Al Maryah Community Bank L.L.C.

Basel III - Pillar 3 Disclosures - 31 December 2023

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1. Introduction

This document presents Pillar lll Market Disclosure Report for Al Maryah Community Bank L.L.C. ("the Bank" or "MBank") prepared in accordance with the requirements and guidelines as prescribed by the Central Bank of the UAE (CBUAE) and in conformity with the Bank's Disclosure Policy.

The main objective of this disclosure report is to provide market participants with information on the primary elements, scope and effectiveness of the Bank's risk measurement practices, overall risk profile and capital position.

Mbank is a Specialized Bank regulated under the CBUAE and must comply with all regulations and standards issued by the CBUAE that are applicable to banks, with the exception of capital requirements and large exposures which are provided under the regulation for Specialized Banks with low risk. Furthermore, Mbank also follows primary global standards set by BCBS based on best practices basis as applicable.

As per CBUAE regulations, Specialized Banks use Aggregate Capital Funds (ACF) and ACF ratio to determine their minimum capital requirement. The ACF ratio, which is defined as the ACF to total assets must be maintained, at all times, at 12.5% at minimum.

The Basel Accord framework consists of following three main pillars, of which Pillar III is established to complement the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital requirements to develop the market discipline and allows market participants to assess specific information.

In compliance with the CBUAE Basel III standards and guidelines, Pillar 3 disclosures include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes and capital requirements.

This Pillar III disclosure report for the year ended 31 December 2023 has been reviewed by the management and internal audit.

1.1 General information

Al Maryah Community Bank L.L.C. ("the Bank" or "MBank") is a specialized commercial digital bank which was incorporated and registered as a limited liability company in the Emirate of Abu Dhabi, UAE on 6 June 2021 and pursuant to the specialized banks with low-risk regulations issued pursuant to Federal Law by Decree No. 14 of 2018. The Bank's registered address is P.O. Box 111485, 454 Shakhbout Bin Sultan Street, Abu Dhabi, United Arab Emirates.

The Bank is engaged in both retail and corporate banking activities in the UAE. The Bank focuses on growth and serving its local community, in line with the vision of the UAE leaders in supporting individuals and small businesses within the UAE economy by employing forward thinking concepts driven by innovation and technology.

2. Overview of Risk Management

2.1 Bank Risk Management Approach (OVA)

The key objective of risk management is to protect the Banks' assets from the various risks the Bank is exposed to and maximize shareholders value. The Bank is exposed to key risks: credit risk, liquidity risk, market risk, operational risk, technology risk, fraud risk and other risks.

The responsibility of risk management is to develop and implement risk policies to regard for both quantifiable and non-quantifiable risks arising from the activities and operations of the Bank and manage the day-to-day risks. Independent review of the risk management disclosures framework is carried out by the internal audit.

The Board is collectively responsible for directing Al Maryah Community Bank ("the Bank" or "MBank") towards the achievement of the Bank's vision. To this end, the Board ensures that the Bank's strategic leadership, financial soundness, governance, management supervision and control is robust and effective. The Board is collectively responsible for the long-term success of the Bank and the delivery of sustainable value to shareholders and for ensuring effective control over the business. The Board sets the values and standards and ensures that its obligations to its shareholders and other stakeholders are understood and accomplished.

The Board and its committees oversee the senior management, ensuring that the Bank's activities are carried out in a manner consistent with the business strategy, risk governance framework, compensation and other policies. The Board Committees, which include the Board Executive, Board Risk and Compliance, Board Audit, Board Nomination & Remuneration, and Board Credit & Investment, receive regular updates and recommendations from various senior management including the CEO, CRO, CFO, Head of Compliance, Head of Audit among others. The Board Committees provide oversight to ensure effective management throughout the Bank. The Board and its committees encourage that the Bank's corporate culture and values are communicated through measures including, among others, a Code of Conduct, a Conflicts of Interest policy, a Whistleblowing policy mechanism and a strong control environment.

2.2 Key metrics (at consolidated group level) (KM1)

	(AED in 000's)	Dec-23
	Aggregate Capital Funds	**398,823**
1	Paid up capital	500,000
2	Share Premium	-
3	Reserves, excluding revalution reserve	2,952
4	**Retained earnings/ (-) Loss**	(104,129)
4a	Accumulated retained earnings / (-)	(107,512)
4b	Audited / Reviewed Current year profit / (-) current financial year loss	3,383
4c	Proposed Dividend	-
	Less:	-
5	Good will	-
6	**Total Assets excluding cash collaterals and sovereign guarantees**	**2,943,417**
6a	Total Assets	2,964,102
6b	Cash collaterals (legally enforceable)	(20,685)
6c	Sovereign Guarantees (legally enforceable)	-
	Aggregate capital fund (%)	**13.55%**
	ELAR	
7	Total HQLA	2,118,452
8	Total liabilities	2,563,073
9	Eligible Liquid Assets Ratio (ELAR) (%)	**83%**
	ASRR	
10	Total available stable funding	2,734,952
11	Total Advances	663,983
12	Advances to Stable Resources Ratio (%)	**24%**

3. Linkages between Financial Statements and Regulatory Exposures

3.1 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

	(AED in 000's)	Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**2,974,694**	**2,915,894**	**0**	**0**	**58,800**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	2,974,694	2,915,894	0	0	58,800
4	Off-balance sheet amounts	218,899	218,899	0	0	0
5	*Differences in valuations*	0	0	0	0	0
6	*Differences due to different netting rules, other than those already included in row 2*	0	0	0	0	0
7	*Differences due to consideration of provisions*	0	0	0	0	0
8	*Differences due to prudential filters*	0	0	0	0	0
9	**Exposure amounts considered for regulatory purposes**	**3,193,593**	**3,134,793**	**0**	**0**	**58,800**

4. Composition of Capital

4.1 Composition of Regulatory Capital (CC1)

	(AED in 000's)	Amounts
1	**Aggregate Capital Funds**	**398,823**
1.1	Paid up capital	500,000
1.2	Share Premium	-
1.3	Reserves, excluding revalution reserve	2,952
1.4	**Retained earnings/ (-) Loss**	**(104,129)**
1.4.1	Accumulated retained earnings / (-)	(107,512)
1.4.2	Audited / Reviewed Current year profit / (-) current financial year loss	3,383
1.4.3	Proposed Dividend	-
	Less:	-
1.5	Good will	-
2	**Total Assets excluding cash collaterals and sovereign guarantees**	**2,943,417**
2.1	Total Assets	2,964,102
2.2	Cash collaterals (legally enforceable)	(20,685)
2.3	Sovereign Guarantees (legally enforceable)	-
3	**Aggregate Capital Fund (%)**	**13.55%**

4.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2)

(AED in 000's)	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	2,118,452	2,118,452
Items in the course of collection from other banks	-	
Trading portfolio assets	-	-
Financial assets at fair value through profit or loss	58,800	58,800
Derivative financial instruments	-	
Loans and advances to banks	83,333	83,433
Loans and advances to customers	586,483	588,946
Reverse repurchase agreements and other similar secured lending	-	
Available for sale financial investments (Includes FVOCI)	12,612	12,612
Current and deferred tax assets	-	
Prepayments, accrued income and other assets	19,896	19,896
Investments in associates and joint ventures	-	
Goodwill and other intangible assets	-	
Of which: goodwill	-	
Of which: intangibles (excluding MSRs)	50,772	50,772
Of which: MSRs	-	
Property, plant and equipment	33,754	33,754
Total assets	**2,964,102**	**2,966,665**
Liabilities		
Deposits from banks		
Items in the course of collection due to other banks		
Customer accounts	2,405,929	2,405,929
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	157,144	157,144
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	-	2,563
Retirement benefit liabilities		
Total liabilities	**2,563,073**	**2,565,636**

Shareholders' equity		
Paid-in share capital	500,000	500,000
Legal reserve	169	169
Impairment reserve	2,783	2,783
Retained earnings	(104,129)	(104,129)
Fair Value Reserve	2,206	2,206
Total shareholders' equity	**401,029**	**401,029**
Total shareholders' equity and liabilities	**2,964,102**	**2,966,665**

5. Liquidity

5.1 Liquidity Risk Management (LIQA)

Liquidity Risk Management governance is defined in the Liquidity Policy and is approved by the Board of Directors (BOD)/ Board Risk and Compliance Committee (BRCC) and reviewed to ensure that it is aligned with the Bank's business plan, economic and financial position or any other significant changes which affect the Bank. The BRCC receives regular reports on the liquidity and funding situation of the Bank. The primary responsibility of implementation of the Liquidity management policy rests with Asset Liability Management Committee (ALCO) where it reviews and analyses the liquidity gaps and monitor such gaps within the tolerance levels set by the Board/ BRCC and decide on the maturity of various products on the assets and liabilities side for the management of liquidity. The Bank has Liquidity risk parameters monitored regularly as part of its Risk Appetite framework.

MBank funding strategy focuses on diversifying deposits via type (Non-Maturing Deposits, Time Deposits, Notice Deposits) and segments (Corporate, SMEs, Retail with a further focus on the youth sector). Moreover, the Bank focuses on the development of innovative deposits products based on its strategy.

Liquidity Risk mitigation is achieved primarily by placing excess liquidity in the UAE Central Bank ODF facility which is available on an overnight basis.

Stress testing is used to identify the Bank's capacity to cover and meet any potential outflows of NMD's. The survival horizon in the event of a liquidity stress events should surpasses 6 months. Liquidity stress testing results are presented to ALCO on a monthly basis.

The Bank's Contingency Funding Plan (CFP) focuses on utilizing the HQLA portfolio in the order of most liquid assets (ODF or Cash) before selling any investments (such as equity shares). The activation of the contingency plan is considered if the survival horizon drops below 6 months, there is a crisis of a bank-specific nature, or a significant general market disruption occurs.

The Bank analyses its cash flow gaps based on contractual and behavioral assumptions. The Bank is in the process of implementing an industry-standard Asset Liability Management (ALM) tool in 2024 which provides the capability of projecting current and new cash flows. This analysis will include both on and off-balance sheet items.

Concentration limits on funding sources are integral components of the Bank's Risk Appetite framework, ensuring that the Bank operates within acceptable risk parameters (including depositor concentration from retail and corporate customers).

The table below depicts the balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps as of 31 December 2023:

	Carrying amount AED'000	*Up to 3 months AED'000*	*3 months to 1 year AED'000*	*1 year to 3 years AED'000*	*Over 3 years AED'000*	*Unspecified maturity AED'000*
31 December 2023						
Assets						
Cash and balances with the Central Bank of the UAE	**2,118,452**	**2,118,452**	**-**	**-**	**-**	**-**
Deposits and balances due from banks	**83,333**	**5,833**	**77,500**	**-**	**-**	**-**
Loans and advances to customers, net	**586,483**	**400,826**	**88,459**	**38,392**	**58,806**	**-**
Financial assets at fair value through profit or loss	**58,800**	**-**	**-**	**-**	**-**	**58,800**
Financial assets at fair value through other comprehensive income	**12,612**	**-**	**-**	**-**	**-**	**12,612**
Other assets	**15,220**	**10,845**	**4,368**	**-**	**-**	**7**
	2,874,900	**2,535,956**	**170,327**	**38,392**	**58,806**	**71,419**
Liabilities						
Deposits from customers	**2,405,929**	**2,313,872**	**91,670**	**387**	**-**	**-**
Other liabilities	**129,253**	**45,522**	**2,256**	**150**	**1**	**81,324**
	2,535,182	**2,359,394**	**93,926**	**537**	**1**	**81,324**
Net liquidity gap	**339,718**	**176,562**	**76,401**	**37,855**	**58,805**	**(9,905)**

5.2 Eligible Liquid Assets Ratio (ELAR)

1	High Quality Liquid Assets (AED in 000's)	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,118,452	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	2,118,452	2,118,452
1.3	UAE local governments publicly traded debt securities	0	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**2,118,452**	**2,118,452**
2	**Total liabilities**		**2,563,073**
3	**Eligible Liquid Assets Ratio (ELAR)**		**83%**

5.3 Advances to Stables Resource Ratio (ASRR)

(AED in 000's)		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	586,483
	1.2	Lending to non-banking financial institutions	0
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	
	1.4	Interbank Placements	77,500
	1.5	**Total Advances**	**663,983**
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	401,029
		Deduct:	
	2.1.1	Goodwill and other intangible assets	50,772
	2.1.2	Fixed Assets	21,234
	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**	72,006
	2.2	**Net Free Capital Funds**	329,023
	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	2,405,929
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	**Total other stable resources**	2,405,929
	2.4	**Total Stable Resources (2.2+2.3.7)**	**2,734,952**
3		**Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)**	**24.3%**

6. Credit Risk

6.1 General Qualitative Information about Credit Risk (CRA)

Credit risk is defined as the risk arises from failure to perform or unwilling to pay principal or profit to fulfil the contractual obligations under the finance agreements by the Bank's customers, clients or counter parties, thus causing the Bank to suffer a financial loss.

The approvals for lending in case of traditional Retail products (Personal loans, Credit Card and Overdraft) falls under the delegation of CEO (after review and recommendation by Credit Risk Department). Retail real estate and business term loan approvals is delegated to BCIC (Board Credit and Investment Committee) after review and recommendation by Credit Risk Department. The approvals for Wholesale lending falls under the delegation of BCIC.

The Bank's business units, as the first line of defense, have the primary responsibility for the establishment, maintenance and revisions of financing exposures. Credit Risk Department is the second line of defense, is responsible for independent review of loan review mechanism, and the Bank's Credit Administration Department is responsible for the control and administration function. Internal Audit as the third line of defense, does an independent audit of the credit under-writing process and makes sure all required checks and balances are in place.

The Bank strictly follows internal policies and processes to do the assessment, identification, measurement, monitoring and control of credit risk. Any deviation to the policy is duly highlighted to the BCIC for approval. The Bank has a Credit Risk Department that is a dedicated credit underwriting with proper due diligence before establishing the relationship with the Bank. Also, the Bank has a dedicated Credit Administration Department which ensures the perfection of credit limits, proper credit documentation and other credit administration related tasks are fulfilled.

All credit proposals are reviewed by the Credit Risk Department, which pursues credit underwriting as per the Bank's policy. Retail exposures are also being reviewed by them as per the specific product programs.

The Credit Risk Department reports to the CEO and BCIC. The Credit Risk department reviews all proposals independently keeping in line with credit policy and product programs. Credit Risk Department is a second line of defense to ensure that risk and controls being effectively managed. Internal Audit being a third line of defense is responsible to highlight any gaps within the bank credit risk and compliance management process. A report on credit risk exposures is sent to senior management and BCIC on a quarterly basis detailing the quality of portfolio, overdue, etc.

6.2 Credit Quality of Assets (CR1)

	AED in 000's	Gross carrying values of		Allowances/ Impairments (c)	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures (a)	Non-defaulted exposures (b)		Allocated in regulatory category of Specific (d)	Allocated in regulatory category of General (e)	
1	Loans	501	588,446	(1,376)	(420)	(956)	587,571
2	Debt securities		-	-	-	-	-
3	Off-balance sheet exposures	-	365,189	(1,088)	-	(1,088)	364,101
4	**Total**	**501**	**953,635**	**(2,464)**	**(420)**	**(2,044)**	**951,672**

6.3 Changes in the stock of defaulted loans and debt securities (CR2)

	(AED in 000's)	Dec-23
1	Defaulted loans and debt securities at the end of the previous reporting period	0
2	Loans and debt securities that have defaulted since the last reporting period	501
3	Returned to non-default status	0
4	Amounts written off	0
5	Other changes	0
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**501**

A small number of credit card accounts over 90 DPD.

6.4 Additional disclosure related to the credit quality of assets (CRB)

The Bank considers all the exposures that are past due >90 days as 'default' for both accounting and regulatory purposes. For assessing the borrower unlikeliness to pay its credit obligation, the Bank considers both qualitative and quantitative indicators in its assessment and classification, and depending on the asset type. The Bank has no past-dues exposures (>90days) that are not considered to be impaired as of the reporting period.

Impairment of financial assets impairment assessment:

The Bank assesses whether financial assets carried at amortised cost 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 financing by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

ECL (Expected Credit Loss) is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank considers a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

No accounts have been restructured as for the reporting period. Restructuring is defined as either distress or non-distress restructuring. Distress restructuring is where the terms of a credit facility are amended in the context of financial difficulty of the obligor and in order for the obligor to obtain concessions. This includes restructuring that commences or concludes after a credit facility becomes past due more than 90 days or falls within the unlikeliness to pay status. Non-distress restructuring is where the terms of a credit facility are amended for commercial or regulatory reasons or to mitigate future financial difficulties, but excluding situations of financial distress at the time of restructuring.

The Bank's asset portfolio is all UAE based, and is predominantly consists of retail segment and with a relatively short dated maturities and tenors. The Bank's impaired portfolio consists of a small number of credit card accounts that are over 90 DPD which are granted for retail segments clients located in UAE.
The Bank's impaired portfolio consists of a small number of credit card accounts which are over 90 DPD.
The Bank has no accounts that have been restructured as for the reporting period.

6.5 Qualitative information on the mitigation of credit risk (CRC)

The Bank holds collateral to mitigate credit risk associated with financial assets. The collaterals held at end of the reporting considered to the extent that mitigates the credit risk consists of cash collateral and equities in the UAE local stock exchange markets. The Bank holds other types of collateral including real estate and other assets as part of credit risk management and loans granting process. The Bank uses Credit Conversion Factor (CCF) against off-balance sheet items and Credit Risk Mitigation (CRM's) against on- and off-balance sheet items as a netting practice, as per the CBUAE rules and regulations.

The Bank uses a collateral module as part of its core banking system. This module houses the collateral information and allows for tracking and monitoring. Collateral evaluation is done by the Bank's approved list of evaluators as per collateral management policy and CBUAE guidelines and exceptionally approved by Credit Risk department. No particular concentration exists on the level of credit risk mitigation (CRM) instruments at this point in time.

7. Counterparty credit risk (CCR)

7.1 Qualitative disclosure related to CCR (CCRA)

The Bank, as of the reporting period, has no swaps / repos / options or derivatives and has not posted collateral nor has its own credit rating. If the Bank is to enter into such arrangements in future then it would establish appropriate limits and controls.

8. Market Risk

8.1 General Qualitative disclosure requirements related to market risk (MRA)

Market Risk Management governance is defined in the Market Risk Policy and is approved by the Board of Directors (BOD)/ Board Risk and Compliance Committee (BRCC). The policy defines market risk management approach consisting of identification, measurement, limit setting, monitoring and control and reporting of market risk. The Bank's approach to managing market risk is part of the overall Risk Governance Framework in the Bank, and limits are established in the Bank's Risk Appetite Statement.

The Bank does not engage actively in trading activities. Market risks and Liquidity risk are managed and monitored by the ALCO. The committee meets monthly to discuss balance sheet development, market and liquidity risks and identify strategies for implementation.

The BRCC, on behalf of the BoD, is responsible for the oversight of implementing a robust and effective market risk management framework in the Bank and the responsibilities delegated to it by the BoD. The ALCO has been established to assess the adequacy, and monitoring the implementation of the Bank's policies, procedures and approaches in managing market risks.

The CRO has direct access to BRCC and is responsible for development of market risk strategy of the Bank and establishment of an overall risk management framework of which market risk it is part of. The Risk Management function is responsible for the implementation of market risk policy, including the identification, assessment, monitoring and control of market risks.

The Bank accepts and deals only in AED currency, hence there is no exposure to FX risk. Also, the Bank does not currently deal or trade in commodities, derivatives, options, or credit spreads, hence there is no exposure to the corresponding risks emanating from such holdings or trades.

The Bank monitors its risk exposure on a daily basis. If the Bank's exposures exceed the risk limits, the Bank will take steps to reduce the exposures and take appropriate actions. These steps may include selling assets, hedging exposures or increasing capital. Market risk reporting (VaR, Stop-loss, limits, etc.) is done on a daily basis. The sensitivity based limits are based on Value at Risk (VaR) at a 99% confidence level for a 10 days holding period. This is reported daily as part of the management reporting pack.

9. Interest rate risk in the banking book (IRRBB)

9.1 IRRBB Risk Management Objectives and Policies (IRRBBA)

The Bank's methodology for IRRBB risk assessment is based on measuring both Economic Value of Equity (EVE) (which is the change in market value impacting capital) and Earnings at Risk (EaR) (which is the changes impacting profit & loss statement). The CBUAE EVE limit is set at 15% of ACF (Aggregate Capital Funds).

MBank measures IRRBB through interest rate risk repricing profiles and an internal model for EaR and EVE calculations. Calculations are based on +/- 0.5% increments up to 200bps. Results of IRRBB analysis and stress testing are presented to ALCO on a monthly basis. As part of the ALCO report and deliberations, alternative strategies are discussed to manage the exposure appropriately. Strategies/ actions are based on economic outlook and focus on deposit pricing, investment/ placement of excess

liquidity. A major focus is to develop the lending portfolio with appropriate attention to risk and return across various client sectors. Hedging strategies focus on natural and on-balance sheet hedging of exposures. An industry-standard ALM model is in the process of implementation and is scheduled to be live in 2024. Also, the Bank currently in the process of implementation of model management standards and guidelines on the used models.
The Bank measures IRRBB on a monthly basis through parallel interest rate shocks (+/-200bps) on EVE and EaR. The EVE analyses the impact of interest rate movement on the Economic Value of Equity, which is calculated by discounting asset/ liability cash flows by appropriate discount rates. The discount rates are then shocked by +/- 200 bps to measure exposure to interest rate movement on EVE.
The EAR is calculated as the change in net interest rate income over the next 12 months, given current exposures, that would result from +/- 200 bps movements in interest rates. EAR reflects exposure to future accounting income which is not the same as exposure to changes in market or economic value.

The Bank measures the parallel shocks of up to +/- 200 bps in increments of 50 bps as part of IRRBB stress testing process.

The Bank follows the same modelling assumptions of IRRBB for disclosures and internal measurement. Assumptions for NMD's are based on management judgements due to the limited historical data currently to develop robust statistical assumptions.
The hedging of Interest Rate Risk focuses on straightforward practice through (a) Product pricing and development (b) Money Market borrowings & placements to manage the repricing profile and (c) HQLA investments (Central Bank overnight deposit, Mbills and Bonds as applicable).

The Bank key modelling and assumptions used in the EVE and NII calculation (in template IRRBB1) include:

- All margins and spread components are included in the cash flows analysis, and discount rates are derived from EIBOR rates.
- Behavioural analysis is carried on all NMD balances to identify volatile and core balances, and the analysis is updated monthly. Weighted Average Life (WAL) for NMD's is limited to 2 years, which is conservative. It must be noted that the interest rate repricing on NMD's is treated as a fixed rate.
- Based on the short period of the Bank operations, especially on the loan side, no assumptions have been factored on the prepayments or early withdrawals. A process will be developed to monitor and analyse the potential impact of prepayments and early withdrawals as more data is collected and as the loan and time deposits books increase in size and lifespan.
- Also, no other behavioural optionality of other instruments have been included in the measurement as such considered to be having no material impact on the disclosed EVE an NII calculation.
- Given that the Bank is restricted to deal/ transact only in UAE Dirhams currency as per its license, no aggregation across currencies or any interest rate correlations between different currencies have been analysed.
- The Bank's average repricing maturity assigned to NMDs is 1 year and the Bank's longest repricing maturity assigned to NMDs is 2 years.

9.2 Quantitative information on IRRBB (IRRBB1)

(AED In 000's)	∆EVE	∆NII
Period	**Dec-23**	**Dec-23**
Parallel up	(2,791)	32,396
Parallel down	2,767	(32,396)
Maximum	**(2,791)**	**(32,396)**

Period	Dec-23
Aggregate capital funds	**398,823**

10. Operational Risk

10.1 Qualitative disclosures on operational risk (OR1)

The Bank has an Operational Risk Management Policy, which was approved by the Board Risk and Compliance Committee, the purpose of which is to institute clear and uniform standards for operational risk, aiming to strengthen the Bank's capabilities in identifying, assessing, mitigating, monitoring, and reporting operational risks.

Major tools used for operational risk management include:
- Risk and Control Self-Assessment (RCSA): through which the Bank assesses the operational risks and related controls within the Bank’s processes.
- Key Risk Indicators (KRIs): which provide signals of changes in risk exposures in various areas of the Bank.
- Loss data collection: Provide meaningful information for assessing the Bank’s exposure to operational risk and the effectiveness of internal controls.

The Bank has an Operational Risk Department which report to the Chief Risk Officer (CRO) and a Head of Operational risk who leads the operational risk function and ensures compliance with all related laws and regulations.
The Operational Risk Department actively promotes innovation and digital transformation to facilitate the effective management of risks within the Bank. In line with this commitment, the Bank is in the process of acquiring a new operational risk management system.

The Operational Risk Department has 2 reports information as follow:
1. to the Board level through the BRCC.
2. to the management level through a management committee.

Both receive quarterly updates on the following key areas:
1. Results of control testing.
2. Findings from Risk and Control Self-Assessment (RCSAs) and Key Risk Indicators (KRIs).
3. Overview of outsourcing activities.
4. Updates on Business Continuity Planning (BCP).
5. Reports on operational risk events.

Risk Mitigation and Controls:
The Bank employs various risk mitigation measures to reduce the likelihood and impact of operational risks. This includes the implementation of new controls, standardized processes, and advanced technology solutions. Regular risk assessments are conducted to identify vulnerabilities, and proactive measures are taken to address and mitigate potential threats. Employee training programs also play a crucial role in enhancing risk awareness and adherence to risk-mitigating procedures.

Risk Treatment:
For all operational risks identified, the Bank shall decide an appropriate risk treatment based on the residual risk rating such as:

Risk Acceptance: When the Bank chooses to accept a risk, it essentially acknowledges the risk's existence but refrains from taking any specific action to mitigate it. This decision is often based on a careful assessment of the risk's impact and the Bank's risk appetite.

Risk Reduction: In this approach, the Bank would implement additional controls / mitigants to ensure that the impact of the risk is reduced.

Risk Avoidance: If the Bank is not comfortable with a particular risk exposure and would avoid the risk through either not undertaking the activity od developing an alternative mechanism to perform the activity.

Risk Transfer: In this approach, the Bank undertakes the activity but transferring the risk to a third party through use of mechanisms such as insurance from external parties.

11. Remuneration Policy

11.1 Remuneration Policy (REMA)

The Board Nominations and Remuneration Committee (BNRC) of Mbank comprises five non-executive directors, with the Chair among them. The Committee's Mandate is formally outlined in its Charter. The BNRC is responsible for the review of Mbank's remuneration policy framework, as well as the oversight and approval of the rewards design methodology in accordance with Mbank's values, business performance, and risk strategy. The remuneration Policy of Mbank applies to all employees and branches within the UAE and is subject to regular review. Furthermore, a benchmarking study was conducted in 2023 to ensure that market-competitive remuneration is aligned with shareholder interests, business strategy, and long-term goals.

The definition of Senior Management is determined in accordance with the guidance note and CBUAE circular No. 83/2019. Material risk takers involve key department heads and may include individuals directly reporting to the CEO, as well as those who have occupied CBUAE approved positions in an acting capacity at any point during the year.

The organization has established a fair and transparent remuneration approach that is aligned with the agreed strategic and organizational objectives. This is designed to promote a strong risk culture by providing incentives for ethical and compliant behavior. Employees in risk and compliance roles receive remuneration that are not contingent upon business performance. The reward framework is designed to be competitive within the market and is closely tied to shareholder interests, the Bank's strategy, and long-term goals. Performance-based allowances are disbursed in accordance with BNRC approval. Individuals remuneration package is set based on respective individual's role and responsibilities and in line with the approved pay-scale. Staff are eligible for discretionary performance pay, which is linked to the bank-wide performance & pay based on performance assessment and achievement of targets. The performance cycle commences with the establishment of goals, followed by periodic evaluations. These evaluations are conducted at regular intervals throughout the year to provide continual feedback and support.

11.2 Remuneration awarded during the financial year (REM1)

	Remuneration Amount (AED In 000's)		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	**Number of employees**	**8**	**8**
2		**Total fixed remuneration (3 + 5 + 7)**	**7,070**	**4,578**
3		Of which: cash-based	7,070	4,578
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable Remuneration	**Number of employees**	**5**	**7**
10		**Total variable remuneration (11 + 13 + 15)**	**984**	**652**
11		Of which: cash-based	984	652
12		Of which: deferred	-	-
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)**		**8,054**	**5,230**

Senior Management includes the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Heads of Compliance, Head of Internal Audit, Head of Strategy, Head of HR.

Material Risk Taker (MRT) includes all other department heads who directly report to CEO and those individuals who were at anytime in the year occupying CBUAE approved positions in an acting capacity.

ABBREVIATIONS:

Mbank or the Bank	Al Maryah Community Bank
The Board or BoD	Board of Directors of Mbank
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CRO	Chief Risk Officer
CBUAE	Central Bank of UAE
AED	Arab Emirates Dirham
BRCC	Board Risk and Compliance Committee
BCIC	Board Credit and Investment Committee
BNRC	Board Nominations and Remuneration Committee
ALCO	Asset Liability Management Committee
ACF	Aggregate Capital Funds
ECL	Expected Credit Loss
IRRBB	Interest rate risk in the banking book