DOHA BANK (Q.P.S.C)

UAE Branches

PILLAR 3 REPORT

As of 31 December 2022

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Overview

The following information is compiled in terms of the requirements of the Central Bank of the U.A.E. Banks are obliged to report certain qualitative and quantitative information with regards to their risk profile and capital adequacy on a regular basis to the public, which incorporates the revised Basel III Pillar 3 requirements on market discipline.

Reporting framework

The information disclosed in this report is based on the definitions, calculation methodologies and measurements as defined by the Amended Regulations. All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless otherwise noted.

References to fixed format templates as required under the revised Pillar 3 disclosure requirements are made throughout this document and highlighted in the relevant sections.

Period of reporting

This report is in respect of the year ended 31 December 2022, including comparative information (where applicable).

Activities

The financial statements of Doha Bank (Q.P.S.C.) - United Arab Emirates (UAE) Branches (the “Branches”) relate to the activities of the Abu Dhabi and Dubai Branches of Doha Bank (Q.P.S.C.) (the “Head Office”). Doha Bank (Q.P.S.C.) is listed on the Doha Securities Market.

The Branches operate under separate licences issued by the UAE Central Bank and are engaged in banking activities. Dubai branch was incorporated on 18 July 2007 and Abu Dhabi branch started its operations from 27 November 2012.

The registered address of the Branches are as follows:

- Dubai Branch - P.O. Box 125465, Dubai, United Arab Emirates
- Abu Dhabi Branch - P.O. Box 27448, Abu Dhabi, United Arab Emirates

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of the Head Office and other branches of the Head Office outside United Arab Emirates.

Financial Position

In terms of the requirements of the Banks Act and Regulations relating to Banks, the financial results presented below have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued from time-to-time, with additional disclosures where required.

Branches of Foreign Banks operating in the UAE are required to publish Annual Financial Statements on their website together with the independent external auditor's opinion.

Statement of Financial Position

The statement of Financial Position reflects what the branches owns, owes and the equity that is attributable to shareholders as at 31 December 2022.

	2022	2021
	AED '000	*AED '000*
ASSETS		
Cash and balances with U.A.E. Central Bank	**251,560**	208,104
Due from Head Office and overseas branches	**4,434**	329,354
Due from Banks and other financial institutions	**698,006**	415,962
Loans and advances	**1,040,106**	1,352,943
Investment securities	**299,549**	258,378
Deferred tax asset	**26,132**	140,266
Property and equipment	**13,012**	10,701
Other assets	**6,634**	3,853
TOTAL ASSETS	**2,339,433**	2,719,561
LIABILITIES AND HEAD OFFICE EQUITY		
LIABILITIES		
Due to Head Office and overseas branches	**425,375**	604,854
Due to Banks and other financial institutions	**537,480**	471,452
Customers' deposits	**1,127,102**	1,224,977
Other liabilities	**88,908**	31,073
TOTAL LIABILITIES	**2,178,865**	2,332,356
HEAD OFFICE EQUITY		
Allocated capital	**900,000**	900,000
Statutory reserve	**2,595**	2,595
Fair Value reserve	**(24,323)**	4,957
Accumulated losses	**(717,704)**	(520,347)
TOTAL HEAD OFFICE EQUITY	**160,568**	387,205
TOTAL LIABILITIES AND HEAD OFFICE EQUITY	**2,339,433**	2,719,561

Statement of Profit or Loss

The income statement reflects the revenue generated by the branches as well as the costs incurred in generating that revenue for the year ended 31 December 2022.

	2022 AED '000	*2021 AED '000*
Interest income	**88,795**	79,238
Interest expense	**(38,220)**	(22,266)
NET INTEREST INCOME	**50,575**	56,972
Net fees and commission income	**8,395**	6,772
Other income	**(9,124)**	3,537
OPERATING INCOME	**49,846**	67,281
Staff Costs	**(10,069)**	(10,740)
Other Operating Expenses	**(10,460)**	(12,094)
Depreciation	**(2,315)**	(2,721)
TOTAL OPERATING EXPENSES	**(22,844)**	(25,555)
OPERATING PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT AND TAXATION	**27,002**	41,726
Impairment allowance on loans and advances, net	**(116,558)**	(169,809)
Impairment reversal on other financial assets, net	**6,333**	7,613
LOSS FOR THE YEAR BEFORE TAX	**(83,223)**	(120,470)
Tax for the year	**(114,134)**	(39,130)
LOSS FOR THE YEAR	**(197,357)**	(159,600)

Overview of Risk Management & RWAs

Capital Adequacy (KM1)

The Branch's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.,
- To safeguard the Branch's ability to continue as a going concern and increase the returns for the shareholders, and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2017, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analyzed into two tiers:

CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.

Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
Minimum tier 1 ratio of 8.5% of RWAs.
Total capital adequacy ratio of 10.5% of RWAs.
Capital conservation buffer – 2.5% of RWAs.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branches' management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a quarterly basis.

The UAE Central Bank issued Basel III capital regulation vide its notice no. CBUAE/BSD/N/2020/66 dated January 07, 2020 which was partially effective as at December 31, 2019 (as per the regulation, only Pillar II is applicable in December 2019 and the rest will be applicable from June 2020.

During the years ended 31 December 2021 and 2020, the Branches have complied in full with all its externally imposed capital requirements.

	Dec-22 AED '000	Sep-22 AED '000	Jun-22 AED '000	Mar-22 AED '000	Dec-21 AED '000
Available capital (amounts)					
Common Equity Tier 1 (CET1)	**177,248**	280,207	280,207	280,207	280,206
Fully loaded ECL accounting model					
Tier 1	**177,248**	280,207	280,207	280,207	280,206
Fully loaded ECL accounting model Tier 1					
Total capital	**193,267**	296,983	298,195	299,251	300,705
Fully loaded ECL accounting model total capital					
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	**1,395,694**	1,456,873	1,554,899	1,637,589	1,784,335
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	**12.70%**	19.23%	18.02%	17.11%	15.70%
Fully loaded ECL accounting model CET1 (%)					
Tier 1 ratio (%)	**12.70%**	19.23%	18.02%	17.11%	15.70%
Fully loaded ECL accounting model Tier 1 ratio (%)					
Total capital ratio (%)	**13.85%**	20.38%	19.18%	18.27%	16.85%
Fully loaded ECL accounting model total capital ratio (%)					
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)					
Countercyclical buffer requirement (%)					
Bank D-SIB additional requirements (%)					
Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)					
CET1 available after meeting the bank's minimum capital requirements (%)	**3.35%**	9.88%	8.68%	7.77%	6.35%
Leverage Ratio					
Total leverage ratio measure	**2,945,002**	2,944,782	3,015,091	3,021,189	2,595,927
Leverage ratio (%) (row 2/row 13)	**6.02%**	9.52%	9.29%	9.27%	10.79%
Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)					
Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)					
ELAR					
Total HQLA					
Total liabilities	**1,127,102**	**997,778**	**1,137,531**	**1,222,940**	**1,224,977**
Eligible Liquid Assets Ratio (ELAR) (%)	**22.82%**	**21.51%**	**23.78%**	**15.08%**	**18.09%**
ASRR					
Total available stable funding					
Total Advances	**1,040,106**	**1,842,690**	**1,974,593**	**1,950,110**	**1,352,943**
Advances to Stable Resources Ratio (%)	**85.25%**	**94.04%**	**88.47%**	**85.35%**	**88.58%**

As per CBUAE regulations, branches are not required to report LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). Branches reports ELAR (Eligible Assets Ratio) and ASRR (Advances to Stable Resources Ratio) as an alternative.

Risk Management Overview (OVA)

Scope and Coverage

The ICAAP submission document has been prepared at both UAE branches level and bank-wide level, however, this document would focus on capital requirement at the Doha Bank branches in UAE (Hereinafter called as "DBUAE").

Summary of Key Findings

The section below provides a brief of the key findings of the ICAAP study conducted by the bank for UAE operations. Section 2 onwards provides detailed analysis of the ICAAP study.

Analysis of material risks, periodic monitoring and reporting

The Bank periodically identifies key risk events, which may significantly impair Bank's UAE operations ability to achieve its strategic objectives. Based on the impact of the events, their likelihood of occurrence and the existing controls, the Bank identifies the level of material risks in the form of high, medium and low risks.

Based on its study the following table provides a summary of material risks:

Risk Type	Materiality	Rationale
Credit Risk	**HIGH**	• 93.49% of the overall financing portfolio is from corporates, which includes Large Corporates and SMEs. As the entire corporate exposure is not externally rated, it receives a risk weight of 100%. • Detailed credit analysis is conducted for financing facilities, including internal rating of non-retail exposures based on facilities, repayment capability, financial conditions, collateral, etc. • Rigorous credit review process is followed for existing financing exposures. • Semi-annual regulatory stress testing is performed for measurement and monitoring of credit risk in the Bank (At Group level).
Market Risk	**LOW**	• DB UAE started to maintain small active investment book during 2022 (12.8% of total assets). A small currency-trading portfolio is maintained to enhance FX income of DB UAE. Comprehensive limits for currency exposures, stop loss limits are in place to prudently manage the risk. • As AED and USD are the major currencies for DB UAE operations, the bank is not exposed to severe currency risk due to the peg of AED to USD and also because of low exposure to other foreign currencies. • Semi-annual regulatory stress testing is performed for measurement and monitoring of market risk in the Bank (At group level).

Risk Type	Materiality	Rationale
Operational Risk	**LOW**	• The key elements determining the operational risk position within the Bank include people, system, workplace safety and external factors. • The Bank undertakes periodic review of processes through operational risk management tools for DB UAE operations as well.
Credit Concentration Risk	**MEDIUM**	• Top 5 exposures amount to 29.55% total portfolio (funded, Non-funded and Acceptances after CCF) as at Dec 2022. The bank assigned additional capital for name concentration of 2.67% as of 2022. • Trade, Construction and Services contribute to approx. 75.98% of total exposures (funded & non funded). The bank assigned capital to sector concentration of 0.9% vs 0.6% as of 2021. • Credit concentration risk is managed by establishing lending guidelines including limit structures, collateral requirements, and efficient monitoring & reporting of exposure.
Liquidity Risk	**HIGH**	• Funding concentration is recognized as considerable under liquidity risk. Top 5 depositors on an average constituted 81% of total deposits base during 2022. • DBUAE enjoyed excellent relationships with all major institutions including Government, Government Agencies and Private sector who form a strong source of deposits for the institution. However, post June 2017, DBUAE suffered withdrawal of deposits from local large corporates and Govt entities, leading to withdrawal of c. AED 3 Bn deposits by end of FY 2017. While corresponding asset reduction helped in managing ALM, Doha Bank Head Office promptly responded to the situation and injected liquidity into DBUAE. During this stress scenario, as undertaken and anticipated, strong HO support helped mitigate liquidity risk event.
Interest Rate Risk in the Banking Book	**LOW**	• The banking book is negatively gapped in the 0-12 months bucket with negative gap of AED -0.29 Mn. Hence, the bank will have a negative impact on its NII due to an increase in the interest rates. • The Bank (at group level) has a detailed Financial Risk Management Policy, ALM manual and Hedging Policy approved by BoD that provides specific guidelines for the management of interest rate risks at bank level.

Risk Type	Materiality	Rationale
Reputation Risk	**LOW (Group Level)**	• The Bank is dedicated to serving its customers with products and services of the highest quality. The Bank maintains a customer complaints register (at group level) and ensures that it takes regular feedback from its customers, and effect actions to address the concerns of its customers. • The Bank has made it a mandatory objective to align with all the national and international regulatory obligations. • Bank has received long term rating of 'A-' from Fitch and 'Baa1' from Moody's with Stable outlook. • The bank's brand image is also reflected by the numerous awards it received over the years in recognition of its strong financial and non-financial indicators, innovative quality products, bank's extensive distribution network and commitment to continuously improving products and service quality.
Business & Strategic Risk	**VERY LOW (Group Level)**	• Short-term and long-term plans are in place for specific departments, with detailed analysis of actual vs. target positions, deviations, financial & non-financial goals and internal / external challenges faced in achieving the target. • The Bank has conducted successful and effective implementation of new strategies. • Department-wise strategy maps are in place with detailed objectives, KPIs and targets, complimented by detailed action plan and budgeting. • Periodic monitoring with respect to achievement of targets and implementation of corrective actions (where required) is also being performed.

The Bank conducts review and monitoring of all risks and exposures on a periodic basis and assesses the materiality of each risk on a continuous basis. The bank has put in place strong risk management framework for the management of all material risks with periodic monitoring and reporting of the material risks to the Senior Management and the Board. The process is also carried out uniformly for DB UAE operations.

Risk Governance Framework

The Bank has sound risk governance set-up, with clearly acknowledged roles and responsibilities allocated to each of its stakeholders. The Risk governance is split into Strategy level; Policy level and Operational level with all strategic directions received from the Board of Directors, policy level directions provided by the Management committees and operational level monitoring conducted by Risk management department. The Risk Management group of the bank continuously monitors risks and processes across the organization to identify, assess, measure, monitor, control and report on potential threats that could impact the achievement of Bank's strategic objectives. UAE branches have risk management personnel who report to Risk management group of the bank.

Key Prudential Metrics and RWA (OV1)

Following metrics and RWA is calculated based on latest applicable CBUAE Capital Adequacy regulations for Banks operating in the UAE.

	Dec-22 AED '000	Sep-22 AED '000	at rate 10.50% AED '000
	a	b	c
	RWA		Minimum capital requirements
	T	T-1	T
Credit risk (excluding counterparty credit risk)	**1,281,516**	**1,342,105**	**134,559**
Of which: standardised approach (SA)	1,281,516	1,342,105	134,559
Counterparty credit risk (CCR)	-	-	-
Credit valuation adjustment (CVA)			-
Equity positions under the simple risk weight approach			-
Equity investments in funds - look-through approach			-
Equity investments in funds - mandate-based approach			-
Equity investments in funds - fall-back approach			-
Settlement risk			-
Securitisation exposures in the banking book			-
Market risk	**95**	**685**	**10**
Of which: standardised approach (SA)	95	685	10
Operational risk	**114,083**	**114,083**	**11,979**
Total (1+6+10+11+12+13+14+15+16+20+23)	**1,395,694**	**1,456,873**	**146,548**

Counterparty credit risk is defined as the risk when a counterparty involved in an OTC transaction of the bank default on its contractual obligations. The counterparty credit risk arises from the derivatives portfolio (currency – 100%). The total derivatives portfolio of the bank as at Dec 2022 was of FX Forward Contracts with nominal value of AED 277.28 Mn (PY: AED 278.45 Mn). As a policy, the bank only deals with reputed corporates and investment grade banks for OTC transactions. Based on the NIL o/s and historical small portfolio of counterparties of the banks, which were investment grade banks, DBUAE determines the materiality of Counterparty Credit Risk to be VERY LOW.

Linkage Between Financial Statements and Regulatory Exposures (LI2)

	a	b	c	d	e
		Items subject to:			
	Total	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	**2,339,433**	2,339,433			
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	**2,339,433**				
Total net amount under regulatory scope of consolidation	-				
Off-balance sheet amounts	**346,910**	346,910			
Differences in valuations	-				
Differences due to different netting rules, other than those already included in row 2					
Differences due to consideration of provisions					
Differences due to prudential filters					
Exposure amounts considered for regulatory purposes					

Composition of Capital

Capital Allocation

The Branches' regulatory capital is analysed into two tiers:

CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.

Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

Table: Composition of Capital CC1

	a
	Dec-22 AED '000
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	**-**
Retained earnings	**(717,704)**
Accumulated other comprehensive income (and other reserves)	**(22,831)**
Common share capital issued by third parties (amount allowed in group CET1)	**-**
Common Equity Tier 1 capital before regulatory deductions	**184,891**
Common Equity Tier 1 capital regulatory adjustments	
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	**26,132**
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	**7,643**
Common Equity Tier 1 capital (CET1)	**177,248**
Additional Tier 1 capital: instruments	
Additional Tier 1 capital: regulatory adjustments	
Additional Tier 1 capital (AT1)	**-**
Tier 1 capital (T1= CET1 + AT1)	**177,248**
Tier 2 capital: instruments and provisions	
Tier 2 capital before regulatory adjustments	**16,019**
Tier 2 capital: regulatory adjustments	
Tier 2 capital (T2)	**16,019**
Total regulatory capital (TC = T1 + T2)	**193,267**
Total risk-weighted assets	**1,395,694**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	**12.70%**
Tier 1 (as a percentage of risk-weighted assets)	**12.70%**
Total capital (as a percentage of risk-weighted assets)	**13.85%**
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	**3.35%**

Table: Composition of Capital CC2

	a	b
Dec-22 AED '000	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**
	As at period-end	**As at period-end**
Assets		
Cash and balances at central banks	**251,560**	**251,560**
Items in the course of collection from other banks	**702,440**	**702,440**
Trading portfolio assets	**299,549**	**299,549**
Financial assets designated at fair value		
Derivative financial instruments		
Loans and advances to banks		
Loans and advances to customers	**1,040,106**	**1,040,106**
Reverse repurchase agreements and other similar secured lending		
Available for sale financial investments (Includes FVOCI)		
Current and deferred tax assets	**26,132**	**26,132**
Prepayments, accrued income and other assets	**6,634**	**6,634**
Investments in associates and joint ventures		
Goodwill and other intangible assets		
Of which: goodwill		
Of which: intangibles (excluding MSRs)		
Of which: MSRs		
Property, plant and equipment	**13,012**	**13,012**
Total assets	**2,339,433**	**2,339,433**
Liabilities		
Deposits from banks	**537,480**	**537,480**
Items in the course of collection due to other banks	**425,375**	**425,375**
Customer accounts	**1,127,102**	**1,127,102**
Repurchase agreements and other similar secured borrowing		
Trading portfolio liabilities		
Financial liabilities designated at fair value		
Derivative financial instruments		
Debt securities in issue		
Accruals, deferred income and other liabilities	**88,908**	**88,908**
Current and deferred tax liabilities		
Of which: DTLs related to goodwill		
Of which: DTLs related to intangible assets (excluding MSRs)		
Of which: DTLs related to MSRs		
Subordinated liabilities		
Provisions		
Retirement benefit liabilities		
Total liabilities	**2,178,865**	**2,178,865**
Shareholders' equity		
Paid-in share capital	**900,000**	**900,000**
Of which: amount eligible for CET1		
Of which: amount eligible for AT1		
Retained earnings (incl. statutory reserves)	**(715,109)**	**(715,109)**
Accumulated other comprehensive income	**(24,323)**	**(24,323)**
Total shareholders' equity	**160,568**	**160,568**

Leverage Ratio (LR2)

Leverage Position

		Dec-22 AED '000	Sep-22 AED '000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,585,448	3,000,531
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)**	**2,585,448**	**3,000,531**
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	346,910	311,367
20	(Adjustments for conversion to credit equivalent amounts)	(225,441)	(255,221)
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)**	**121,469**	**86,146**
Capital and total exposures			
23	**Tier 1 capital**	177,248	280,207
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**2,706,917**	**3,086,677**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**6.55%**	**9.08%**
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**		

Liquidity Risk (LIQA)

Stressed Scenario based Approach

This approach captures the liquidity risk to the DB UAE from concentration to a few depositors. Hence, capital charge is computed based on the exposure of DB UAE to a few depositors.

Given that the liquidity risk capital is a short-term measure, i.e. it is the capital that acts as a cushion for any increasing cost for the bank it ride over a 30-day survival period the usage of the Static gap, which does not assume any growth in the branch's balance sheet, is a more prudent approach.

The branches recognizes concentration to depositors, material impact of withdrawal of sizable deposits post June 2017 and hence to be prudent has adopted the stressed scenario-based approach for liquidity risk capital charge computation. The model assumes DB UAE will use the increased cost of funding on the different funding sources in decreasing order of their cost of funds is calculated to determine the liquidity risk capital charge.

The methodology followed is based on the end of the month deposit by the Top 7 Depositors in the last one-year. For the purpose of this methodology, it is assumed that the maximum of Top 7 Depositors will withdraw their funds and the branches will be required to raise funds to the extent of the same.

The branches based on the analysis of it historical cost of funding, will determine the borrowing from the interbank/Head office funding market at a premium.

The cost incurred by the branches to fund these through the normal course of operation is estimated using the weighted average cost of funds of the bank, which is deducted from the previous step to get the capital charge for liquidity risk.

Management of Liquidity Risk

The Management credit committee in line with regulatory guidelines sets limits for both Single Borrower & Sector, monitors credit concentration risks and these are reported on a regular basis to the senior management The Credit Risk Management Department takes into cognizance the Single obligor and Sectoral exposures while reviewing credit applications and suggests necessary management actions in case of any potential breach of such limits.

Limits are granted to a group/customer by the approving authority by considering factors such as credit worthiness of the obligor, quality and quantity of collateral provided, business diversification etc. The branches are committed on maintaining a diversified Sectoral profile. Currently the concentration of the bank is in the Services sector. Considering its materiality, the branches has taken a capital charge under Pillar 2 for this risk.

Considering the current portfolio and the risk management framework in place, the Bank has determined the level of credit concentration risk to be Medium.

Liquidity

Eligible Liquid Assets Ratio (ELAR)

	Dec-22 AED '000
High Quality Liquid Assets	**Eligible Liquid Asset**
Physical cash in hand at the bank + balances with the CBUAE	251,560
UAE Federal Government Bonds and Sukuks	198,397
Sub Total (1.1 to 1.2)	**449,957**
UAE local governments publicly traded debt securities	-
UAE Public sector publicly traded debt securities	-
Subtotal (1.3 to 1.4)	**-**
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,730
Total	**486,687**
Total liabilities	**2,133,023**
Eligible Liquid Assets Ratio (ELAR)	**0.23**

Advances to Stables Resource Ratio (ASRR)

Items	Dec-22
Computation of Advances	**AED '000**
Net Lending (gross loans - specific and collective provisions + interest in suspense)	1,055,416
Lending to non-banking financial institutions	49,459
Net Financial Guarantees & Stand-by LC (issued - received)	32,600
Interbank Placements	387,396
Total Advances	**1,524,871**
Calculation of Net Stable Ressources	
Total capital + general provisions	384,926
Deduct:	
Goodwill and other intangible assets	
Fixed Assets	13,012
Funds allocated to branches abroad	
Unquoted Investments	
Investment in subsidiaries, associates and affiliates	
Total deduction	**13,012**
Net Free Capital Funds	**371,914**
Other stable resources:	
Funds from the head office	
Interbank deposits with remaining life of more than 6 months	367,300
Refinancing of Housing Loans	
Borrowing from non-Banking Financial Institutions	151,332
Customer Deposits	898,141
Capital market funding/ term borrowings maturing after 6 months from reporting date	
Total other stable resources	**1,416,773**
Total Stable Resources (2.2+2.3.7)	**1,788,687**
Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	**85.25**

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Branches manage credit risk by setting limits for individual borrowers and Branches of borrowers and for geographical and industry segments. The Branches also monitor credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Branches obtain security where appropriate; enter into master netting arrangements and collateral arrangements with counterparties and limits the duration of exposures.

The maximum exposure to credit risk, as at the reporting date, is represented by the carrying amount of each financial asset in the statement of financial position.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Branches' performance to developments affecting a particular industry or geographic location.

The Head Office has an internal committee which is composed of competent professional staff responsible for the study and evaluation of the existing credit facilities of each customer of the Bank. This committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

Credit Assessment Process

The Bank has a detailed due diligence process wherein review of each corporate facility is undertaken by the RMs and Senior RMs of the respective business unit which is independently reviewed by the Credit Risk Management department. Some of the analysis conducted as a part of due diligence includes but not limited to:

Credit assessment of the obligor's industry & macroeconomic factors.
The purpose of credit and source of repayment.
The track record/ repayment history of the obligor.
The repayment capacity of the borrower.
The proposed terms, conditions, and covenants.
Adequacy and enforceability of collaterals
Approval from various internal committees within the bank based on the delegation of authority

The term sheet is proposed by the Credit Risk Management, as per delegation after the satisfactory completion of the due diligence process and approval from the appropriate authority. Post approval the customer is allowed to draw the facility when the customer complies with the terms indicated in the term sheet. For retail financing, the Bank approves financing based on online credit checks made through the Government's Central Credit Bureau, ensuring compliance with CBUAE/QCB guidelines on consumer credit and salary assignments by any employer of the applicants.

Limits Structure

One of the key objectives of Credit Risk Management within the bank is to maintain the exposures within the risk appetite limits established and approved by the Board of Directors. This cover:

Group and Single obligor limits
Sector Limits
Regulatory limits
Concentration limits

Exposures are regularly monitored against the limits set and any excess over limits are reported for necessary management action.

Credit Monitoring

All facilities are reviewed at least annually. Moreover, the relationship managers or senior relationship managers closely monitor the customers and any indication of deterioration of the credit quality of the customer triggers additional reviews. The monitoring process includes:

Keeping a track of the obligor's exposure within the credit limits and terms & conditions,
Identifying early signs of irregularity like a DPD analysis and other warning signals
Conducting periodic monitoring of collateral coverage
Monitoring timely repayments

Portfolio Level Reporting

The Credit Risk Department produces monthly portfolio reports that reflect including but not limited to exposure to watch list accounts, NPL by exposures, DPD status, recovery reports etc. These reports are circulated to the MCC for assessing the portfolio quality, necessary risk mitigation plans can be implemented wherever required. At least quarterly, the Credit Risk Department at Head office produces reports on high-risk areas in the portfolio, management action to mitigate the risks, asset quality, portfolio concentration and presents to Audit, Risk & Compliance Committee for review.

Stress Testing

The Credit Risk management also performs bank wide semi-annual regulatory stress testing as suggested by regulatory guidelines. Credit risk stress testing is one of the risk management tools that the bank uses for measurement and monitoring of credit risk within the Bank. Stress tests are performed based on both regulatory stress testing scenarios and internal stress tests. The Credit Risk Management continuously monitors the outcome of stress testing and any necessary management actions are taken for envisaged considered highly probable.

Going forward, as the bank has implemented rating models for its corporate portfolio; the Bank has plans in the future to adopt Foundation IRB approach for the measurement and quantification of credit risk capital requirements as the advanced approaches to credit risk will provide a more accurate estimate of capital requirement for credit exposures.

Credit Quality of Assets (CR1)

AED '000	a	b	c	d	e	f
	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	
Loans	107,669	1,031,419		79,582	19,401	1,139,088
Debt securities	-	299,550		-	254	299,550
Off-balance sheet exposures	-	346,910		51,077	152	346,910
Total	**107,669**	**1,677,879**		**130,659**	**19,807**	**1,785,548**

Additional Details for Credit Quality of Exposures (CRB)

Credit-impaired financial assets

At each reporting date, the Branches assess whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Branches on terms that the Branches would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.
- Write-off of loans and advances to customers

Measurement of ECL

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

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

LGD is the magnitude of the likely loss if there is a default. The Branches estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD estimates

consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.
EAD – EAD represents the expected exposure in the event of a default. The Branches derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending 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. EAD is determined by the exposure at reporting date.

The analysis by economic segment is as follows;

	Dec-22 AED '000	Dec-21 AED '000
Wholesale and Retail trade	548,590	347,299
Services	67,180	865,671
Construction	88,094	361,898
Transport and Telecommunication	184,102	218,206
Personal Loans	227,242	121,980
Manufacturing	23,881	157,827
	1,139,089	2,072,881

The analysis by geographical area is as follows;

	Dec-22 AED '000	Dec-21 AED '000
Within UAE	667,834	1,610,872
Outside UAE	471,255	462,009
	1,139,089	2,072,881

Standardized Approach - Credit Risk Exposures & CRM Impact (CR4)

The Branches has in place group standards, regulations of the U.A.E. Central Bank and policies and procedures dedicated to monitor and manage risk from such activities.

The Bank on an overall basis has adopted ICAAP as a strategic management tool in evaluating all its material risks inherent in its business portfolio and ensuring that appropriate capital buffers and risk mitigating actions are established for the management of these risks.

AED '000	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
Sovereigns and their central banks	530,304	-	530,304	-	46,090	-
Public Sector Entities	-	-	-	-		-
Multilateral development banks	1,172,132	173,792	1,172,132	-	641,352	-
Banks		-	-	-		-
Securities firms		-	-	-		-
Corporates	469,585	137,860	607,446	-	451,567	-
Regulatory retail portfolios	590	-	590	-	3	-
Secured by residential property	22,453	-	22,453	-	22,435	-
Secured by commercial real estate	92,642	-	92,642	-	92,642	-
Equity Investment in Funds (EIF)		-		-		-
Past-due loans	107,669	-	-22,990	-	-22,990	-
Higher-risk categories		-		-		-
Other assets	190,073	-	190,073	-	50,417	-
Total	**2,585,448**	**311,652**	**2,592,650**	**-**	**1,281,516**	**-**

Standardized Approach - Exposures by Asset Classes & Risk Weights (CR5)

AED ' 000	a	b	c	d	e	f	g	h	i
Asset classes / Risk weight	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
Sovereigns and their central banks	484,214					46,090			**530,304**
Public Sector Entities									**0**
Multilateral development banks				1,061,560		110,572			**1,172,132**
Banks									**0**
Securities firms									**0**
Corporates	21,150					7,306		444,261	**472,717**
Regulatory retail portfolios	586				4				**590**
Secured by residential property			21		20	22,412			**22,453**
Secured by commercial real estate						92,642			**92,642**
Equity Investment in Funds (EIF)									**0**
Past-due loans						-22,990			**-22,990**
Higher-risk categories									**0**
Other assets	167,390					4,194		18,489	**190,073**
Total	**673,340**	**-**	**21**	**1,061,560**	**24**	**260,226**	**-**	**462,750**	**2,457,921**

Market Risk

Market risk is defined as the risk of losses in on and off balance-sheet positions arising from movements in market prices. The risks comprising market risk include:

- Risks pertaining to changes in interest rate related instruments and equity, which are subject to market risk capital computation.
- Foreign exchange risk and commodities risk throughout the bank.

Identification and Assessment of Market Risk

The various components of the market risks at the DB UAE are addressed to as under:

Monitoring of Equity and Commodity Risk:

Investment activities of Doha Bank are centralized at Head office. Head office takes all the decisions in terms of equity investments through Investment committee. International operations are not permitted to maintain their independent investment portfolios in equity and commodities and do not have any as on date. Market risk for equity and commodity investment portfolio is measured and monitored at Head office and shared with Investment committee of the bank. Since there is no independent investment activity at the DB UAE, no market risk measurement reporting happens at DB-UAE level.

Monitoring of interest rate risk in Fixed income securities:

The interest rate risk on the security is measured and monitored by Market and Liquidity Risk Department (MLRD) centralized in the HO and updated the management on weekly basis in Investment committee. Since FVOCI as at Dec 2022 was 12.8% of total assets (PY: 9.5%) and constitute the total investment book, the bank has not taken market risk charge for investment within the overall market risk weighted assets.

Monitoring of Foreign Currency Risk:

Currency open positions:

Doha Bank monitors its currency open positions at Head office level. Bank has limits on currency positions and these limits are monitored on consolidated basis at Head office level along with monitoring the NOP of the branches separately. Besides this, various stress tests are also conducted at Head Office to find out the impact of unfavorable movements of currency open position on bank's profitability.

Trading positions:

Bank, through its Treasury and Investment manual, has permitted Head office and DB UAE to undertake proprietary trading of currencies. The risk in this activity is monitored/controlled through limits. The limits levied on this activity include stop loss limits, exposure per currency, exposure per trade, overall exposure limits etc. The limits monitoring happens at Head Office Market and Liquidity Risk Department (MLRD) for proprietary trading at HO as well as DB UAE Treasury Department.

Limits Structure

The bank has an approved limit structure comprising of exposure, stop loss and risk limits for its trading and Foreign exchange exposures. The limits are monitored by Market and Liquidity Risk Department (MLRD) on daily basis. Limit breaches are reported by the Market and Liquidity Risk Department (MLRD) to the senior management and appropriate action is taken.

Materiality

Considering the current portfolios exposure to Market risk and the Market risk management framework in place, the Bank has determined the level of market risk to be LOW.

Market Risk: Risk Weighted Assets

Market Risk: Risk Weighted Assets	Dec-22 AED '000	Dec-21 AED '000
Risk Weighted Assets		
Outright Products	-	-
- *Interest rate risk*	-	-
- *Equity risk*	-	-
- *Foreign exchange risk*	95	14,010
- *Commodity risk*	-	-
Options	-	-
- *Simplified approach*	-	-
- *Delta-plus method*	-	-
- *Scenario approach*	-	-
- *Securitisation*	-	
	95	**14,010**

Table: MR1

RWA	Dec-22 AED '000
General Interest rate risk (General and Specific)	-
Equity risk (General and Specific)	-
Foreign exchange risk	95
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	-
Scenario approach	-
Securitisation	-
Total	**95**

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the exposure of a bank's financial condition to adverse movements in interest rates.

IRRBB poses risk to the net interest margin due to mismatch in the duration of asset and liabilities. If the banking book is negatively gapped, an increase in interest rate will pose risk on the net interest margin whereas in case of a positively gapped banking book a decrease in the interest rate will pose risk to the net interest income.

Identification of Interest Rate Risk

The bank is exposed to interest rate risk because of:

- Timing mismatch in the maturity and re-pricing of assets, liabilities and off-balance sheet short and long term positions
- Change in slope and shape of the yield curve affecting the earnings of the bank
- Change in benchmark rate indexes not the same for assets and liabilities priced with different benchmark indices

Management of IRRBB

Board & Senior Management Oversight

The Board has the overall responsibility of Interest Rate risk in the banking book and has authorized the Asset Liability Committee (ALCO) of the bank to manage the same on a periodic basis. The ALCO is an executive committee and assists the BOD in fulfilling its responsibility to oversee the bank's Asset and Liability management functions. Interest rate risk is monitored at consolidated bank level. Total assets of the branches account circa 2.39% of total balance sheet size of Doha Bank, hence the activity is carried out at consolidated level. However, DB UAE has identified this risk as one of the major risks and taken a Pillar 2 charge on capital.

Monitoring & Control

The Market and Liquidity Risk Department (MLRD) performs a monthly interest rate sensitivity analysis and reports the same to ALCO.

Materiality

Considering the current IRRBB risk management framework in place and existing controls, the DB UAE considers level of interest rate risk to be LOW.

The following table reflect the effect of 25 basis points change in interest rates, with all other variables held constant on the profit and loss statement.

	2022 AED '000	*2021 AED '000*
All Currencies	**489**	605

Table: Interest Rate Risk in Banking Book

In reporting currency (AED)	∆EVE		∆NII	
Period	**T**	**T-1**	**T**	**T-1**
Parallel up	(21,077)		(5,089)	
Parallel down	33,022		5,089	
Steepener	(27,170)			
Flattener	25,126			
Short rate up	13,197			
Short rate down	(13,431)			
Maximum	(27,170)			
Period	**31-Dec-22**		**31-Dec-22**	
Tier 1 capital	177,248		177,248	

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes Legal risk but excludes strategic & reputational risk.

Identification and Assessment of Operational Risk

The key sources of operational risk that the bank faces areas follow:

- **People** (including insufficient staff, inaccuracy/delay in performance; also related with training quality and the lack of procedures, scope and responsibility).
- **System** (including failure, system limitations, downtime, phishing, etc.)
- **Processes** (including breach of authority limits, lack of policies & procedures etc.)
- **External** (Vendors/ Cards Fraud /Phishing/Skimming)

The bank follows the Basic Indicator Approach for measurement of Operational risk capital charge the branches minimize actual or potential losses (including near misses) arising from operational risk failures and performs regular monitoring and control of the operational risk events. Risk Management Framework has comprehensive guidelines for the operational risk management at the branches. Additionally, internal operational risk department conducts reviews of DB UAE to identify, assesses and submits reports on these risks.

The operational risk function at the branches is managed in coordination with the centralized Operational Risk Department at Head Office. Operational Risk Department and the Operations & Technology Department at the Head Office set the necessary framework, guidelines and policies and procedures for management of operational risk at the branches. The branches receive regular support from its HO in developing its Business Continuity Plan, Gap Analysis etc. The branches operate hand in hand with HO in managing the Operational Risk. The branches has designated an Operational Risk Liaison Officer (ORLO) in each of the branches, with the responsibility to report operational loss events including near misses and potential losses. The Branches have Branch Management Committee (BMC) which is comprised of the Head of Branch, Head of Risk & Credit, Head of Business Development and the Head of Operations with minimum quorum of 3 and mandatory presence of Head of Risk & Credit at the Branch.

Materiality

Considering the current operational risk management framework in place and existing controls, the Bank has determined the level of operational risk to be LOW.

Operational Risk: Risk Weighted Assets	Dec-22 AED '000	Dec-21 AED '000
Risk Weighted Assets		
- Operational risk	114,083	130,396
	114,083	**130,396**

Remuneration

Pay Structure

It is the Bank's policy to have a pay structure that is most competitive to attract the finest quality of manpower locally or abroad and to retain qualified competent and experienced manpower. The Bank sets its salary and benefits schemes based on market practice by participating in salary surveys with other banks operating in UAE.

It is an expressed policy of the Bank to keep confidential, any information pertaining to salary and other emoluments. Staff are not permitted to discuss or disclose such information with colleagues within the Bank or to anybody else outside.

The pay structure of the Bank comprises of the following:

a) A pay band for each job grade with a “Minimum – Maximum” pay range.
b) The following are the job grades:

Positions

Subordinate Staff (Messengers, Drivers, etc.)
Clerk
Senior Clerk / Secretary
Supervisor / Senior Secretary
Officer / Executive Secretary
Assistant Manager
Deputy Manager
Manager
Senior Manager
Executive Manager / Country Head

		a	b
Remuneration Amount		**Senior Management**	**Other Material Risk-takers**
Fixed Remuneration	Number of employees	2	
	Total fixed remuneration (3 + 5 + 7)	**1,031**	
	Of which: cash-based	1,031	
	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 (11 + 13 + 15)	-	
	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 (2+10)			