MCB Bank Limited – UAE Branch

BASEL – PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2021

Contents

1. Introduction to Bank

MCB Bank Limited (the "Head Office") is a Pakistan registered bank with its principal office in Lahore, Pakistan. It commenced its operations in the United Arab Emirates (UAE) in 2014 as a wholesale bank and currently has one branch (the "Bank") in Dubai. The address of the registered office of the Bank is P.O. Box 6481, Dubai.

2. Introduction to Bank's Capital adequacy framework

Central Bank of UAE published final Capital Adequacy Standards and Guidance along with Notice 4980/2020 on 12th November 2020. This included revised Standards and Guidance with respect to Pillar 3 – Market Disclosures. Further to this, the Central Bank of UAE provided explanatory notes and disclosure templates for Pillar 3 on 30th November 2021 as part of Notice 5508/2021. The Standards prescribed the effective date of these disclosures to be 31st December 2021 and quarterly thereon.

This document presents the Pillar 3 disclosures of MCB Bank Limited – UAE Branch ("the Bank") as at 31 December 2021. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Pillar 3 disclosures are to be read in conjunction with the Audited Financial Statements for the year ended 31 December 2021.

2.1 Regulatory Framework

The framework is structured around the following three Pillars:

1. Pillar 1 on minimum capital requirements for credit, market and operational risk
2. Pillar 2 on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
3. Pillar 3 on market discipline

2.2 Pillar 1 – Minimum Capital Requirement

Pillar 1 defines the total minimum capital requirements for credit, market and operational risk. MCB Bank Limited - UAE Branch uses standardized approach for assessment of Credit, Market and Operational Risk weighted assets (RWA). Under the standardized approach, regulatory prescribed risk weights and parameters are applied to calculate Pillar 1 capital requirements.

CBUAE has put in regulatory thresholds for Common Equity Tier 1, Tier 1 and overall regulatory Capital.

1. CET1 must be at least 7.0% of risk weighted assets (RWA);
2. Tier 1 Capital must be at least 8.5% of RWA;
3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.

On top of this minimum capital requirement CBUAE has also mandated the Banks to keep additional buffers.

- In addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital
- To achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth and in addition to the CCB requirements, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet the CCyB requirements by using CET1 capital. The level of the CCyB requirements will vary between 0% - 2.5% of RWA and be communicated by the Central Bank with an adequate notice period.

These requirements are summarized in the table below:

Capital Element	Requirement
Minimum Common Equity Tier 1 Ratio	7.0%
Minimum Tier 1 Capital Ratio	8.5%
Minimum Capital Adequacy Ratio	10.5%
Capital Conservation Buffer	2.5%
Domestic Systemically Important Banks Buffer	1.5%
Countercyclical buffer (0% - 2.5%)	0%

The capital ratios for MCB Bank Limited - UAE Branch as of 31 December 2021 are given below. All of these are well above the CBUAE minimum.

Common Equity Tier 1 Ratio	31.14%
Capital Adequacy Ratio	32.22%

2.3 Pillar 2 – ICAAP and Supervisory Review Process

The ICAAP is considered as an essential tool to address all current and potential material risks. MCB Bank ensures that it not only satisfies the minimum regulatory capital requirements of CBUAE but also maintains appropriate internal capital levels in line with the current and anticipated capital requirements and to withstand stress scenarios. Key highlights of ICAAP are as below:

- Business background & Group structure
- Business model and products offered by bank
- Stress Testing
- Risk assessment and disclosures
- Business strategy & financial projections

2.4 Pillar 3 – Market Discipline

The Bank discloses to its external stakeholder's detailed qualitative and quantitative information on its risk management practice and capital adequacy in line with the CBUAE Pillar 3 guidelines. Pillar 3 complements the Pillar 1 - minimum capital requirements and the Pillar 2 – ICAAP and supervisory review process. The purpose of Pillar 3 disclosures is to enhance market discipline through disclosure requirements which allows market participants to assess the risk exposures of the Bank around capital, material risk exposures and internal risk assessment processes and mitigation strategies, and hence assess the strength of the Bank. The reporting frequency of the revised set of disclosures has been defined by CBUAE.

3. Overview of risk management and RWA

3.1 KM1: Key metrics (at consolidated group level)

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	87,379				
1a	Fully loaded ECL accounting model	87,379				
2	Tier 1	87,379				
2a	Fully loaded ECL accounting model Tier 1	87,379				
3	Total capital	90,418				
3a	Fully loaded ECL accounting model total capital	90,418				
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	280,632				
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	31.1%				
5a	Fully loaded ECL accounting model CET1 (%)	31.1%				
6	Tier 1 ratio (%)	31.1%				
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	31.1%				
7	Total capital ratio (%)	32.2%				
7a	Fully loaded ECL accounting model total capital ratio (%)	32.2%				
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%				
9	Countercyclical buffer requirement (%)	0.0%				
10	Bank D-SIB additional requirements (%)	0.0%				
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%				

12	CET1 available after meeting the bank's minimum capital requirements (%)	21.7%	
	Leverage Ratio		
13	Total leverage ratio measure	1,025,901	
14	Leverage ratio (%) (row 2/row 13)	8.6%	
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	8.6%	
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.6%	
	Liquidity Coverage Ratio		
15	Total HQLA		
16	Total net cash outflow		
17	LCR ratio (%)		
	Net Stable Funding Ratio		
18	Total available stable funding		
19	Total required stable funding		
20	NSFR ratio (%)		
	ELAR		
21	Total HQLA	627,771	
22	Total liabilities	923,720	
23	Eligible Liquid Assets Ratio (ELAR) (%)	68%	
	ASRR		
24	Total available stable funding	856,467	
25	Total Advances	64,992	
26	Advances to Stable Resources Ratio (%)	7.6%	

3.2 OVA: Bank Risk Management Approach

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its Global Risk Management Policy, Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Bank's risk management structure is based on the following five guiding principles:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing & maintaining independent and properly resourced risk management function.
- Promoting an open risk culture
- Adopting international best practices in risk management

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. Under the valuable guidance of senior management, the Bank has a proactive approach in dealing with factors that influence the financial standing of the bank, to generate recurrent earnings and to maximize shareholder's value by achieving an appropriate trade-off between risk and returns. An effective risk management framework along-with a robust risk governance structure, strong capital & liquidity coupled with a good quality of credit portfolio remains a cornerstone of the Bank's risk management goals.

Independence of areas that are responsible for measuring, analyzing, controlling and monitoring risk from the frontline risk takers (i.e. business soliciting groups) is ensured within the Bank.

Risk takers and Risk controllers have independent reporting lines, yet work together to increase Bank's value via efficient utilization of capital. Through a four eye principle for credit approval levels for corporate and retail banking, all exposure related requests are approved with the formal consent of at least two authorized individuals including one from the business side having credit approval authority and the other from risk management side having credit review authority.

The BOD and its RM&PRC have ensured formulation and implementation of a comprehensive risk management framework. Under the BOD's guidance, the Bank executed an effective risk strategy and continued to undertake controlled risk-taking activities within the risk management framework; combining core policies, procedures and process design with active portfolio management. The risk management framework requires strong integrated risk management practices in key strategic, capital and financial planning processes and day-to-day business processes across the organization, with a goal to ensure that risks are appropriately considered, evaluated and responded to in a timely manner.

As a matter of principle, the Bank constantly endeavors to improve its risk management framework in the light of the international best practices and regulatory guidelines. Accordingly, all policies and procedural documents that form part of the Bank's risk management framework are regularly reviewed to keep them aligned with changing market dynamics, regulatory environment and international standards.

The RM & PRC guides the management on its risk taking activities within the policy framework approved by the BOD. Regular meetings of RM&PRC are convened to oversee the risk exposures and their trends as a result of the various initiatives undertaken by the Bank. The committee reviews different aspects of the loan portfolio which, among others, includes asset growth, credit quality, credit concentration, lending business trend and cross sectional analysis. Review of various aspects of country risk, liquidity risk, market risk covering interest rate risk, foreign exchange risk, equity price risk, technology risk along with the stress-testing is also a regular feature. Operational risk assessments, key risk indicators and major findings of Risk & Control Self Assessment (RCSA) pertaining to processes, people, systems, technology and reputation are also regularly reviewed by the committee.

3.3 OV1: Overview of RWA

All numbers in AED 000s

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)	243,141		25,530
2	Of which: standardised approach (SA)	243,141		25,530
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	-		-
7	Of which: standardised approach for counterparty credit risk	-		-
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)			
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach	0		0
13	Equity investments in funds - mandate-based approach	0		0
14	Equity investments in funds - fall-back approach	0		0
15	Settlement risk	0		0
16	Securitisation exposures in the banking book	0		0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			

18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0		0
19	Of which: securitisation standardised approach (SEC-SA)	0		0
20	Market risk	3,031		318.26
21	Of which: standardised approach (SA)	3,031		318.26
22	Of which: internal models approach (IMA)			
23	Operational risk	34,460		3,618.3
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	Total (1+6+10+11+12+13+14+15+16+20+23)	280,632		29,466

4. Linkages between financial statements and regulatory exposures

4.1 LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to: Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,013,382	1,013,382			
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(924,393)	(924,393)			
3	Total net amount under regulatory scope of consolidation	88,989	88,989			
4	Off-balance sheet amounts* (including uncommitted facilities)	22,512	22,512			
5	Debt instruments collateralized under repurchase agreements	-	-			
6	Total Potential Future Exposure (PFE)	-	-			
7	Differences due to different netting rules and alpha factor under standarised approach (1.4x)	-	-			
8	Differences due to consideration of provisions and IIS	-	-			
9	Differences due to prudential filters	-	-			
10	Exposure amounts considered for regulatory purposes	111,501	111,501			

* excluding Acceptances and Derivatives

5. Composition of capital

5.1 CC1: Composition of regulatory capital

		a	b
		Amounts	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	62,529	Same as (h) from CC2 template
2	Retained earnings	21,824	
3	Accumulated other comprehensive income (and other reserves)	3,538	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	0	
5	Common share capital issued by third parties (amount allowed in group CET1)	0	
6	Common Equity Tier 1 capital before regulatory deductions	87,891	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	0	
8	Goodwill (net of related tax liability)	0	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	0	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0	
11	Cash flow hedge reserve	0	
12	Securitisation gain on sale	0	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
14	Defined benefit pension fund net assets	0	

15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	0	
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)	0	
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)	0	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	512	
20	Amount exceeding 15% threshold	0	
21	Of which: significant investments in the common stock of financials	0	
22	Of which: deferred tax assets arising from temporary differences	0	
23	CBUAE specific regulatory adjustments	0	
24	Total regulatory adjustments to Common Equity Tier 1	512	
25	Common Equity Tier 1 capital (CET1)	87,379	
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	CC2 (i)
27	OF which: classified as equity under applicable accounting standards	0	
28	Of which: classified as liabilities under applicable accounting standards	0	
29	Directly issued capital instruments subject to phase-out from additional Tier 1	0	
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)	0	
31	Of which: instruments issued by subsidiaries subject to phase-out	0	
32	Additional Tier 1 capital before regulatory adjustments	0	
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	0	

34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
36	CBUAE specific regulatory adjustments	0	
37	Total regulatory adjustments to additional Tier 1 capital	0	
38	Additional Tier 1 capital (AT1)	0	
39	Tier 1 capital (T1= CET1 + AT1)	87,379	
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
41	Directly issued capital instruments subject to phase-out from Tier 2	0	
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)	0	
43	Of which: instruments issued by subsidiaries subject to phase-out	0	
44	Provisions	3,039	
45	Tier 2 capital before regulatory adjustments	3,039	
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	0	
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)	0	
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	
49	CBUAE specific regulatory adjustments	0	
50	Total regulatory adjustments to Tier 2 capital	3,039	
51	Tier 2 capital (T2)	3,039	
52	Total regulatory capital (TC = T1 + T2)	90,418	
53	Total risk-weighted assets	280,632	

	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	31.1%	
55	Tier 1 (as a percentage of risk-weighted assets)	31.1%	
56	Total capital (as a percentage of risk-weighted assets)	32.2%	
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)	0.0%	
58	Of which: capital conservation buffer requirement	0.0%	
59	Of which: bank-specific countercyclical buffer requirement	0.0%	
60	Of which: higher loss absorbency requirement (e.g. DSIB)	0.0%	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	21.7%	
	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7%	
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	0	
67	Mortgage servicing rights (net of related tax liability)		
68	Deferred tax assets arising from temporary differences (net of related tax liability)	512	
	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)	3,647	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	3,039	
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)	-	

5.2 CC2: Reconciliation of regulatory capital to balance sheet

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances with the Central Bank of UAE	627,771	627,771	
Deposits and balances due from banks	243,849	243,849	
Loans and advances to customers	63,473	63,473	
Investments held at amortised cost	49,504	49,504	
Due from related parties	20,892	20,892	
Deferred tax assets	512	512	
Other assets	2,008	2,008	
Property and equipment	5,373	5,373	
Total assets	1,013,382	1,013,382	
Liabilities			
Deposits and balances due to a bank	99	99	
Due to related parties	19,373	19,373	
Customers’ deposits	897,531	897,531	
Other liabilities	7,390	7,390	
Total liabilities	924,393	924,393	
Shareholders' equity			
Designated capital	62,529	62,529	
Retained earnings	21,824	21,824	
Statutory reserve	3,538	3,538	
Regulatory general impairment reserve	1,098	1,098	
Total shareholders' equity	88,989	88,989	

5.3 CCA: Main features of regulatory capital instruments

		a
		Quantitative / qualitative information
1	Issuer	N/A
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	N/A
	Regulatory treatment	N/A
4	Transitional arrangement rules (i.e. grandfathering)	N/A
5	Post-transitional arrangement rules (i.e. grandfathering)	N/A
6	Eligible at solo/group/group and solo	N/A
7	Instrument type (types to be specified by each jurisdiction)	N/A
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	N/A
9	Nominal amount of instrument	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	N/A
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	N/A
17	Fixed or floating dividend/coupon	N/A

18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step-up or other incentive to redeem	N/A
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	Writedown feature	N/A
25	If writedown, writedown trigger(s)	N/A
26	If writedown, full or partial	N/A
27	If writedown, permanent or temporary	N/A
28	If temporary write-own, description of writeup mechanism	N/A
28a	Type of subordination	N/A
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A
30	Non-compliant transitioned features	N/A
31	If yes, specify non-compliant features	N/A

5.4 CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

	a	b	c	d	e
Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
Home Country 1	N/A	N/A	N/A		
Country 2	N/A	N/A	N/A		
Country 3	N/A	N/A	N/A		
…..	N/A	N/A	N/A		
Country N	N/A	N/A	N/A		
Sum		N/A	N/A		
Total		N/A	N/A	N/A	N/A

6. Leverage ratio

LR2: Leverage ratio common disclosure template

All numbers in AED 000s

		a	b
		T	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,015,945	
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)	1,015,945	
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	-	
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	
16	CCR exposure for SFT assets	-	
17	Agent transaction exposures	-	
18	Total securities financing transaction exposures (sum of rows 14 to 17)	-	
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	22,512	
20	(Adjustments for conversion to credit equivalent amounts)	-12,556	
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)	9,956	
Capital and total exposures			
23	Tier 1 capital	87,379	
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,025,901	
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	-	
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	
26	CBUAE minimum leverage ratio requirement	-	
27	Applicable leverage buffers	-	

7. Liquidity

7.1 LIQA: Liquidity risk management

a) Overview and Governance of liquidity risk management.
Liquidity risk is the risk of the Bank not being able to generate sufficient cash flow at reasonable cost to meet expected and / or unexpected claims.

The liquidity risk strategy of the bank is to ensure that the Group remains adequately liquid by always ensuring a sustainable balance of liquid assets to meet expected and contingent outflows. This is done through adherence with Basel III guidelines. In addition, the Bank also manages liquidity risk through a range of internal measures like cash flow mismatches, concentrations, diversified funding sources etc.

b) Stress testing
Stress testing is an integral part of Bank's liquidity risk management framework and is used to evaluate potential vulnerability to survive liquidity stress events. Stress testing provides forward looking assessments of risk, alerting the Bank to adverse unexpected outcomes related to a variety of severe but plausible shock scenarios – both idiosyncratic and systemic. Stress testing identifies key risk drivers that the
group is exposed to and provides an indication of the level of liquid asset buffers that the Bank needs to hold if large shocks were to occur.

c) Bank's contingency funding plans
Bank's Contingency Funding Plan (CFP) is an essential tool to provide Early Warnings Indicators (EWI) of a potential stress event, thereby allowing the Bank sufficient time to take remedial actions to protect itself against liquidity risks.

d) Concentration limits on collateral pools and sources of funding
Bank has set concentration limits on its different funding sources eg: Customer deposits, capital market funds, secured and unsecured money market borrowings et.al.

7.2 ELAR: Eligible Liquid Assets Ratio

Eligible Liquid Assets Ratio is a Basel III liquidity requirement.

All numbers in AED 000s

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	627,771	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	627,771	627,771
1.3	UAE local governments publicly traded debt securities	-	
1.4	UAE Public sector publicly traded debt securities	-	
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	0
1.6	Total	627,771	627,771
2	Total liabilities		923,720
3	Eligible Liquid Assets Ratio (ELAR)		0.68

7.3 ASRR: Advances to Stables Resource Ratio

1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	64,992
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-
	1.4	Interbank Placements	-
	1.5	Total Advances	64,992
2		Calculation of Net Stable Ressources	
	2.1	Total capital + general provisions	91,551
		Deduct:	
	2.1.1	Goodwill and other intangible assets	-
	2.1.2	Fixed Assets	2,079
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	Total deduction	2,079
	2.2	Net Free Capital Funds	89,472
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	-
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	-
	2.3.5	Customer Deposits	766,995
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	Total other stable resources	766,995
	2.4	Total Stable Resources (2.2+2.3.7)	856,467
3		Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	7.59

8. Credit risk

8.1 CRA: General qualitative information about credit risk

Definition

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Bank to incur a financial loss. It arises principally from the advances and, due from banks and financial institutions, investment and certain other assets.

Credit risk review ensures to minimize credit risk associated at account and portfolio level. During the year 2021, the Bank continued with the policy to remain selective in disbursing its loan to low risk customers across all the industries & maintains a fairly diversified loan portfolio. Risk Review successfully managed to evaluate and approve increased number of loan requests, within required turnaround time, both for domestic and international operations. An in-house request tracking & turnaround time monitoring software ensures tracking of proposals and monitoring of turnaround-time of credit proposals routed through the Risk Management Group. The Bank's implemented Loan Origination System (LOS) for end to end automation of credit approval process, facilitates effective management of internal policies and controls as well as regulatory requirements while also contributing towards its transition to a paperless environment under the Green Banking initiative.

For risk categorized as sovereign/ government risk, the lending exposure is spread over multiple government owned or controlled organizations and departments which are engaged in a variety of tasks that range from different development related works to utility distribution and production. To manage adverse outcomes in terms of unfavorable scenarios, multiple control factors in the lending structure of the Bank provide additional comfort and support. Such controls range from quality of eligible collateral, pre-disbursement safety measures to post disbursement monitoring.

In order to further enhance the credit risk analysis, the bank has in place a probability of default based Internal Credit Risk Rating (ICRR) system which is based on statistical modeling and validation in line with Basel principles. The ICRR is currently focused on corporate-commercial customer category.

8.2 CR1: Credit quality of assets

All numbers in AED 000s

		Gross carrying values of		Allowances / Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	-	64,991	1,518	-	-	63,473
2	Debt securities	-	-	-	-	-	-
3	Off-balance sheet exposures	-	22,512	-	-	-	22,512
4	Total	-	87,503	1,518	-	-	85,985

8.3 CR2: Changes in stock of defaulted loans and debt securities

All numbers in AED 000s

1	Defaulted loans and debt securities at the end of the previous reporting period	-
2	Net Loans and debt securities that have defaulted since the last reporting period	-
3	Defaulted loans and debt securities acquired during reporting period	-
4	Amounts written off	-
5	Other changes	-
6	Defaulted loans and debt securities at the end of the reporting period (1+2+3-4±5)	-

8.4 CRB: Additional disclosure related to the credit quality of assets

Definition of default

MCB UAE follows CBUAE guidelines as enumerated in their circular 28/2010, for classification of assets.

Impairment

MCB UAE incorporates forward-looking information into the assessment of the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Loss (ECL).

The Bank recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments:

- Deposits and balances due from banks ;
- Due from related party
- Loans and advances to customers
- Investments held at amortised cost
- financial commitment and guarantees

Impairment allowance by financial asset category is as follows:

31 December 2021

	AED 000
Deposits and balances due from banks	249
Loans and advances to customer	1,518
Due from related party	6
Investments held at amortised cost	789
Total	2,562

Breakdown of exposures by geographical areas:
The following table breaks down the Branch's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2021

31 December 2021

	Assets AED 000	Off-balance sheet items AED 000
Geographic regions		
UAE	705,052	22,512
Other Middle East Countries	90,463	-
O.E.C.D.	98,268	-
Other	119,599	-
Total	1,013,382	22,512

Breakdown of exposures by industry
The following table breaks down the Branch's credit exposures at their carrying amounts, categorised by industry:

	Assets AED 000	Off-balance sheet items AED 000
Industry Sector		
Financial Institutions	942,014	50
Trade	6,311	22,462
Manufacturing	5,732	-
Services	46,469	-
Construction	4,963	-
Textile	-	-
Other	7,893	-
Total	1,013,382	22,512

(f) MCB UAE is reporting NIL Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry

(g) As of 31st Dec 2021, MCB UAE is reporting NIL under past due, therefore ageing anaylsis on past due exposure is not applicable

(h) MCB UAE is reporting restructured exposure as NIL

The maturity profile of financial assets at 31 December 2021 was as follows:

	Less than 3 months AED 000	3 to 6 months AED 000	6 to 12 months AED 000	Over one year AED 000	No fixed maturity AED 000	Total AED 000
ASSETS						
Cash and balances with the Central Bank of UAE	584,695	-	-	-	43,076	627,771
Deposits and balances due from banks	243,843	-	-	-	-	243,843
Loans and advances to customers	16,209	8,887	27,933	10,444	-	63,473
Investments held at amortised cost	1,836	-	6,331	41,337	-	49,504
Due from a related party	20,898	-	-	-	-	20,898
Deferred tax assets	-	-	-	--	512	512
Other assets	1,640	-	-	-	-	1,640
Total	869,121	8,887	34,264	51,781	43,588	1,007,641

8.5 CR4: Standardized approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

All numbers in AED 000s

		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	675,431	-	675,431	-	75,440	11.2%
2	Public Sector Entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	269,388	-	269,388	-	103,262	38.3%
5	Securities firms	-	-	-	-	-	-
6	Corporates	60,599	22,512	55,767	14,787	56,964	80.7%
7	Regulatory retail portfolios	-	-		-	-	-
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	10,109	-	10,109	-	7,476	74.0%
14	Total	1,015,527	22,512	1,010,695	14,787	243,141	23.7%

8.6 CR5: Standardized approach - exposures by asset classes and risk weights

All numbers in AED 000s

	Risk weight / Asset classes	a	b	c	d	e	f	g	h	i
		0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	625,138	-	-	-	-	-	50,293	-	675,431
2	Public Sector Entities	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	106,816	-	161,348	-	1,225	-	-	269,389
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	3,413	-	18,178	-	42,380	-	5,662	69,633
7	Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-	-	-	-
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	2,633	-	-	-	-	7,476	-	-	10,109
14	Total	627,771	110,229	-	179,526	-	51,081	50,293	5,662	1,024,562

9. Market risk

9.1 MRA: General qualitative disclosure requirements related to market risk

Market Risk Overview

Market risk is the risk that the Group's income or capital will fluctuate on account of changes in the value of a financial instrument because of movements in market factors such as interest rates, credit spreads.

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

The Branch carries a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Branch is managed properly.

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Branch is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Branch uses monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by Local Management Committee. Since a portion of the Branch's assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branch's assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branch's statement of comprehensive income or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021, including the effect of hedging instruments. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED million.

The effective interest rate on loans and advances was 4.06% (2020: 4.2%) and on customers' deposits 0.15% (2020: 0.17%) per annum.

9.2 MR1: Market risk under the standardized approach (SA)

All numbers in AED 000s

	RWA
General Interest rate risk (General and Specific)	-
Equity risk (General and Specific)	-
Foreign exchange risk	3,031
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	-
Securitization	-
Total	3,031

10. Interest rate risk in the banking book

10.1 RBBA: IRRBB risk management objectives and policies

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

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

- **Yield curve risk**: this risk refers to the loss in earnings and economic value of the book caused by the change in the relative levels of interest rate of different tenors.

- Repricing gap: The bank monitor repricing gap on periodic basis and the same is also presented and discussed as part of ALCO monitoring. The Bank's gap is used in obtaining the difference between rate sensitive assets and rate sensitive liabilities, which is used to obtain the interest rate risk impact. NII is being assessed as part of this assessment.

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

Interest Rate Risk on Banking Book arises due to the mismatch in maturity or repricing of assets and liabilities. Banking Book is defined as the bank's structural position and includes all positions (assets and liabilities) excluding trading portfolio. Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings or economic value of the Bank's Banking Book as a consequence of movement in interest rates.

Based on IRRBB guideline six shocks scenarios are as follows:

a. Parallel shock up (+100bps)
b. Parallel shock down (-100bps)
c. Steepening of curve / shock (short rates down and long rate up)
d. Flattening of curve/ shock (short rates up and long rates down)
e. Short rates shock up
f. Short rates shock down

Sr.	**Description**	**Assumption**
1.	Average pricing maturity assigned to NMDs	No specific assumptions were applied to NMDs. All interest sensitive NMD's are assigned to overnight bucket.
2.	Longest pricing maturity assigned to NMDs	No specific assumptions were applied to NMDs. All interest sensitive NMD's are assigned to overnight bucket.

10.2 IRRBB1: Quantitative information on IRRBB

All numbers in AED 000s

	ΔEVE		ΔNII	
Period	Dec -21	Dec -20	Dec -21	Dec -20
Parallel up	9,263		6,692	
Parallel down*	(9,263)		(6,692)	
Steepener	(7,418)			
Flattener	16,032			
Short rate up	17,229			
Short rate down	(8,614)			
Maximum	17,229			
Period	**31 Dec 2021**			
Tier 1 capital	87,379			

11. Operational Risk

11.1 OR1: General qualitative information on a bank's operational risk framework

Operational Risk

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. Operational risk excludes strategic and reputational risk.

MCB has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring, and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units.
- Monitoring and validation by business.
- Oversight by Group Operational risk management and
- Independent review by Internal Audit

Capital Requirement for Operational Risk

In accordance with the Central Bank of UAE guidelines, Bank has adopted The Standardized Approach for computing capital charge for Operational Risk.

Operational Risk is being managed professionally in accordance with the Global Risk Management Policy, Policy on Internal Controls, Operational Risk Management Framework and various regulatory instructions. Operational Risk Inventory database covering losses, control breaches and near miss events is being maintained using professionally developed software. Operational risk events and Key Risk Indicators (KRI's) are captured and management reports are generated. A process of Risk and Control Self-Assessment (RCSA) is in place to assess the operating effectiveness of controls and to implement remedial measures as needed. Updates on operational risk events are presented to the senior management and RM&PRC of the BOD on quarterly basis.

The Bank has developed Information Technology Risk Assessment Framework which enables better management of technology risk managed by IT Risk team. The IT Risk Assessment Framework helps the management to identify and manage the key security risks, threats and its associated vulnerabilities to the critical primary & secondary IT systems and applications of the Bank. The Bank has an internal operational risk awareness program which is aimed at building capacity and inculcating risk aware culture in the staff through workshops and on-job awareness.

12. Remuneration Policy

12.1 REMA: Remuneration policy

The 'Bank's management' is responsible for developing, improving, and changing HR policies; however, any changes must be authorized by the Board of Directors ("BOD") on the proposal of the Human Resource & Remuneration Committee (HR&RC). The Human Resource Management Group (HRMG) will notify all MCB employees in the UAE of any adjustments or amendments.

HR & RC's aim is to ensure that all Human Resource compensation and strategies are aligned with the Bank's strategic objectives, as well as to evaluate and change the Bank's recruitment, training, remuneration, performance appraisal, promotion, and separation policies in order to meet the BOD's business objectives. The terms of reference, which have been accepted by the BOD, will regulate the function of HR & RC. The Committee will make all decisions on the employees in accordance with the BOD's authorized parameters.

Remuneration Policy

The group remuneration policy is applicable to applies to the following three separate categories of employees.

UAE Nationals Expatriates from all nationalities hired locally MCB Bank Pakistan employees deputized to UAE

Overview of Rewards Policy This policy provides guidelines to pay competitive monetary benefits including salaries to the employees in order to attract and retain a competent workforce. This also supports the strategic goals of the Bank and provides flexibility to respond to market changes.

The policy is applicable to two categories of employees including UAE Nationals & Expatriates hired locally. However, functional entitlements apply to all categories of employees on the basis of functional responsibility.
The Rewards framework in MCB bank follows the principles mentioned below:

- Ensure that decision-making and reward procedures are fair, transparent, and equitable.
- Ensure that the rewards structure is market-competitive and aligned to the business objectives.
- Ensure that all workers doing equivalent work, regardless of employment status, receive equal compensation and opportunities through a framework based on objective criteria and devoid of gender prejudice.

- Ensure that individual variable compensation is strongly linked to the Group's performance against strategic objectives as outlined in the performance scorecard, as well as individual performance.
- Ensure that workers at various management levels and roles receive a compensation mix that is differentiated (fixed to variable ratio).
- Ensure that incentive programs for sales and collections are aligned with company goals and authorized by Finance, Risk, Compliance, and Human Resources.

Remuneration Policy review
On the recommendation of the Human Resource & Remuneration Committee, the Remuneration Policy shall be reviewed every two years or whenever deemed necessary (due to any significant changes in the business strategy, internal or external environment, or regulatory requirements) and approved by the Board of Directors (BOD) (HR & RC).

Rewards Framework
Our compensation structure contains a healthy mix of fixed and variable pay.

• Fixed pay is matched with external market benchmarks to ensure that we pay competitively to recruit the best in class professionals. Other important aspects of our fixed salary include:

Gross salary: is a set cash component that is paid on a monthly basis on a certain fixed day. Basic Salary and Allowances are usually included in this. Allowances may vary by region, depending on local market conditions and labour laws. Gross salaries are made up of "basic salary" and "allowances" in the ratio of 60:40 (basic 60 percent: allowance 40 percent) for all grades.

Salary Ranges: MCB Bank has set its salary ranges based on current economic conditions and industry standards in order to keep employee remuneration competitive. The pay ranges are subject to revisions based on market conditions as needed. At the time of hiring and increments, the bank verifies that the wage ranges are followed.

Salary Increment: The bank gives its staff yearly raises to compensate for rising costs of living while also recognizing success and maintaining internal equity. Management will establish a fair and transparent increment grid based on an individual's performance rating and compensation percentile for this reason.

Charge / Functional Allowances: Allowances are defined based on functional titles and are paid along with monthly salary till the time an employee performs duties on the specific functional title.

Variable pay is linked to performance. Performance is tracked through the elements of the balanced scorecard (BSC) Financial, Customer, Process and People which align the interests of the employees with those of our stakeholders.

Variable remuneration for the Group may be designed using a mix of cash and non-monetary instruments. Variable remuneration is optional, and the framework for it is authorized by the HR&RC for the year. It is strongly tied to a Balanced Score Card ("BSC"), which includes numerous financial and non-financial metrics.

Other Employee Recognition Programs/Awards (Monetary or Non-monetary) At all levels of the company;

Material Risk Taker and Senior Managers

Employees reporting to the group CEO on a permanent basis (excl. administrative staff) have been classified as Senior Managers.

Based on the decision-making hierarchy in the Bank, currently we have our Country Manager UAE as the material risk taker.

12.2 REM1: Remuneration awarded during the financial year

All numbers in AED 000s

	Remuneration Amount (AED '000)		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	Number of employees	1	-
2		Total fixed remuneration (3 + 5 + 7)	0	-
3		Of which: cash-based	64	-
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	230	-
8		Of which: deferred	-	-
9	Variable Remuneration	Number of employees	1	-
10		Total variable remuneration (11 + 13 + 15)		-
11		Of which: cash-based	311	-
12		Of which: deferred	0	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total Remuneration (2+10)		605	