-	-
Intangible assets	61,664	61,572	61,572	-	-	-	-
Property and equipment	889,943	740,411	740,411	-	-	-	-
Total Assets	**65,878,981**	**65,955,026**	**65,955,026**	-	-	-	-

	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 frame work	Subject to the securitisation frame work	Subject to market risk frame work	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Customers' deposits	45,206,574	45,418,373	-	-	-	-	-
Due to banks	9,053,932	9,053,932	-	-	-	-	-
Sukuk payable	1,834,869	1,834,869	-	-	-	-	-
Acceptances	209,603	209,603					
Other liabilities	1,381,333	1,243,627	-	-	-	-	-
Zakat payable	66,002	66,002	-	-	-	-	-
Total Liabilities	**57,752,313**	**57,826,406**	-	-	-	-	-
Shareholders' equity:							
Share capital	3,235,678	3,235,678	-	-	-	-	-
Tier 1 sukuk	1,836,500	1,836,500	-	-	-	-	-
Legal reserve	1,617,838	1,617,838	-	-	-	-	-
Statutory reserve	89,008	89,008	-	-	-	-	-
General impairment reserve	164,617	164,617	-	-	-	-	-
Fair value reserve	(183,849)	(183,849)	-	-	-	-	-
Retained earnings	1,366,876	1,368,828	-	-	-	-	-
Total Shareholder Equity	8,126,668	8,128,620	-	-	-	-	-
Total Liability & Shareholder Equity	**65,878,981**	**65,955,026**					

The Counterparty credit risk of around AED 1.06 billion related to collaterlaised murhaba covered under credit risk. (Refer table CCR)

5) Linkages between Financial Statements and Regulatory Exposures (LI2)

Main sources of differences between regulatory exposure amounts and carrying Values in financial statements. The below table shows the effect of regulatory adjustments required to derive the Bank's exposure at default (EAD) for the purposes of calculating its capital requirements. The difference between the carrying values under regulatory scope of consolidation and amount considered for regulatory purposes shown below are mainly provisions, off-balance sheet exposures and netting benefits as detailed below.

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Details	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
Total assets amount under regulatory scope of consolidation	65,955,026	65,955,026	-	-	-
Off-balance sheet amounts recognised in regulatory exposure (POST-CCF) including acceptances	2,058,450	2,058,450	-	-	-
Differences due to consideration of provisions and IIS	1,969,461	1,969,461	-	-	-
Other	-	-	-	-	-
Gross exposures before credit risk mitigation	**69,982,937**	**69,982,937**	-	-	-
Credit risk mitigation excluding guarantees	(1,021,275)	(1,021,275)	-	-	-
Gross regulatory exposures at default	68,961,662	68,961,662	-	-	-

6) Differences in Regulatory Exposure & Carrying values in Financials (LIA)

Difference between accounting carrying value and amounts considered for regulatory purposes is consolidation of non-financial subsidiaries in financial reporting, whereas, for regulatory purposes only financial subsidiaries are consolidated.

Valuation of all instruments classified as fair value through PL or OCI are mark to market on a frequent basis as all of the instruments are quoted. Unless a conclusion is drawn that a quoted price is not the fair value of an instrument, fair value is considered to be the market-traded price generally available on Bloomberg. Once, an instrument is not traded in the market, market quoted price is disregarded for mark to market and investment front office computes a fair value based on various valuation methodologies available i.e. NAV, DCF, CAPM etc. Usage of other valuation methodologies than market available quoted price is seldom. Market available prices are interlinked with the core banking system and market prices are updated at least on a monthly basis. In case where investment front office rejects market price to be fair value, alternate valuation methodology is computed and submitted to Financial Control Division for independent price verification. Financial Control Division reviews the working, challenges the assumptions and forecasts, corroborates market information and amends or discounts the front office price computation to remain prudent. Entire trading portfolio is fair valued regularly at the market available quoted price. None of the trading portfolio instruments are unquoted, hence no valuation methodologies are applied, and thus no price adjustment is done. All instruments are mark to market.

7) Composition of Regulatory Capital – (CC1)

The Bank's capital management aims to guarantee solvency and maximize profitability, while complying with regulatory requirements and risk appetite of the bank. It is a key strategic tool for decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes.

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		a	b
			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	3,235,678	CC2(a)
2	Retained earnings	1,074,070	CC2(g)-Proposed Dividend-Software deduction + IFRS 9 Prudential Filter
3	Accumulated other comprehensive income (and other reserves)	1,522,997	CC2(c)+CC2(d)+CC2(f)
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	-	
5	Common share capital issued by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory deductions**	**5,873,679**	
	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)	40,934	Intangible Software deduction
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	-	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	

		a	b
			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	**Total regulatory adjustments to Common Equity Tier 1**	40,934	Intangible Software deduction
25	**Common Equity Tier 1 capital (CET1)**	**5,832,745**	
	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	**1,836,500**	CC2 (b)
	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)**	**1,836,500**	**CC2 (b)**
39	**Tier 1 capital (T1= CET1 + AT1)**	**7,669,245**	
	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	522,824	
45	**Tier 2 capital before regulatory adjustments**	522,824	

		a	b
			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	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)**	522,824	
52	**Total regulatory capital (TC = T1 + T2)**	8,192,069	
53	**Total risk-weighted assets**	45,124,274	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	12.93%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	17.00%	
56	**Total capital (as a percentage of risk-weighted assets)**	18.15%	
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.**	5.93%	
	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)	-	

		a	b
			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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)	522,824	
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)*	-	

8) Reconciliation of Regulatory Capital to Balance Sheet – (CC2)

The table below shows a breakdown of the bank's capital between Balance Sheet as published in financial statements and the regulatory capital.

The table provides a reconciliation of the bank's capital as reported in the published financial statements with the regulatory capital under the scope of consolidation as of Q4/2023. It lists various asset and liability categories, comparing their values as per the balance sheet with those under regulatory consolidation. Key items include cash and balances at central banks, investments in various forms, Islamic financing, property assets, and shareholder equity components like share capital, legal reserve, and retained earnings. The comparison helps in understanding the differences in valuation methods and reporting requirements between accounting standards and regulatory frameworks, highlighting the bank's financial position and regulatory compliance.

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	Balance sheet as in published financial statements (a)	Under regulatory scope of consolidation (b)	Reference (c)
	As at period-end	As at period-end	
Assets			
Cash and balances with banks and financial institutions	3,436,612	3,434,856	
Murabaha and wakalah with financial institutions	10,240,664	10,240,664	
Investment securities measured at fair value	3,961,739	4,711,739	
Investment securities measure at amortised cost	9,582,292	9,582,292	
Investments in Islamic financing	33,030,434	33,588,935	
Acceptences	209,135	209,135	
Investment properties	2,822,991	2,822,991	
Properties held-for-sale	526,215	382,354	
Other assets	1,117,292	1,054,975	
Intangible assets	61,664	61,572	
Property and equipment	889,943	740,411	
Total assets	**65,878,981**	**65,955,026**	
Liabilities			
Customers' deposits	45,206,574	45,418,373	
Due to banks	9,053,932	9,053,932	
Sukuk payable	1,834,869	1,834,869	
Acceptances	209,603	209,603	
Other liabilities	1,381,333	1,243,627	
Zakat payable	66,002	66,002	
Total liabilities	**57,752,313**	**57,826,406**	
Shareholders' equity			
Share capital	3,235,678	3,235,678	(a)
Tier 1 sukuk	1,836,500	1,836,500	(b)
Legal reserve	1,617,838	1,617,838	(c)

Statutory reserve	89,008	89,008	(d)
General impairment reserve	164,617	164,617	(e)
Fair value reserve	(183,849)	(183,849)	(f)
Retained earnings	1,366,876	1,368,828	(g)
Total shareholders' equity	**8,126,668**	**8,128,620**	
Total Liabilities & Shareholders' Equity	**65,878,981**	**65,955,026**	

9) Main Features of Regulatory Capital Instruments – (CCA)

Quantitative / qualitative information		
1	Issuer	**SIB Tier 1 Sukuk Company**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**XS2010323009**
3	Governing law(s) of the instrument	English Law
	Regulatory treatment	Tier 1 Capital
4	Transitional arrangement rules (i.e. grandfathering)	Additional Tier 1
5	Post-transitional arrangement rules (i.e. grandfathering)	Additional Tier 1
6	Eligible at solo/group/group and solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual additional Tier 1 sukuk
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 1,836 Mio
9	Nominal amount of instrument	USD 500,000,000
9a	Issue price	USD 100
9b	Redemption price	USD 100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	2nd July, 2019
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	02/07/2025 (1st Call Date)
16	Subsequent call dates, if applicable	Every 6th Anniversery after 1st call date
	Coupons / dividends	Dividends
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	5.000 per cent. fixed p.a. payable semi-annually in arrear on each Periodic Distribution Date until the First Call Date.
19	Existence of a dividend stopper	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially Discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	-
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	Write-down feature	Yes
25	If write down, write down trigger(s)	Non-Viability Event
26	If write down, full or partial	May be written down partially
27	If write down, permanent or temporary	permanent
28	If temporary write-own, description of write-up mechanism	-
28a	Type of subordination	Structural
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Subordinated in right of payment to Senior Obligations, pari passu with all Pari Passu Obligations and subject to the Solvency Conditions and no bankruptcy order, in priority to Junior Obligations. To the extent the Solvency Conditions are not satisfied or if a bankruptcy order in respect of SIB has been issued by a court in the UAE, claims shall be extinguished
30	Non-compliant transitioned features	No
31	If yes, specify non-compliant features	-

(The prospectus should be referred for more information)
The Sukuk could be reset on 2 July 2025, and every sixth anniversary thereafter

10) Leverage Ratio

CBUAE introduced a 3% minimum leverage ratio, which is calculated on quarterly basis.

10.1 Summary comparison of accounting assets vs leverage ratio exposure LR1

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		a
1	Total consolidated assets as per published financial statements	65,878,981
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	76,045
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (ie repos and similar secured financing)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,082,099
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	1,969,461
13	**Leverage ratio exposure measure**	**70,006,586**

10.2 Leverage ratio common disclosure template – (LR2)

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		a Q4/2023	b Q3/2023	c Q4/2022
On-balance sheet exposures				
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	63,355,726	60,684,107	57,345,232
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	-	-	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	63,355,726	60,684,107	57,345,232
Derivative exposures				
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-	-
9	Add-on amounts for PFE associated with *all* derivatives transactions	-	-	-
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)**	-	-	-
Securities financing transactions				
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	3,840,192	3,746,037	3,001,950
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-		-
16	CCR exposure for SFT assets	728,569	878,843	682,113
17	Agent transaction exposures			
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	4,568,761	4,624,880	3,684,063
Other off-balance sheet exposures				
19	Off-balance sheet exposure at gross notional amount	3,616,835	3,297,399	3,000,081
20	(Adjustments for conversion to credit equivalent amounts)	(1,534,736)	(1,374,753)	(1,103,590)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	2,082,099	1,922,646	1,896,491
Capital and total exposures				
23	**Tier 1 capital**	7,669,245	7,847,469	7,362,483
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	70,006,586	67,231,633	62,925,786
Leverage ratio				

		a Q4/2023	b Q3/2023	c Q4/2022
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	10.96%	11.67%	11.70%
25 a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-	-
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%
27	**Applicable leverage buffers**	-	-	-

Change in exposure by 7 billion from FY 2022 to FY 2023. Due to which ratio decline from 11.70% to 10.96%.

11) 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.

11.1. Eligible Liquid Assets Ratio (ELAR)

The table presents the calculation of the Eligible Liquid Assets Ratio (ELAR) for a bank as of Q4/2023. It lists the High Quality Liquid Assets (HQLA) and their nominal amounts, including physical cash, balances with the Central Bank of the UAE (CBUAE), and various debt securities. The total HQLA amount is AED 8.4 billion against total liabilities of AED 57 billion. The ELAR, calculated as the ratio of eligible liquid assets to total liabilities, is reported as 14.53%. This ratio is a key indicator of the bank's liquidity position, reflecting its capacity to meet short-term obligations with high-quality liquid assets.

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High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	7,907,429	
UAE Federal Government Bonds and Sukuks	50,000	
Sub Total	**7,957,429**	**7,957,429**
UAE local governments publicly traded debt securities	411,159	-
UAE Public sector publicly traded debt securities		
Subtotal	**411,159**	**411,159**
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,730	36,730
Total	**8,405,318**	**8,405,318**
Total liabilities		**57,840,238**
Eligible Liquid Assets Ratio (ELAR)		**14.53**

11.2. Advances to Stables Resource Ratio (ASRR)

The table shows the computation of the Advances to Stable Resources Ratio (ASRR) to the bank as of Q4 /2023. It details the calculation of total advances, which include net financing, financing to non-banking financial institutions, financial guarantees, standby letters of credit, and interbank placements, resulting in a total advance amount of AED 35.9 billion.

The table also outlines the calculation of net stable resources, including total capital and general provisions, adjusted for deductions like fixed assets and investments. The ASRR, calculated as the ratio of total advances to total stable resources, stands at 80.71%. This ratio is an important liquidity measure, indicating the proportion of advances funded by stable resources.

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Items	Amount
Computation of Advances	
Net financing (gross loans - specific and collective provisions + interest in suspense)	33,992,608
financing to non-banking financial institutions	200,042
Net Financial Guarantees & Stand-by LC (issued - received)	611,699
Interbank Placements	1,145,976
Total Advances	**35,950,325**
Calculation of Net Stable Resources	
Total capital + general provisions	8,533,798
Deduct:	
Goodwill and other intangible assets	-
Fixed Assets	801,917
Funds allocated to branches abroad	
Unquoted Investments	4,153,048
Investment in subsidiaries, associates and affiliates	8,50,000
Total deduction	**5,804,965**
Net Free Capital Funds	**2,728,833**
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	495,855
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	543,916
Customer Deposits	38,938,086
Capital market funding/ term borrowings maturing after 6 months from reporting date	1,834,869
Total other stable resources	**41,812,726**
Total Stable Resources	**44,541,559**
Advances to Stable Resources Ratio	**80.71%**

12) Credit Risk (CRA)

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's investment in Islamic financing receivables, murabaha and wakala with financial institutions, international murabaha and wakalah with financial institutions, other assets (except prepayments and assets available for sale) and investments in sukuk. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures into different sectors.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by the internal audit division.

Regular reporting to the Senior Management and the Board Risk Committee is done by the CRO including credit risk top exposures, NPL, breaches (if any), etc.

1.The Group considers a financial asset to be in default when:

1. The customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising collateral (if any is held);

2. It is becoming probable that the customer will restructure the asset as a result of bankruptcy due to the customer's inability to pay its credit obligations.

2.In assessing whether a customer is in default, the Group considers indicators that are:

1. Qualitative: e.g. breaches of covenant;
2. Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
3. Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

3.The key inputs into the measurement of ECL are the term structure of the following variables:

a) Probability of Default (PD);
b) Loss Given Default (LGD); and
c) Exposure at Default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financings secured by retail and commercial property, CBUAE haircuts are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate financing, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective price rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For financing commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by computing credit conversion factors through modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any customer 's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of a finance or terminate a finance commitment or guarantee.

However, for retail and credit card facilities that include both a financing and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group ' s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

a) Instrument type;
b) Credit risk grading;
c) Date of initial recognition;
d) Remaining term to maturity;
e) Industry; and Geographic location of the customer.

4.Financial Assets with Renegotiated Terms

For the purposes of disclosures in these consolidated financial statements, 'Investment in Islamic financing with renegotiated terms' are defined as investment in Islamic financing that have been restructured due to a deterioration in the customer's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the customer than the Group had provided initially and that it would not otherwise consider.

The Group renegotiates investment in Islamic financing to customers in financial difficulties (referred to as ' forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance is granted on a selective basis if the customer is currently in default on its liability or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

This section should be read in conjunction with the other section of OVA and CRB

12.1 Credit Quality of Assets – (CR1)

The Credit Quality of Assets table as of Q4/2023 illustrates the bank's asset quality in terms of defaulted and non-defaulted exposures, along with allowances or impairments. It shows the gross carrying values of loans and debt securities, both defaulted and non-defaulted, and the corresponding allowances allocated in specific and general regulatory categories. The table also includes off-balance sheet exposures. The net values are computed after accounting for Expected Credit Loss (ECL) provisions for credit losses, particularly on Standardized Approach (SA) exposures. This data is crucial for assessing the bank's credit risk profile.

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Details	Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values
	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
Loans	1,891,680	33,505,621	1,608,324	1,204,651	403,673	33,788,977
Debt securities	60,309	12,477,506	103,647	60,309	43,338	12,434,168
Off-balance sheet exposures	1,034	956,918	3,108	63	3,045	954,844
Total	**1,953,023**	**46,940,045**	**1,715,079**	**1,265,023**	**450,056**	**47,177,989**

- Defaulted Exposures – Past due for more than 90 days is considered as defaulted exposure.
- As of Q4 / 2023, the gross carrying values of defaulted exposure amounted to AED 1.9 billion while non-defaulted exposures totaled AED 46 billion. This distribution indicates a robust credit portfolio with significant majority of exposures maintaining a non-de-faulted status, reflecting effective credit risk management practices.

12.2 Changes in the Stock of Defaulted Loans and Debt Securities (CR2)

The "Changes in The Stock of Defaulted Loans and Debt Securities (CR2)" table as of Q4 /2023 provides an overview of the movement in defaulted loans and debt securities over the reporting period. It details the total amount of defaulted loans and debt securities from the end of the previous period, the new defaults that occurred during the current period, the amount that returned to non-default status, the amounts written off, and other changes. It concludes with the total defaulted loans and debt securities at the end of the reporting period, reflecting the bank's dynamic credit risk landscape.

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Defaulted loans and debt securities at the end of the previous reporting period	2,006,311
Loans and debt securities that have defaulted since the last reporting period	577,025
Returned to non-default status	(16)
Amounts written off	(109,007)
Other changes	(522,324)
Defaulted loans and debt securities at the end of the reporting period	**1,951,989**

12.3 The Breakdown of Exposures by Geographical Areas (CRB).

AED 000

Details	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other	Total
Cash and balances with banks and financial institutions	2,551,500	1,364	3,749	690,306	158,984	30,709	-	**3,436,612**
Murabaha and wakalah with financial institutions	9,597,889	110,190	-	-	183,650	348,935	-	**10,240,664**
Investment securities measured at fair value	3,075,934	-	-	-	-	885,805	-	**3,961,739**
Investment securities measure at amortised cost	8,669,980	138,161	-	-	-	774,151	-	**9,582,292**
Investments in Islamic financing	32,662,995	322,918	928	73	2,877	40,643	-	**33,030,434**
Acceptence	209,135	-	-	-	-	-	-	**209,135**
Investment properties	2,822,991	-	-	-	-	-	-	**2,822,991**
Properties held-for-sale	526,215	-	-	-	-	-	-	**526,215**
Other assets	1,011,207	15,106	45,913	65	5,345	39,656	-	**1,117,292**
Intangible Assets	61,664	-	-	-	-	-	-	**61,664**
Property and equipment	889,943	-	-	-	-	-	-	**889,943**
Total assets	**62,079,453**	**587,739**	**50,590**	**690,444**	**350,856**	**2,119,899**	**-**	**65,878,981**

The bank's exposures across different geographical areas as of Q4/ 2023 show significant diversification. The largest exposures are within the GCC and other Arab countries, with significant amounts in North America, Europe and Asia. This geographical diversification indicates broadened risk profile and a strategy to mitigate regional economic volatility.

Note: This section should be read in conjunction with the other section of OVA and CRA

12.4 The Breakdown of Exposures by Sector (CRB).

The "Breakdown of Exposures by Sector (CRB)" table shows the distribution of the bank's exposures across various sectors, quantified in AED. It includes sectors such as Government Departments and Authorities, Construction and Contracting, Manufacturing, Transportation, and Real Estate. The table also encompasses Retail Business, Trading, Financial Institutions, Services and Others, Individual, Consumer Home Finance, and High Net worth Individuals. Additionally, it accounts for Deferred Profit and Loss allowance for investments in Islamic Financing. This distribution provides insights into the bank's diversification and risk exposure in different economic sectors.

AED 000

Sector	
Government Department and Authorities	12,369,565
Construction and Contracting	1,623,713
Manufacturing	726,184
Transportation	437,608
Real Estate	9,460,160
Retail Business	483,325
Trading	2,024,808
Financial Institutions	270,886
Services and Others	1,290,648
Individual	3,903,624
Consumer Home Finance	1,489,697
High Net worth Individuals	1,982,653
Deferred Profit	-1,424,113
Less :Loss allowance for investments in Islamic Financing	-1,608,324
Total	**33,030,434**

12.5 Qualitative Disclosure Requirements Related to Credit Risk Mitigation Techniques (CRC)

Credit Risk Mitigation (CRM) is the reduction of the risk of default. It involves using a variety of techniques, such as requiring collateral, getting guarantees from third parties, and using financial instruments to transfer or hedge credit risk. Cash flows derived from liquidation of collateral and other sources that may be utilized to mitigate against financial loss.

Credit Risk Mitigation involves various departments within bank, each playing a distinct role to ensure compliance and effective risk management. The key roles and responsibilities of different departments in the context of CBUAE credit risk mitigation is covered in CRM policy.

Bank is using collateral comprehensive approach for credit risk mitigation. Under the comprehensive approach, the collateral adjusted value is deducted from the risk exposure (before assigning the risk weight). Haircuts as defined by CBUAE are applied to the collateral because collateral is subject to risk, which could reduce the realisation value of the collateral when liquidated.

As of Q4 / 2023, cash and Sovereign guarantees are only collaterals being used for credit risk mitigation.

12.6 Credit Risk Mitigation Techniques – overview (CR3)

AED 000

	Details	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans & Debt securities	64,644,854	6,643,691	1,081,788	60,513	60,513	-	-
2		-	-	-	-	-	-	-
3	**Total**	**64,644,854**	**6,643,691**	**1,081,788**	**60,513**	**60,513**	-	-
4	Of which defaulted	19,207	704,160				-	-

As of Q4/2023, the bank utilized a comprehensive approach for credit risk mitigation, primarily using cash and sovereign guarantees as collaterals. The total secured exposures amount to AED 6.6 billion with AED 1.08 billion secured by collateral. This approach reflects the bank's strategy to minimize credit risk exposure through effective collateralization.

12.7 Banks' use of external credit ratings under the standardised approach for credit risk (CRD)

Bank uses external ratings to determine risk weights for certain types of exposures. Only external ratings provided by External Credit Assessment Institutions (ECAIs) that have been recognized as eligible for that purpose by the Central Bank are being used. (Moody's and Fitch). The rating used for the asset class are Government, Bank and Corporate.

12.8 Standardised Approach - Credit Risk Exposure and CRM Effects – (CR4)

AED 000

	Details	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	20,069,008	15	20,069,008	-	3,607,751	18%
2	Public Sector Entities	7,426,330	287,831	7,426,330	264,076	6,755,665	88%
3	Multilateral development banks	847,121	-	847,121	-	-	-
4	Banks	9,173,582	133,482	9,173,582	133,319	2,804,557	30%
5	Securities firms	-	-	-	-	-	-
6	Corporates	17,766,005	2,752,809	17,766,005	1,510,629	17,470,551	91%
7	Regulatory retail portfolios	3,631,726	409,024	3,631,726	116,972	2,452,122	65%
8	Secured by residential property	1,223,796	335	1,223,796	315	1,095,607	90%
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	6,460		6460		9,490	147%
11	Past-due loans	2,340,474	33,139	1,027,548	33,139	1,322,678	125%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	6,508,587	200	6,508,587	-	6,216,774	96%
14	**Total**	**68,993,088**	**3,616,834**	**67,680,162**	**2,058,450**	**41,735,194**	**60%**

The credit risk exposure under standardized approach as of 31 December 2023 shows that the largest exposures are in sovereign, public sector entities and corporates.

12.9 Standardised Approach - Exposures by Asset Classes and Risk Weights – (CR5)

The below reflects the breakdown of credit risk exposures under the standardised approach by asset class and risk weight. **AED 000**

Risk weight Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	AED 000 Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	15,919,518	824,871	-	317,715	-	2,452,875	554,029	-	20,069,008
Public Sector Entities	29,140	-	-	1,811,201	-	5,850,065	-	-	7,690,406
Multilateral development banks	847,121	-	-	-	-	-	-	-	847,121
Banks	-	6,346,770	-	2,849,878	-	110,230	22	-	9,306,900
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	458,528	-	-	944,327	-	11,401,182	146,920	6,325,677	19,276,634
Regulatory retail portfolios	583,341	-	-	-	2,852,941	312,417	-	-	3,748,699
Secured by residential property	6,916	-	-	-	486,352	730,843	-	-	1,224,111
Secured by commercial real estate	-	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	950	-	5,510	6,460
Past-due loans	3,863	-	-	-	-	524,927	531,834	-	1,060,624
Higher-risk categories	-	-	-	-	-	-	-	-	-
Other assets	693,535	-	-	-	-	5,011,611	803,442		6,508,588
Total	**18,541,962**	**7,171,641**	**-**	**5,923,121**	**3,339,293**	**26,395,100**	**2,036,247**	**6,331,187**	**69,738,551**

The breakdown of credit risk exposures by asset class and risk weight shows a diverse portfolio. The highest exposures at 0% risk weight are to sovereigns and central banks, followed by significant exposures incorporates and secured by commercial real estate at higher at higher risk weights.

13) Counterparty Credit Risk (CCR)

Counterparty Credit Risk (CCR) refers to the potential for a transaction's counterparty to default before its final settlement. This risk is inherent in derivative transactions, which are sensitive to fluctuations in factors like interest rates, foreign exchange rates, equities, and commodities. The Group manages its exposure to CCR through the Counterparty Credit Risk Policy and methodology framework.

Oversight and Management of Counterparty Credit Risk:

- At the board level, the Board Risk Committee (BRC) oversees counterparty credit risk.
- Sharjah Islamic Bank Market Risk & Treasury Department operates independently, reporting directly to the SIB Chief Risk Officer (CRO) and Head of Investment, Treasury & Financial Institutions respectively, and is tasked with measuring, monitoring, and assisting in managing counterparty credit risk.

Identification:

- The Bank employs existing credit underwriting processes, New Products and Process Approvals, and ongoing discussions with business units and customers to manage CCR.

Measurement:

- Various metrics, including Mark-to-Market, Potential Future Exposure, Issuer (Risk) Exposure, Repo Exposure, and Settlement (Risk) Exposure, are assed using approved risk measurement methodologies.

Monitoring, Control, and Reporting:

- Authorized sales activities and risk types are strictly adhered to within the Sharjah Islamic Bank Treasury Department.

- Regular monitoring against approved CCR limits is conducted, with any exceptions reported and escalated to relevant authority

- CCR limits are reviewed annually and adjusted as necessary based on changes in counterparty creditworthiness and business plans.

- Collateral agreements may be utilized to cover mark-to-market exposures, with provisions for additional collateral if exposures exceed agreed thresholds.

Counterparty Credit Risk Limits:

- The Bank credit policy emphasizes core credit principles, financing guidelines, control, monitoring, and reporting requirements, including provisioning for high-risk customers.

Counterparty Credit Risk Capital Calculation:

- The Bank calculates capital adequacy requirements for Over the Counter (OTC) Islamic derivatives using the Standardized Approach to Counterparty Credit Risk Capital Calculation (SA-CCR), transitioning from the current exposure method.

Credit Valuation Adjustment (CVA) Capital Charge

AED 000

	Details	a EAD post-CRM	b RWA
1	All portfolios subject to the Standardised CVA capital charge*	728,569	90,716
2	All portfolios subject to the Simple alternative CVA capital charge	-	-

The table presents the Credit Valuation Adjustment (CVA) Capital Charge as of Q4/2023. It shows the Exposure at Default (EAD) post-Credit Risk Mitigation (CRM) and the corresponding Risk-Weighted Assets (RWA) for portfolios subject to the Standardised CVA capital charge. This information is essential in understanding the bank's capital requirements related to the risk of counterparty default in derivatives transactions.

12.11Composition of collateral for CCR exposure (CCR)

AED 000

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency						
Cash - other currencies					3,840,191	
Domestic sovereign debt						489,320
Government agency debt						1,209,253
Corporate bonds						2,995,552
Equity securities						
Other collateral						
Total					**3,840,191**	**4,694,127**

Collateralized (Repo) Murhaba / Wakala under the Murhaba / Wakala structure is a product intended to mobilize funds for Sharjah Islamic Bank up to 3 months which is referred as short-term transaction and more than 1 year and up to 5 years which is referred as long-term transaction from other banks. The product shall require SIB to pledge or offer bank's sukuk investments in the held to maturity (HTM) or other comprehensive income (OCI) portfolio as collateral to the other banks These sukuks will be held under the custody of these other banks in their custody accounts and can be replaced anytime during the period of financing with mutual consent. The financing value will be based on the fund-to-value (FTV) or Loan -to-Value (LTV) of individual sukuks which was selected or chosen for pledge as collateral.

14) Market Risk (MRA)

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit Margin Risk

The Group is not significantly exposed to risk in terms of re-pricing its customer deposits, since, in accordance with Islamic Sharia, the Group does not provide a contractual rate of return to its investment account holders. The return payable to depositors and investment account holders is based on the principal of the mudaraba, by which the depositors and investment account holders agree to share the profits made by the Group's mudaraba asset pool over a given period.

Profit rate risk

The principal risk to which non-trading portfolios are exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. Profit rate risk primarily comprises of market and valuation risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO

Currency risk

Currency risk is the risk that the Group's income or value of a financial instrument, other than functional currency denominated financial instruments, will fluctuate because of changes in foreign exchange rates.
Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Group's open position and current and expected exchange rate movements. Group does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

Market risk under the standardised approach – (MR1)

AED 000

Details	RWA
General Interest rate risk (General and Specific)	-
Equity risk (General and Specific)	-
Foreign exchange risk	166,119
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	-
Securitisation	-
Total	**166,119**

Market risk, as of Q4 /2023, primarily consisted of foreign exchange risk amounting to AED 0.166 billion in Risk-Weighted Assets (RWA). The bank does not have significant exposure to other types of market risks like equity, commodity, or general interest rate risk under the standardized approach, suggesting a focused market risk profile.

15) Profit Rate Risk in the Banking Book (PRRBB)

1. Profit Rate Risk in the Banking Book (PRRBB) refers to the risk to SIB's capital and earnings arising from the adverse movements in profit rates on its banking book. When profit rates change, the present value and the timing of the future cash flows change, impacting the economic value of SIB's balance sheet. Changes in profit rates affect SIB's earnings by altering profit rate-sensitive income and costs, impacting its Net Profit Income (NPI).

2. SIB's Board is responsible for risk management through provision of overall strategy and oversight through the Board approved Marked Risk Policy which covers the management of PRRBB. The policy also sets the overall risk appetite for PRRBB.

   SIB Board policy is executed via delegated authority to the Bank's Board and Management Committees, which includes the Asset Liability Committee (ALCO). These committees are responsible for the setting, approval and implementation of limits that are within their Board-approved authority. These committees also ensure that appropriate processes and controls are in place so that relevant risks are identified, measured and reported against approved risk limits as well as to authorize appropriate action (if required) in case of a limit breach.

   The Bank's Risk Management Division is responsible for the oversight of the risk process. This includes ensuring that appropriate risk limits are established and controls are in place for the escalation of risk limit breaches.

   SIB operates under a three "lines of defense" model with respect to the governance, oversight and controls. This includes management and controls for PRRBB. ALCO oversees the management of PRRBB. The business units and Treasury are the first line functions responsible for the management of the risk, while the Risk and the Financial Control serve as the second line of defense. The Internal Audit as the third line function which reviews the management and controls processes.

   The objective of managing PRRBB is to manage the exposure to profit rate risk in the Banking Book within acceptable limits using approved products within the mandates available to the first line functions. Risks are managed through matching of balance sheet assets and liabilities. Treasury in consultation with Risk has the discretion to hedge specific transactions and residual exposures through the use of derivatives. Significant hedging initiatives are approved by ALCO.

3. Daily controls are operated to monitor movements in the PRRBB profile. The calculation of the Bank's PRRBB measurements are reported on a monthly basis to ALCO. The impact of profit rates shocks is factored as part of the Bank's stress testing and within ICAAP and the results are presented to the senior management.

   The key standard measurements applied are:
   - Economic Value of Equity based on Basel prescribed standardized profit rate shocks;
   - Sensitivity to Net Profit Income (NPI) over a 12 month horizon;
   - Repricing Gap statement; and
   - DV01

4. The prescribed standardized profit rate shocks are used in line with the Basel and CBUAE guidelines. Scenario 1 - Parallel Shock Up - A constant parallel shock up across all time buckets; Scenario 2 - Parallel Shock Down - A constant parallel shock down across all time buckets; Scenario 3 - Steepener Shock - Short rates move down and long rates move up;

Scenario 4 - Flattener Shock - Short rates move up and long rates move down; Scenario 5 - Short Rate Shock Up - A shock up which is greatest at the shortest tenor midpoint. The shock diminishes towards zero at the tenor of the longest point; 6. Short Rate Shock Down - A shock down which is greatest at the shortest tenor midpoint. The shock diminishes to zero at the tenor of the longest point.

5. Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (ie the EVE metric generated by the bank for purposes other than disclosure, eg for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure Template PRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (eg. historical data, published research, management judgment and analysis).

6. Bank's PRRBB exposures are managed by the Treasury function. ALM derivatives transactions are entered in a buy and hold till maturity basis matching with the underlying transactions in the Bank's book for which the profit rate risk is mitigated. Profit rate swaps are used, while in some case there are some natural hedges in terms of matching of assets and liabilities with similar tenors. Hedging strategies are approved by the ALCO.

7. Repricing of non-maturity deposits is determined by overlaying Basel prescribed caps based on the internal estimation of core and non-core balances dependent on the account characteristics.

   Bank does not have significant exposure in foreign currencies.

8. Quantitative disclosure

Sl.No	Re-pricing maturity assigned to non-maturity	Q4/ 2023
1.	Average repricing maturity assigned to NMDs	Monthly
2.	Longest repricing maturity assigned to NMDs	4 Years

15.1) Profit Rate Risk in the Banking Book (PRRBB)

AED 000

Details	ΔEVE		ΔNII	
Period	**Q4/2023**	**Q4/2022**	**Q4/2023**	**Q4/2022**
Parallel up	(576,913)	(441,968)	309,674	(368,293)
Parallel down	679,186	528,115	(447,185)	228,296
Steepener	(279,485)	(262,467)		
Flattener	149,454	162,549		
Short rate up	(118,289)	(49,782)		
Short rate down	124,032	52,217		
Maximum	(576,913)	(441,948)		
Period	**Q4/2023**		**Q4/2022**	
Tier 1 capital	**7,669,245**		**7,362,483**	

The bank defines PRRBB as the risk to its capital and earnings from adverse movements in profit rates. The management strategy includes monitoring economic value, hedging practices, and stress testing, overseen by the Asset Liability Committee (ALCO) and the Risk Management Division. This approach shows the bank's proactive measures to mitigate profit rate risks.

16) Operational Risk (OR1)

1. Operational Risk:

Sharjah Islamic Bank has adopted BASEL definition of Operational risk as risk of loss resulting from inadequate or failed internal processes, systems, and people or from external events and includes legal risk but excludes strategic and reputational risk. This definition provides a measurable basis for operational risks and is based on the underlying causes of operational risk events classified as People, Processes, Systems & External events.

2. SIB Operational Risk Governance:

Sharjah Islamic Bank's Board Risk Committee assumes overall responsibility for operational risk management.

Sharjah Islamic Bank has a comprehensive framework in place to enable Sharjah Islamic Bank & its subsidiaries to identify, assess, evaluate, monitor, mitigate and control operational risk. The operational risk governance framework consists of strategies, policies, processes, procedures, systems & controls.

The operational risk governance framework has been developed as part of the Board & Senior Management commitment and endeavour to implement the best operational risk management practices across the Bank & its Subsidiaries and will be reviewed & revised annually in line with Bank's Business Strategy.

The objective of the framework includes having a robust operational risk culture, fostering a strong control environment, facilitating an effective & efficient disaster recovery & Business continuity, setting clear expectations for integrity, ethical value and ensuring proper functioning of the three lines of defence.

a. First Line of Defence

Sharjah Islamic Bank Business line management is responsible for identification and control of risks. Sharjah Islamic focus has been to foster a sense of accountability amongst the Business Units and facilitate the ownership and management of Risks by the Business Units. Hence it has adopted a "designated" model for managing Operational Risks whereby individuals (designated "Risk Champions" and "Risk Assessors") within BUs are nominated to facilitate OR activities within their Department and coordinating with Group Operational Risk Management.

b. Second Line of Defence

The Second Line of Defense for Operational Risk includes the Group Operational Risk Management Department which is responsible for the overall development and governance of the OR framework and coordinating on all the Operational Risk activities of the Bank.

c. Third Line of Defence

The Third Line of Defense includes the Internal Audit Unit, which is responsible for providing independent assurance on the Bank's Operational risk management activities.

3. Operational Risk Management Process:

The Bank's ORM process includes Risk identification and assessment, control & mitigation, monitoring & reporting and communication & consultation. The objectives of Operational Risk Management (ORM) process in the Bank are to achieve adequate and strong risk control, enable adequate capital allocation in respect of potential impact of operational risk and to minimize the impact of operational risks and reduce losses.

Tools for Operational Risk (OR) Management.

The Bank uses a combination of tools for identifying, assessing, monitoring, controlling or mitigating and reporting operational risks.

1. Risk Control Self-Assessment
2. Key Risk Indicators
3. Loss Data Collection & Analysis

For facilitating an effective operational risk management, the Bank has implemented a sound operational risk management system comprising the different tools.

Bank's approach to assessment of operational risk also address the following items:

a. Establishing and monitoring thresholds / limits for risk exposure.
b. Calibration of identified risks against operational risk appetite limits.
c. Providing for common operational risk terminology.

4. Risk controls and mitigation:

Sharjah Islamic Bank's Control Environment includes segregation of duties and dual controls, clearly established authorities and/or processes for approvals, close monitoring of adherence to assigned risk thresholds or limits, safeguards for access to and use of Bank assets and records, appropriate staffing level and training to maintain expertise, on-going processes to identify business lines or products where returns appear to be out of line with reasonable expectations, regular verification and reconciliation of transactions and accounts, a vacation policy that requires officers and employees to take a minimum leave of absence.

All risks that have been identified as requiring mitigation during the risk assessment stage are treated in one of the following ways:

1. Avoiding the risk
2. Transfer/sharing the risk
3. Implementing improved control procedures
4. Accepting the risk.

As part of the evaluation and selection of a mitigation strategy, Sharjah Islamic Bank considers the cost effectiveness of the strategy. To be effective, the cost of any mitigating action needs to be measured against the potential losses that may arise from the risk event occurring. Sharjah Islamic Bank also has in place various insurance arrangements to reduce the impact of operational losses.

Sharjah Islamic Bank currently follows the Basic Indicator Approach in calculating operational risk capital requirements in line with CBUAE requirements. Additional frameworks are in place complementing the Operational Risk Governance Framework in addressing specific risk types including but not limited to:

a) Fraud Risk Management policy.
b) Business Continuity Management Policy including the periodical testing.
c) Outsourcing Risk Policy.

5. Operational Risk reporting

Since operational risks continually evolve along with the dynamic business strategies and changing external market conditions, Operational risks are regularly monitored, reviewed and reported to Group Chief Risk Officer and Board Risk Committee to enable better understanding and assessment of the Bank's operational risk exposures.

17) Remuneration Policy (REMA)

This Compensation & remuneration policy establishes SIB's endeavor to ensure the appropriate compensation and benefits offered are the best to attract, motivate and retain the right talent in line with requirements of business, labor market and legal clauses of the UAE Labor Law. This policy forms a framework of administration and organization of salary and benefits components by relating pay to the job and recognizing difference in skill levels corresponding to job value. It encompasses the SIB compensation philosophy, Emiratization vision and fair dealing for all.

The Board Nomination and Compensation Committee has concurred to apply this policy across SIB and its subsidiaries.

BNCC approves all / any revisions to the compensation structure on behalf of the Board of Directors and maintains an independent oversight and control to review and approve HR policies and strategies endorsed by the CEO of the Bank. BNCC also focuses on issues related to Rewards including bonus distribution criteria, variable pay, to ensure the appropriate balance and fair dealing.

Material Risk Takers identification:

From a risk and reputation perspective, SIB has identified the criteria of individuals with substantial influence on the strategic & financial decisions having long-term implications for the bank. It includes individuals whose duty involves the assumption of risk or exposure, who are engaged in the design, management of financial securities and products for the Bank. In SIB we have 3 Seniors identified as material risk takers.

- Senior Management includes but not limited to- the CEO, CFO, CRO and heads of compliance and internal audit functions, as defined by CBUAE from time to time.
- Individuals with a substantial influence on the strategic planning of the bank, as strategic decisions can have long-term implications for the bank's risk profile.
- Heads of all subsidiaries who are responsible and authorized to take key decisions for the company, shall be a part of this list.

The list of material risk takers will be reviewed annually as per current regulatory requirements, and the bank's risk management needs, which may also evolve over time based on changes in the financial industry.

SIB Compensation and Remuneration Policy aims to establish guidelines detailing compensation and remuneration practice in SIB. It provides an established framework that recognizes and rewards employee performance aligned to business strategy and vision. The policy provides competitive remuneration to attract and retain qualified individuals whose values and performance contributes to the success and growth of SIB. The policy supports sound corporate governance and incentives aligned to prudent risk taking.

- Presents a structure and details of the applicable compensation & benefits components.
- Ensure a visible and transparent view of overall compensation & benefits practice, in SIB.
- Set approved guidelines for overall administration of all compensation & benefits components, included in this policy.
- Supplement other HR functions like talent acquisition, performance management and employee retention, through a well-defined remuneration & benefits package.
- Promote and sustain a high performance culture to support overall business strategy by adopting a competitive reward & benefit strategy.
- Ensure compliance with UAE Labor Law and CBUAE regulations.
- Ensure that all employees are treated fairly and equitably, regardless of their gender, race, or any other characteristics.

SIB regularly benchmarks its policies and practices with the local banks to stay ahead of the market. Our bonus are defined using performance/target based criteria, through yearly appraisals towards rewarding employees for high and qualitative performance.

18) Remuneration (REM 1)

18.1)Remuneration awarded during the financial year (REM 1)

AED 000

Remuneration Amount		Senior Management	Other Material Risk-takers
Fixed Remuneration	Number of employees	13	3
	Total fixed remuneration	23,753	2,754
	Of which: cash-based	23,753	2,754
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Variable Remuneration	Number of employees	-	-
	Total variable remuneration	-	-
	Of which: cash-based	-	-
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Total Remuneration		**23,753**	**2,754**

The bank's remuneration policy for 2023 included fixed and variable components, with details on number of employees receiving each type and the total remuneration amount. The policy align employee incentives with the bank's overall risk management and performance goals.

18.2 Special payments (REM2)

AED 000

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	-------	-------	-----	-----	------	-------
Other material risk-takers	-------	-------	-----	-----	-----	-----

18.3 Deferred remuneration (REM3)

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	-----	-----	-----	-----	-----
Cash	-----	-----	-----	-----	-----
Shares	-----	-----	-----	-----	-----
Cash-linked instruments	-----	-----	-----	-----	-----
Other	-----	-----	-----	-----	-----
Other material risk-takers	-----	-----	-----	-----	-----
Cash	-----	-----	-----	-----	-----
Shares	-----	-----	-----	-----	-----
Cash-linked instruments	-----	-----	-----	-----	-----
Other	-----	-----	-----	-----	-----
Total	-----	-----	-----	-----	-----

19) Details of Not Applicable Tables

Sl. No	Topic	Information	Table	Details
01.	Prudential valuation adjustments	Prudent valuation adjustments	PV1	Not Applicable
02.	Macro prudential Supervisory measures	Geographical distribution of credit exposures used in the countercyclical buffer	CCyB1	
03.	Counterparty credit risk (CCR)	Analysis of CCR by approach	CCR1	
04.		Standardised approach - CCR exposures by regulatory portfolio and risk weights	CCR3	
05.		Composition of collateral for CCR exposure	CCR5	
06.		Credit derivatives exposures	CCR6	
07.		Exposures to central counterparties	CCR8	
08.	Securitisation	Qualitative disclosures related to securitisation exposures	SECA	
9.		Securitisation exposures in the banking book	SEC1	
10.		Securitisation exposures in the trading book	SEC2	
11.		Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor	SEC3	
12.		Securitisation exposures in the trading book and associated capital requirements - bank acting as investor	SEC4	
13.	Remuneration Policy	Special payments	REM2	
14.		Deferred remuneration	REM3	

20) Abbreviation

ALCO – Asset Liability Committee
ASRR – Advance to Stable Resource Ratio
BIA – Basic Indicator Approach
BRC – Board Risk Committee
CCB – Capital Conservative Buffer
CCF – Credit Conversion Factor
CCP – Central Counterparty
CCyB – Countercyclical Buffer
CET – Common Equity
CRM – Credit Risk Mitigation
CVA – Credit Valuation Adjustment
EAD – Exposure at Default
ECL – Expected Credit Loss
EIF – Equity Investment in Funds
ELAR – Eligible Liquid Assets Ratio
EVE – Economic Value of Equity
FCD – Financial Control Division
ICAAP –Internal Capital Adequacy Assessment Process
ILAA – Internal Liquidity Adequacy Assessment
IRB – Internal Rating Based
LCR – Liquidity Coverage Ratio
LGD – Loss Given Default
NSFR – Net Stable Funding Ratio
NAV – Net Asset Value
OCI – Other Comprehensive Income
PD – Probability of Default
PL – Profit and Loss
PRRBB – Profit Rate Risk in the Banking Book
RWA –Risk weighted assets
SIB –Sharjah Islamic Bank
SRP – Supervisory Review Process