Standard Chartered Bank – UAE Branches

Basel II – Pillar 3 Disclosures

31 December 2016

Standard Chartered Bank –
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Pillar 3 Disclosures

Note: Table 6, 8, 9 , 11 & 12 are not applicable for the Bank

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Relevant notes from Statutory Financial Statements

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Table (1)

Information on subsidiaries and significant investments as on 31 December 2016
Basis of consolidation: (Since there are no subsidiaries or significant investments, this disclosure is reported as NIL)

	Country of incorporation	% Ownership	Description	Accounting treatment	Surplus capital	Capital deficiencies	Total interests
Subsidiaries:	-	-	-	-	-	-	-
Significant investments:	-	-	-	-	-	-	-

Standard Chartered Bank UAE is a branch of Standard Chartered PLC, which is incorporated in the United Kingdom and therefore does not have any subsidiary in UAE.

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Table (2)

Consolidated capital structure as on: **31 December 2016** (AED 000's)

	Summary terms and conditions of main features of all capital instruments	Amount
Tier 1 Capital		
1. Paid up share capital/common stock	*This represents the amount received from the Head Office as capital for the UAE branches of the Bank*	2,288,850
2. Reserves		
a. Statutory reserve	*In accordance with Article 82 of the Union Law of 1980, banks need to allocate a minimum of 10% of their annual net profits for the establishment of a statutory reserve until such reserve equals 50% of the assigned capital of the Bank. The Bank has continued to make such transfers during the year.*	1,080,531
b. Special reserve		-
c. General reserve 2	*This include the Fair value reserve, Cash flow hedged reserve and actuarial gain on retirement benefits scheme.*	2,756
3. Minority interests in the equity of subsidiaries		-
4. Innovative capital instruments 1		-
5. Other capital instruments	*This represents the retained earnings / unremitted profit*	1,994,300
6. Surplus capital from insurance companies		-
Sub-total		**5,366,437**
Less: Deductions for regulatory calculation	*This includes the intangible assets*	(16,278)
Less: Deductions from Tier 1 capital		-
Tier 1 Capital - subtotal		**5,350,159**
Tier 2 capital	*This primarily represents Sub-debt capital injected by the Head Office of AED 1,737 million subject to 20% haircut for the debts with residual tenor of less than 5 years. The details of various subordinated loans obtained from Head Office is disclosed in Note 15 of the statutory accounts. Further it also includes the Portfolio impairment provisions / general provisions of AED 559.0 million related to standardised portfolio.*	2,148,865
Less: Other deductions from capitals		-
Tier 3 capital		-
Total eligible capital after deductions		**7,499,024**

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step ups in instruments issued through SPV's, as well as directly issued Tier I instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible for inclusion in Tier I capital 27 October 1988) and limited to a maximum of 15% of Tier I capital.

2. Including undisclosed reserves, revaluation reserves, general provisions/general loan loss reserves Hybrid debt capital instruments and subordinated debt.

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Capital adequacy on 31 December 2016

Table (3a and 3b)

a) Qualitative disclosures
Please refer to note 27 of the statutory financial statements for detailed risk management framework covering credit, market and operational risk. Please also refer to note 27.8 of the same statutory financial statements for specific disclosures on the capital management process.

b) Quantitative disclosures	**Capital charge (AED 000's)**	**Capital ratio (%)**
Capital requirements		
1. Credit risk		
a. Standardised approach	5,255,397	
b. Foundation IRB	-	
c. Advanced IRB	-	
2. Market risk		
a. Standardised approach	111,227	
b. Models approach	-	
3. Operational risk		
a. Basic indicator approach	-	
b. Standardised approach/ASA	551,899	
c. Advanced measurement approach	-	
Total capital requirements	**5,918,523**	
Capital ratio		
a. Total for top consolidated group		15.20%
b. Tier 1 ratio only for top consolidated group		10.85%
c. Total for each significant bank subsidiary		Nil

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Qualitative disclosures

Table 4(a)

Definition of past due and impaired (for accounting purposes)
Please refer note # 27.3 of statutory financial statements which pertains to the Risk Management Framework of the bank and includes in detail the Credit Risk Management and policies relating to impairment and provisioning followed by the Bank.

Description of approaches followed for specific and general allowances and statistical methods	
Specific	*Please refer note # 27.3 of statutory financial statements which pertains to the risk management framework of the bank and includes in detail the Credit Risk Management process and policies relating to impairment and provisioning followed by the Bank. Further also refer the note # 3 (f) (viii) of statutory financial statements relating to impairment of financial assets.*
General	

Discussion of Bank's credit risk management policy
Please refer note # 27.3 of statutory financial statements which pertains to the Risk Management Framework of the bank and includes in detail the Credit Risk Management and policies relating to impairment and provisioning followed by the Bank.

Partial adoption of foundation IRB/advanced IRB

Approach	**Description of exposures**	**Plans and timing of migration to implement fully higher approach**
Standardised approach	*All the assets exposure of the Bank are coverd under Standardised Approach which also include fixed assets and other assets.*	N/A
Foundation IRB	N/A	N/A
Advanced IRB	N/A	N/A

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Table 4(b)

(AED 000's)

Gross credit exposures by currency type as on 31 December 2016

	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Foreign currency	16,405,137	5,142,745	**21,547,882**	696,305	50,701,199	13,786,336	**65,183,840**	**86,731,722**
AED	17,225,629	499,500	**17,725,129**	1,296,224	158,757,021	5,156,945	**165,210,190**	**182,935,319**
Total	**33,630,766**	**5,642,245**	**39,273,011**	**1,992,529**	**209,458,220**	**18,943,281**	**230,394,030**	**269,667,041**

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Table 4(c)
(AED 000's)

Gross credit exposures by geography as on 31 December 2016

Geographic distribution	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
United Arab Emirates	31,707,339	495,406	**32,202,745**	1,890,351	56,026,696	10,254,669	**68,171,716**	**100,374,461**
GCC excluding UAE	242,075	604,711	**846,786**	-	21,790,420	792,972	**22,583,392**	**23,430,178**
Arab League (excluding GCC)	5,522	-	**5,522**	-	2,482,442	102,915	**2,585,357**	**2,590,879**
Asia	835,773	313,688	**1,149,461**	-	16,020,843	5,618,455	**21,639,298**	**22,788,759**
Africa	136,048	499,500	**635,548**	-	532	147,905	**148,437**	**783,985**
North America	55,394	3,379,355	**3,434,749**	-	2,092,674	404,802	**2,497,476**	**5,932,225**
South America	-	-	**-**	-	-	2,546	**2,546**	**2,546**
Caribbean	163,722	-	**163,722**	-	1,101,253	382	**1,101,635**	**1,265,357**
Europe	482,961	349,585	**832,546**	102,178	109,943,360	1,616,698	**111,662,236**	**112,494,782**
Australia	1,932	-	**1,932**	-	-	1,937	**1,937**	**3,869**
Others	-	-	**-**	-	-	-	**-**	**-**
Total	**33,630,766**	**5,642,245**	**39,273,011**	**1,992,529**	**209,458,220**	**18,943,281**	**230,394,030**	**269,667,041**

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Gross credit exposure by industry segment as on 31 December 2016

Table 4(d)
(AED 000's)

Industry segment	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Agriculture, fishing & related activities	75,157	-	**75,157**	-		1,003	**1,003**	**76,160**
Crude oil, gas, mining & quarrying	598,235	-	**598,235**	-	484,213	2,573,091	**3,057,304**	**3,655,539**
Manufacturing	1,908,700	-	**1,908,700**	169,629	731,005	1,859,450	**2,760,084**	**4,668,784**
Electricity & water	-	-	**-**	-	443,291	552,660	**995,951**	**995,951**
Construction & Real Estate	2,507,513	-	**2,507,513**	1,384,284	1,665,587	2,599,892	**5,649,763**	**8,157,276**
Trade	9,694,853	-	**9,694,853**	-	5,155,187	2,402,870	**7,558,057**	**17,252,910**
Transport, storage & communication	1,591,811	-	**1,591,811**	-	4,538,010	356,738	**4,894,748**	**6,486,559**
Financial institutions	2,977,544	3,414,493	**6,392,037**	2	190,025,405	8,113,459	**198,138,866**	**204,530,903**
Services	1,337,329	-	**1,337,329**	187,213	6,415,522	484,068	**7,086,803**	**8,424,132**
Government	-	2,227,752	**2,227,752**	-			**-**	**2,227,752**
Retail/Consumer banking	12,939,624	-	**12,939,624**	251,401		50	**251,451**	**13,191,075**
All others	-	-	**-**	-			**-**	**-**
Total	**33,630,766**	**5,642,245**	**39,273,011**	**1,992,529**	**209,458,220**	**18,943,281**	**230,394,030**	**269,667,041**

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Gross credit exposures by residual contractual maturity as on 31 December 2016

Table 4(e)
(AED 000's)

Residual contractual maturity	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Less than 3 months	12,912,571	558,520	**13,471,091**	96,464	110,229,526	6,133,397	**116,459,387**	**129,930,478**
3 months to one year	5,725,302	3,786,807	**9,512,109**	1,457,077	53,594,935	5,931,003	**60,983,015**	**70,495,124**
One to five years	8,633,691	1,296,918	**9,930,609**	438,986	33,976,834	6,802,028	**41,217,848**	**51,148,457**
Over five years	6,359,202	-	**6,359,202**	2	11,656,925	76,853	**11,733,780**	**18,092,982**
Grand total	**33,630,766**	**5,642,245**	**39,273,011**	**1,992,529**	**209,458,220**	**18,943,281**	**230,394,030**	**269,667,041**

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Impaired loans by industry segment as on 31 December 2016

Table 4(f)
(AED 000's)

Industry segment	Neither past due nor impaired loans	Past due but not impaired loans			Impaired loans	Total loans	Interest in Suspense (IIS) & Provisions			Adjustments		Total impaired assets net of provisions and IIS
		Less than 90 days	90 days and above	Total			IIS	Specific Provision	General Provision	Write-offs	Write-backs	
Agriculture, fishing & related activities	75,157	-	-	-	-	75,157	-	-	-	-	-	-
Crude oil, gas, mining & quarrying	256,767	341,468	-	341,468	-	598,235	-	-	-	-	-	-
Manufacturing	1,530,819	239,368	-	239,368	138,513	1,908,700	-	-	-	-	-	138,513
Electricity & water	-	-	-	-	-	-	-	-	-	-	-	-
Construction & Real Estate	1,373,157	765,714	-	765,714	368,642	2,507,513	-	-	-	-	-	368,642
Trade	7,162,665	250,678	-	250,678	2,281,510	9,694,853	210,630	-	-	-	-	2,070,880
Transport, storage & communication	1,459,594	31,494	-	31,494	100,723	1,591,811	3,062	-	-	-	-	97,661
Financial institutions	1,342,524	1,172,605	-	1,172,605	462,415	2,977,544	31,401	-	-	-	-	431,014
Services	966,464	325,934	-	325,934	44,931	1,337,329	3,013	-	-	-	-	41,918
Government	-	-	-	-	-	-	-	-	-	-	-	-
Retail/Consumer banking	11,943,065	777,450	-	777,450	219,109	12,939,624	43,830	-	115,325	-	-	59,954
All others	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	**26,110,212**	**3,904,711**	**-**	**3,904,711**	**3,615,843**	**33,630,766**	**291,936**	**-**	**115,325**	**-**	**-**	**3,208,582**

Note: General provision relating to Corporate and SME customers; and provision relating to AIR have been shown in "All Others" industry segment.

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Impaired loans by geographical segment as on 31 December 2016

TABLE 4(g)
(AED 000's)

Geographic distribution	Neither past due nor impaired loans	Past due but not impaired loans			Impaired loans	Total loans	Interest in Suspense (IIS) & Provisions			Adjustments		Total impaired assets net of provisions and IIS
		Less than 90 days	90 days and above	Total			IIS	Specific Provision	General Provision	Write-offs	Write-backs	
United Arab Emirates	24,186,785	3,904,711	-	3,904,711	3,615,843	31,707,339	291,936	-	115,325	-	-	3,208,582
GCC excluding UAE	242,075	-	-	-	-	242,075	-	-	-	-	-	-
Arab League (excluding GCC)	5,522	-	-	-	-	5,522	-	-	-	-	-	-
Asia	835,773	-	-	-	-	835,773	-	-	-	-	-	-
Africa	136,048	-	-	-	-	136,048	-	-	-	-	-	-
North America	55,394	-	-	-	-	55,394	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-	-	-	-
Caribbean	163,722	-	-	-	-	163,722	-	-	-	-	-	-
Europe	482,961	-	-	-	-	482,961	-	-	-	-	-	-
Australia	1,932	-	-	-	-	1,932	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
Grand total	**26,110,212**	**3,904,711**	**-**	**3,904,711**	**3,615,843**	**33,630,766**	**291,936**	**-**	**115,325**	**-**	**-**	**3,208,582**

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Table 4(h)

Reconciliation of changes in provision for impaired loans to customers for the year ended 31 December 2016

	Description	AED 000's
	Opening balance of provisions for impaired loans	3,272,583
Add:	Charge for the year	1,234,931
	• *Specific provisions*	*1,099,619*
	• *General provisions*	*45,688*
	• *Interest in suspense*	*89,624*
Less:	Write-off of impaired loans to income statement	(628,542)
Less:	Recovery of loan loss provisions	-
Less:	Recovery of loans previously written-off	-
Less:	Write-back of provisions for loans	
	• *Specific provisions*	(161,172)
	• *General provisions*	(61,247)
	• *Interest in suspense*	(94,900)
	Adjustments of loan loss provisions - reclass from the other liabilities	
	Closing balance of provisions for impaired loans	**3,561,653**

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TABLE 4 I (i)

Loan portfolio as per standardised approach as on 31 December 2016

(AED 000's)

Asset classes	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assts
See Basel II, June 2006, para 50 to 81, and Central Bank National Discretions	Gross outstanding	Net exposure after credit conversion factors (CCF)	Exposure before CRM	CRM	After CRM	
Claims on sovereigns	10,021,183	255,849	10,277,032	-	10,277,032	-
Claims on non-central government public sector entities (PSEs)	-	-	-	-	-	-
Claims on multi lateral development banks	975,302	416,679	1,391,981	-	1,391,981	-
Claims on banks	9,080,571	6,983,010	19,437,633	-	16,063,581	8,168,553
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	18,911,035	7,607,836	32,936,077	139,925	26,518,872	25,763,187
Claims included in the regulatory retail portfolio	6,340,062	82,658	8,677,033	177,313	6,422,720	5,154,842
Claims secured by residential property	6,880,065	4,104	6,888,273	-	6,884,169	2,787,905
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	3,790,125	2,789	890,922	449,292	888,136	650,118
High risk categories	-	-	-	-	-	-
Other assets	1,837,899	222,424	2,060,323	-	2,060,323	1,270,374
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-	-	-	-	-	-
Total claims	**57,836,242**	**15,575,350**	**82,559,275**	**766,530**	**70,506,814**	**43,794,979**

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Table 5 (a & b)

a) Qualitative disclosures
- For all externally rated portfolio and exposures, the Bank used the following rating agencies: (1) Standard & Poor's (2) Moodys (3) Fitch

Loan portfolio as per standardised approach as on 31 December 2016

(AED 000's)

b) Quantitative	**Gross credit exposures**					**Exposures subject to deduction**				
Asset Class	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**
Claims on sovereigns	10,277,032	-	10,277,032	10,277,032	-	-	-	-	-	-
Claims on public sector entities	-		-	-	-	-	-	-	-	-
Claims on multilateral development banks	1,391,981	-	1,391,981	1,391,981	-	-	-	-	-	-
Claims on securities firms	-		-			-	-	-	-	-
Claims on banks	16,128,583	3,309,050	19,437,633	16,063,581	8,168,553	-	-	-	-	-
Claims on corporate	2,995,812	29,940,265	32,936,077	26,518,872	25,763,187	-	-	-	-	-
Regulatory & other retail exposure	-	8,677,033	8,677,033	6,422,720	5,154,842	-	-	-	-	-
Residential retail exposure	-	6,888,273	6,888,273	6,884,169	2,787,905	-	-	-	-	-
Commercial real estate	-		-	-	-	-	-	-	-	-
Past due loans	-	3,795,700	3,795,700	888,136	650,118	-	-	-	-	-
Other assets	-	2,060,323	2,060,323	2,060,323	1,270,374	-	-	-	-	-
Claims on securitised assets	-		-	-	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-		-	-	-	-	-	-	-	-
Grand Total	**30,793,408**	**54,670,644**	**85,464,052**	**70,506,814**	**43,794,979**	**-**	**-**	**-**	**-**	**-**

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Credit risk mitigation: disclosures for standardised approach as on 31 December 2016

Table 7 (a, b & c)

a) Qualitative disclosures

- Please refer to the note 3 (f) (ix) for policies and procedures on offsetting financial assets and liabilities.
- Please refer to the note 27.3 policies and procedures on risk mitigation.

(AED 000's)

b) Quantitative disclosures		**Exposures**	**Risk weighted assets**
	Gross exposure prior to credit risk mitigation and CCF	**82,559,275**	**54,565,464**
Less:	Impact of CCF	(11,285,931)	(10,091,600)
Less:	Exposures covered by eligible financial collateral	(563,130)	(577,185)
Less:	Exposures covered by guarantees	(203,400)	(101,700)
Less:	Exposures covered by credit derivatives	-	-
	Net exposures after credit risk mitigation	70,506,814	**43,794,979**

CCF=Credit Conversion Factors

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Table 10

Total capital requirement for market risk under standardised approach as on 31 December 2016

(AED 000's)

Market risk	**Amount**
Interest rate risk	73,641
Equity position risk	-
Foreign exchange risk	37,586
Commodity risk	-
Total capital requirement	**111,227**

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Table 13

Equity position in the banking book as of 31 December 2016

(AED 000's)

a) Qualitative disclosures
SCB UAE does not hold any equity investment as at 31 December 2016.

b) Quantitative disclosures

1. Quantitative details of equity position:

(AED 000's)

Type	Current year		Previous year	
	Publicly traded	Privately held	Publicly traded	Privately held
Equities	-	-	-	-
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	-	-	-	-

2. Realised, unrealised and latent revaluation gains (loses) during the year:

(AED 000's)

Gains (Losses)	Amount
Realised gains (losses) from sales and liquidations	-
*Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	-
**Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit and loss account	-
Total	-

3. Items in (2) above included in tier 1/tier 2 capital:

(AED 000's)

Tier Capital	Amount
Amount included in Tier I capital	-
Amount included in Tier II capital	-
Total	-

Equity position in the banking book as of 31 December 2016

4. Capital requirments by equity

(AED 000's)

Grouping	Amount
Strategic investments	-
Available for sale	-
Held for trading	-
Total capital requirement	-

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Table 14

Interest rate risk in the banking book (IRRBB) as of 31 December 2016

Interest rate risk from non-trading book portfolios is transferred to the Financial Markets where it is managed by the ALM desk under the supervision of the Country Risk Committee (CRC). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

Sensitivity analysis - interest rate risk

Interest rate risk is also assessed by measuring the impact of reasonable possible interest rate movements. The following table is based on the PV01 exposures of the Banking Book (ALM) as at 31st Dec16, stressing the yield curves by +/-200 bps and indentifying the impact on Profit before tax

(AED 000's)

Shift in yield curves	Net interest income	Regulatory capital
+200 basis point	(55,246)	(44,197)
-200 basis point	55,246	44,197

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APPENDIX B

3 (f) *(viii)* *Identification and measurement of impairment*

The Bank assesses at each reporting date whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be reliably estimated.

The Bank considers evidence of impairment at both individual asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

In assessing collective impairment, the Bank uses a statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. Losses are recognised in the statement of profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value, less any impairment loss recognised previously in the statement of profit or loss, out of other comprehensive income to the statement of profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3 (f) *(ix)* *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activities.

15 Subordinated loan

This represents tier two capital injected by the Head Office in order to meet the local regulatory capital adequacy requirements. The details of various subordinated loans obtained from the Head Office are as follows:

2016

Currency	**Face amount USD 000**	**Face amount AED 000**	**Maturity date**	**Interest rate**
USD	100,000	367,281	26 November 2020	3 month USD Libor plus 300 basis points
USD	85,000	312,189	26 November 2020	3 month USD Libor plus 300 basis points
USD	75,000	275,461	31 October 2022	3 month USD Libor plus 305 basis points
USD	80,000	293,825	31 October 2022	3 month USD Libor plus 305 basis points
USD	170,000	624,377	23 December 2023	3 month USD Libor plus 250 basis points
		1,873,133		

2015

Currency	Face amount USD 000	Face amount AED 000	Maturity date	Interest rate
USD	100,000	367,292	26 November 2020	3 month USD Libor plus 300 basis points
USD	85,000	312,198	26 November 2020	3 month USD Libor plus 300 basis points
USD	75,000	275,469	31 October 2022	3 month USD Libor plus 305 basis points
USD	80,000	293,834	31 October 2022	3 month USD Libor plus 305 basis points
USD	170,000	624,396	23 December 2023	3 month USD Libor plus 250 basis points
		1,873,189		

27 Financial risk management

27.1 Introduction and overview

The Bank has exposure to the following material risks from its use of financial instruments and operations:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Reputational risk
- Capital risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, risk management framework and approach for measuring and managing risk, and the management of the Bank's capital.

27.2 Risk management framework

Effective risk management is fundamental to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Bank. The Bank adds value to clients and therefore the communities in which they operate, generating returns for shareholders by taking and managing risk.

Through the Risk Management Framework the Bank manages enterprise-wide risks, with the objective of maximising risk‑adjusted returns while remaining within the risk appetite.

As part of this framework, the Bank uses a set of principles that describe the risk management culture it wishes to sustain:

- **Balancing risk and return**
  - Manage risks to build a sustainable franchise, in the interests of all stakeholders.
  - Take risks that are within the risk tolerances and risk appetite, and where consistent with the Bank's approved strategy.
  - Manage risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of investors.
- **Conduct of business**
  - Demonstrate that the Bank is Here for Good through the conduct, and is mindful of the reputational consequences of inappropriate conduct.
  - Always seek to achieve good outcomes for clients, investors and the markets in which it operate, while abiding by the spirit and letter of laws and regulations.
  - Treat colleagues fairly and with respect.
- **Responsibility and accountability**
  - Take individual responsibility to ensure risk-taking is disciplined and focused, particularly within area of authority.
  - Ensure risk-taking is transparent, controlled and reported in line with the Risk Management Framework, within risk appetite and risk tolerance boundaries and only where there is appropriate infrastructure and resource.
- **Anticipation**
  - Anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks.
- **Competitive advantage**
  - Achieve competitive advantage through efficient and effective risk management and control.

27 Financial risk management (continued)

27.2 Risk management framework (continued)

Risk Governance

The Country Risk Committee (CRC) is responsible for the management of all risks other than those managed by the Asset & Liability Committee (ALCO). The CRC is responsible for the oversight of credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The ALCO is responsible for the management of capital and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy, structural foreign exchange and interest rate risk. The CRC and the ALCO are chaired by the Chief Executive Officer. The Country Chief Risk Officer directly manages a Risk function that is separate and independent from the origination, trading and sales functions of the businesses.

The Chief Credit Officer is responsible for credit risk in the segments of Corporate & Institutional Banking (CIB) and Commercial Banking (CB); the Country Credit Head – Retail Banking is responsible for credit risk in the Retail Banking segment; the Head of Special Assets Management is responsible for remedial risk management; and the Head of Price Risk is responsible for Market risk and Head Traded Credit for Traded Credit risk. Regional Head of Group Treasury is responsible for Liquidity Risks (other than Prudential Liquidity for which CFO is responsible).

The Bank has established policies, procedures, processes and controls and has provided the Risk team with adequate support by way of risk systems and tools for measuring and reporting risk for monitoring, controlling, reviewing and managing risk. The Bank follows the Risk Appetite Statement approved by the Standard Chartered Board. The Risk appetite Statement is underpinned by a set of financial and operational control parameters, known as risk tolerances. The Risk Appetite Statement is also supplemented by an overarching statement outlining the Group’s Risk Appetite Principles. Control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Bank’s risk profile within risk appetite and risk capacity.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Under the first line of defence, business unit, function and geographic heads are accountable for risk management. The second line of defence comprises the risk control owners, supported by their respective control functions. The third line of defence is the independent assurance provided by the Group Internal Audit function.

27.3 Credit risk

Credit risk management

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures arise from both the banking and trading books. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

The Bank manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Credit policies and procedures set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other policies integral to the credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit Risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. The Bank's credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Physical collateral, such as property, fixed assets and commodities must be valued independently and an active secondary resale market for the collateral must exist. The collateral must be valued prior to drawdown and regularly thereafter. The valuation frequency is typically annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Bank to realize the asset without the cooperation of the asset owner in the event that this is necessary. Physical collateral is required to be insured at all times against risk of physical loss or damage. Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realize the collateral in the event of liquidation. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realize the collateral in the event of possession. Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty

Concentration risk

Credit concentration risk may arise from a single large exposure to counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporate and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Investment securities

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The following table provides analysis of the debt securities and equity shares which are neither past due nor impaired. The standard credit ratings used by the Bank are those assessed by Standard & Poors or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer. For securities which are unrated, the Bank applies an internal credit rating.

Analysis of the debt securities and equity shares

Rating	**2016**			2015		
	Debt Securities AED 000	**Equity Shares AED 000**	**Total AED 000**	Debt Securities AED 000	Equity Shares AED 000	Total AED 000
AAA	2,920,777	-	**2,920,777**	1,194,616	-	1,194,616
AA- to AA+	819,109	-	**819,109**	652,325	-	652,325
A- to A+	331,650	-	**331,650**	74,855	-	74,855
BBB- to BBB+	-	-	**-**	-	-	-
Lower than BBB-	-	-	**-**	-	-	-
Unrated	6,110,013	-	**6,110,013**	8,727,243	-	8,727,243
	10,181,549	**-**	**10,181,549**	10,649,039	-	10,649,039

Credit rating & measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions.

A standard alphanumeric credit risk grade (CG) system for CIB and CB is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit grade of those loans that are neither past due nor impaired is set out in note 27.3 (e).

For Retail client IRB portfolios, we use application and behaviour credit scores which are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system.

Credit monitoring

The Bank regularly monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political & economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit monitoring

Clients are placed on early alert when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period or there are concerns relating to ownership or management. Such accounts are subjected to a dedicated process overseen by the Credit Issues Committees in the relevant countries where client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit. Typically, all Corporate & Institutional Banking, Commercial Banking and Private Banking past due accounts are managed by GSAM.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams.

Loan portfolio

During 2016, gross loans and advances to customers have decreased by AED 3,362 million (2015: AED 3,675 million) to AED 33,238 million (2015: 36,600 million).

a) Analysis of gross loans and advances by industry segment

	2016	2015
	AED 000	AED 000
Agriculture and Allied Activities	**75,157**	139,442
Mining & Quarrying	**598,235**	57,323
Manufacturing	**1,887,802**	2,497,289
Electricity, Gas and Water	**-**	218
Construction & Real Estate	**2,427,862**	3,404,156
Trade	**9,484,223**	10,483,856
Transport, Storage & Communication	**1,588,749**	1,294,560
Financial Institutions	**2,946,143**	3,115,996
Other Services	**1,334,316**	1,325,979
Government	**-**	-
Loans to Individuals	**12,895,794**	14,281,674
	33,238,281	36,600,493

b) Analysis of gross loans and advances by geography

	2016	2015
	AED 000	AED 000
United Arab Emirates	**31,314,854**	34,881,127
Other GCC	**242,075**	299,982
India	**95,828**	126,475
Others	**1,585,524**	1,292,909
	33,238,281	36,600,493

Concentration by location for loans and advances is based on the location of the borrower and/ or country of residence.

27 Financial risk management (continued)

27.3 Credit risk (continued)

c) Analysis of loan portfolio by credit quality

Particulars	2016						2015					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Impaired loans	**894**	**2,059,343**	**982,257**	**12,288**	**169,470**	**3,223,358**	-	3,389,858	170,658	12,288	158,207	3,731,011
Past due but not impaired loans	**22,298**	**2,560,769**	**566,492**	**-**	**777,450**	**3,904,711**	1,585	321,657	62,179	-	678,820	1,062,656
Neither past due nor impaired loans	**2,628,399**	**8,782,649**	**5,316,725**	**824,183**	**11,186,655**	**26,110,212**	4,025,379	16,357,159	1,962,672	941,889	12,545,106	31,806,826
Specific impairment provision	**(894)**	**(1,327,562)**	**(1,089,211)**	**(12,288)**	**(82,337)**	**(2,511,398)**	-	(1,910,215)	(97,559)	(12,288)	(96,535)	(2,116,597)
Portfolio impairment provision	**(2,230)**	**(438,920)**	**(103,525)**	**(9,206)**	**(106,119)**	**(657,770)**	(1,671)	(493,878)	(37,384)	(132,287)	(9,780)	(673,329)
	2,648,467	**11,636,279**	**5,672,738**	**814,977**	**11,945,119**	**30,069,113**	4,025,293	17,664,581	2,060,566	809,602	13,275,818	33,810,567

d) Loans and advances past due but not impaired

The following tables set out the ageing of loans and advances which are past due but not impaired and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due status of a loan does not necessarily mean that the counterparty is impaired.

Particulars	2016						2015					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Up to 30 days past due	**22,298**	**2,466,310**	**336,913**	**-**	**604,315**	**3,407,538**	1,585	174,439	51,720	-	525,034	751,193
Between 31-60 days past due	**-**	**94,459**	**92,496**	**-**	**122,244**	**309,199**	-	7,994	5,369	-	113,660	127,023
Between 61-90 days past due	**-**	**-**	**137,083**	**-**	**50,891**	**187,974**	-	-	5,090	-	40,126	45,216
Between 91-150 days past due	**-**	**-**	**-**	**-**	**-**	**-**	-	139,224	-	-	-	139,224
More than 150 days past due	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
	22,298	**2,560,769**	**566,492**	**-**	**777,450**	**3,904,711**	1,585	321,657	62,179	-	678,820	1,062,656

e) Loans and advances neither past due nor impaired by Credit Grades

The following tables set out an analysis of loans and advances by internal credit grading which are not past due and for which no individual impairment provision has been raised. Whilst there is no direct relationship between these credit grading and those of external rating agencies, investment, sub-investment and non-investment grading approximately equate to the expectation of default, with a higher rate of default expected within the non-investment grade category.

Particulars	2016						2015					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Grades 1-5: Investment grade	**1,500,464**	**4,780,452**	**616,539**	**824,183**	**7,239,935**	**13,461,109**	3,478,007	5,162,183	46,787	941,889	9,290,355	15,441,214
Grades 6-8: Sub-investment grade	**1,126,030**	**2,867,255**	**3,344,190**	**-**	**3,715,918**	**9,927,363**	540,434	7,002,225	769,025	-	2,198,419	9,969,669
Grades 9-11: Non-investment grade	**1,905**	**451,784**	**1,204,120**	**-**	**211,948**	**1,867,852**	6,938	4,085,680	1,143,227	-	1,049,973	6,278,880
Grade 12: Watch list	**-**	**683,158**	**151,876**	**-**	**18,854**	**853,888**	-	107,071	3,633	-	6,359	117,063
	2,628,399	**8,782,649**	**5,316,725**	**824,183**	**11,186,655**	**26,110,212**	4,025,379	16,357,159	1,962,672	941,889	12,545,106	31,806,826

27 Financial risk management (continued)

27.3 Credit risk (continued)

f) Analysis of non-performing loans by security

The table below presents an analysis of the non-performing loans at the reporting date, split between fully secured, partially secured and unsecured, based on the loan coverage by collateral:

	2016	2015
	AED 000	AED 000
Fully secured	**232,814**	718,202
Partially secured	**1,303,420**	1,527,573
Unsecured	**1,688,018**	1,485,236
	3,224,252	3,731,011

g) Collateral and other credit enhancements possessed or called upon

The value of the collateral possessed/called upon by the Bank during the year are as below:

	2016	2015
	AED 000	AED 000
Vehicles	**3,475**	2,401
	3,475	2,401

27 Financial risk management (continued)

27.4 Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank's exposure to market risk arises in support of its client activities, facilitation of which entails the Bank's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable.

The primary categories of market risk for the Bank are:

• interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;

• currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;

The Corporate And Institutional Banking Risk Committee (CIBRC), under authority ultimately delegated by the Group Risk Committee (GRC), acts as the prime risk governance body for market risk. Market & Traded Credit Risk (MTCR) is the independent control function established to monitor and control the Bank's exposure to market risk. Market risk limits are applied as required by the Market Risk Limits Policy and related procedures documents. All businesses incurring market risk must do so in compliance with the Market Risk Limits Policy.

Market risk limits are reviewed by the CIBRC to ensure they are consistent with financial budgets and any changes in the business operations. MTCR co-ordinates the limit review process.

The Bank uses historic simulation to measure VaR. As at 31 December 2016, the VaR of the Bank amounted to AED 6.7 million (2015: AED 8.91 million).

Interest rate risk from non-trading book portfolios is transferred to the Financial Markets where it is managed by the ALM desk under the supervision of the Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

Sensitivity analysis - interest rate risk

Interest rate risk is also assessed by measuring the impact of reasonably possible interest rate movements. Assuming a fluctuation in interest rates of 1 basis point, the Bank estimates the following impact on the net profit before taxation for the year:

	2016	2015
	AED 000	AED 000
Movement in yield by 1 bp	**+/- 276**	+/- 251
Impact on equity after tax	**+/- 221**	+/- 201

The substantial portion of the Bank's assets and liabilities are re-priced within one year. The interest rate sensitivities set out above are economic value based and illustrative only. The result does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

27 Financial risk management (continued)

27.4 Market risk (continued)

Interest rate sensitivity of asset and liabilities

The Bank's interest rate gap position on assets and liabilities based on the contractual re-pricing dates is as follows:

Particulars	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Non Interest bearing	Total	Effective interest rate 2016 / (2015)
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	%
2016								
Cash and balances with the Central Bank of the UAE	-	800,191	1,700,026	2,039,087	-	3,794,498	8,333,802	0.58 / (0.40)
Loans and advances to banks	991,234	612,105	720,958	327,651	-	(3,481)	2,648,467	1.14 / (1.23)
Due from the Head Office and other branches	2,190,668	699,014	37,247	42,625	4,756	1,353,789	4,328,099	0.64 / (0.40)
Loans and advances to customers	9,743,444	7,725,298	3,335,163	6,058,696	3,250,327	(43,815)	30,069,113	4.14 / (4.15)
Investment securities	791,371	2,793,209	2,057,665	-	-	-	5,642,245	1.23 / (1.95)
Property and equipment	-	-	-	-	-	18,077	18,077	-
Intangible assets	-	-	-	-	-	16,278	16,278	-
Other assets including acceptances	-	-	-	-	-	4,867,960	4,867,960	-
Total assets	**13,716,717**	**12,629,817**	**7,851,059**	**8,468,059**	**3,255,083**	**10,003,306**	**55,924,041**	
Due to banks	2,333,751	34,562	-	18,419	-	837,585	3,224,317	0.73 / (0.36)
Due to the Head Office and other branches	1,266,360	662,880	1,272,957	-	24,318	185,627	3,412,142	0.43 / (0.33)
Deposits from customers	8,833,702	6,036,206	3,878,092	1,133,076	454,814	16,708,036	37,043,926	0.88 / (0.65)
Other liabilities including acceptances	-	-	-	-	-	5,004,086	5,004,086	-
Subordinated loans	-	-	-	-	1,873,133	-	1,873,133	3.53 / (3.14)
Equity	-	-	-	-	-	5,366,437	5,366,437	-
Total liabilities and equity	**12,433,813**	**6,733,648**	**5,151,049**	**1,151,495**	**2,352,265**	**28,101,771**	**55,924,041**	
On balance sheet interest rate sensitivity gap - 2016	**1,282,904**	**5,896,169**	**2,700,010**	**7,316,564**	**902,818**	**(18,098,465)**	**-**	
Cumulative interest rate sensitivity gap - 2016	**1,282,904**	**7,179,073**	**9,879,083**	**17,195,647**	**18,098,465**	**-**	**-**	
On balance sheet interest rate sensitivity gap - 2015	6,377,642	4,174,758	2,935,502	7,590,022	(1,563,377)	(19,514,547)	-	
Cumulative interest rate sensitivity gap - 2015	6,377,642	10,552,400	13,487,902	21,077,924	19,514,547	-	-	

27 Financial risk management (continued)

27.5 Liquidity and Funding risk

Liquidity risk is defined as the risk that a firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk is defined as the risk that a firm does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost.

Management of liquidity risk

The Bank manages liquidity and funding risk through the Risk Type Framework which provides the architecture for the overall management and control of the risks. The framework sets out the Bank’s risk principles and standards, and defines the board approved Risk Appetite Statement and the associated metrics.

Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits, and in compliance with Group liquidity policies and local regulatory requirements. ALCO committees support this, and membership consists of senior management of each country. In addition to metrics, countries maintain Country Liquidity Crisis Management Plans (“CLCMPs”) which detail a Country’s governance, escalation and contingency funding plan using a suite of Early Warning Indicators.

The Risk Appetite Statement reflects the Bank’s risk appetite for Liquidity and Funding, which is expressed through the following risk metrics:

- Survival Horizons - defines for how long, during an extreme but plausible liquidity stress, entities within the Group are able to survive before franchise damaging management actions are deployed.
- Liquidity Coverage Ratio - regulatory stress ratio measuring the proportion of high quality liquid assets against net outflows over 30 calendar days.
- Advances to Deposits Ratio - ensures that the Bank remains largely client funded and does not become excessively reliant on wholesale funding.
- Wholesale Borrowing-External - measures and limits the absolute size of external wholesale borrowings by ALM to avoid excessive reliance on such funding as it may not be available during stress.
- Maximum Cumulative Outflow (MCO): the MCO is the peak cumulative net cash outflow over a defined time period arising from all on-balance sheet and off-balance sheet items, under normal conditions.
- Wholesale Borrowing Internal (WBI): the WBI includes borrowings by one entity from any other branch or operating subsidiary that is part of the Standard Chartered Group.
- Medium Term Funding Ratio (MTFR) – it is calculated by dividing liabilities with a maturity of more than 1 year by assets of similar maturity. MTFR is calculated both on a contractual & behavioural bases and is monitored separately for ACY, LCY and Foreign Currency FCY.
- Undrawn commitment and contingents limits – which are set to ensure that drawings against such products do not adversely impact the day to day liquidity position of the Bank and is monitored separately for ACY, LCY and FCY.
- Basel 3 Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as per Group guidance
- Depositor Concentration – where the balance of Top depositors can’t exceed a certain % of Funded Liability Base (FLB).

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

a) Maturity profile of asset and liabilities

The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date

Particulars	Less than 1 month AED 000	1 to 3 months AED 000	3 to 6 months AED 000	6 months to 1 year AED 000	Over 1 year AED 000	Total AED 000
Cash and balances with the Central Bank of the UAE	675,213	3,919,477	1,700,026	2,039,086	-	8,333,802
Loans and advances to banks	895,933	612,105	720,958	327,651	91,820	2,648,467
Due from the Head Office and other branches	2,838,865	699,014	742,840	42,624	4,756	4,328,099
Loans and advances to customers	4,836,060	4,514,858	2,281,383	3,443,919	14,992,893	30,069,113
Investment securities	227,957	330,563	1,603,082	2,183,725	1,296,918	5,642,245
Property and equipment	-	-	-	-	18,077	18,077
Intangible assets	-	-	-	-	16,278	16,278
Other assets including acceptances	1,060,424	1,264,016	519,615	603,863	1,420,042	4,867,960
Total assets	**10,534,452**	**11,340,033**	**7,567,904**	**8,640,868**	**17,840,784**	**55,924,041**
Due to banks	3,143,500	34,562	55	40,394	5,806	3,224,317
Due to the Head Office and branches	1,451,885	117,464	1,272,957	-	569,836	3,412,142
Deposits from customers	25,315,805	6,115,575	3,928,935	1,212,138	471,473	37,043,926
Other liabilities including acceptances	1,178,821	1,755,841	511,605	597,854	959,965	5,004,086
Subordinated loan	-	-	-	-	1,873,133	1,873,133
Equity	-	-	-	-	5,366,437	5,366,437
Total liabilities and equity	**31,090,011**	**8,023,442**	**5,713,552**	**1,850,386**	**9,246,650**	**55,924,041**
Net on balance sheet liquidity gap 2016	**(20,555,559)**	**3,316,591**	**1,854,352**	**6,790,482**	**8,594,134**	**-**
Off balance sheet items						
Letters of credit	654,567	1,501,841	165,020	139,514	127,756	2,588,698
Guarantees	1,366,839	2,610,148	2,450,892	3,175,576	6,751,128	16,354,583
	2,021,406	**4,111,989**	**2,615,912**	**3,315,090**	**6,878,884**	**18,943,281**
At 31 December 2015:						
Total assets	14,060,477	12,876,398	5,489,100	7,654,336	20,401,462	60,481,773
Total liabilities and equity	34,412,009	7,039,776	5,959,929	2,101,197	10,968,862	60,481,773
Net on balance sheet liquidity gap 2015	(20,351,532)	5,836,622	(470,829)	5,553,139	9,432,600	-
Letters of credit	553,360	871,754	169,146	356,561	94,954	2,045,775
Guarantees	1,251,864	1,949,084	2,265,159	3,071,923	5,339,109	13,877,139
	1,805,224	2,820,838	2,434,305	3,428,484	5,434,063	15,922,914

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

b) Contractual cash flows payable for the Bank's financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the below table will not agree to the balances reported in the balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Particulars		2016					2015				
		Carrying amount	**3 months or less**	**3 month to 1 years**	**1 to 5 years**	**More than 5 years**	Carrying amount	3 months or less	3 month to 1 years	1 to 5 years	More than 5 years
		AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	AED 000	AED 000	AED 000	AED 000	AED 000
Due to banks	- Principal	**3,224,317**	**3,178,062**	**40,449**	**5,806**	**-**	4,052,079	3,971,292	18,474	62,313	-
	- Interest		**6,401**	**3,065**	**-**	**-**		1,456	185	5,377	-
Due to the Head Office and branches	- Principal	**3,412,142**	**1,569,349**	**1,272,957**	**569,836**	**-**	3,515,651	2,749,821	171,836	593,994	-
	- Interest		**1,975**	**11,248**	**62,504**	**-**		1,738	450	37,379	-
Deposits from customers	- Principal	**37,043,926**	**31,431,380**	**5,141,073**	**467,473**	**4,000**	40,785,152	32,641,187	7,076,376	1,067,589	-
	- Interest		**57,484**	**50,608**	**2,750**	**757**		40,279	126,583	5,516	-
Subordinated debt	- Principal	**1,873,133**	**-**	**-**	**679,470**	**1,193,663**	1,873,189	-	-	569,286	1,303,903
	- Interest		**17,752**	**53,253**	**257,271**	**87,930**		15,410	46,230	246,557	106,012
Other liabilities including acceptances	- Principal	**3,359,828**	**2,260,578**	**902,770**	**196,480**	**-**	2,162,643	1,623,745	356,698	182,200	-
Total liabilities (principal only)		**48,913,346**	**38,439,369**	**7,357,249**	**1,919,065**	**1,197,663**	52,388,714	40,986,045	7,623,384	2,475,382	1,303,903

27 Financial risk management (continued)

27.6 Operational risk

Operational risk (OR) is the potential for loss resulting from inadequate or failed internal processes, people, or technology or the impact of external events, including legal risks. The Bank seeks to control operational risks to ensure that operational losses do not cause material damage to the Bank's franchise.

OR exposures are managed through a consistent set of processes that drive risk identification, assessment, control and monitoring. Locally, the Head of Operational Risk is responsible for operational risk along with other Risk control owners (e.g. Legal & Compliance, Finance per the Risk Management Framework risk sub types).

The responsibility for daily management of OR exposures rests with the business. Senior Operational Risk Officers have been appointed to ensure that the OR management framework is implemented and that OR exposures are effectively controlled. The CRC provides oversight of operational risk management. It is supported by the Country Operational Risk Committee, which exercises oversight of the Bank's OR exposures to ensure that it is aligned with the Bank's Risk Management Framework and the Group Financial Crime Risk Committee, which oversee operational risk arising from the global businesses and functions.

27.7 Reputational risk

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise.

All employees are responsible for day-to-day identification and management of reputational risk. These responsibilities form part of the Code of Conduct and are further embedded through values-based performance assessments. The Group reports on its environmental and social performance through the Group's Annual Report and Accounts and through the sustainability section of the Group's website. The Country Risk Committee provides country-wide oversight on reputational risk, sets policy and monitors material risks.

At the country level, the Country Chief Risk Officer is the Risk Owner for reputational risk supported by the Head of Corporate Affairs to identify report and manage material risks.

27 Financial risk management (continued)

27.8 Capital risk management

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business in the UAE and to meet the regulatory capital requirements of the Central Bank of the UAE at all times. The Central Bank of the UAE also requires the Pillar 2 – Supervisory Review Process to focus on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 capital calculations. The ICAAP includes a risk based, forward looking view of Credit, Market and Operational risk capital.

The Asset Liability Management Committee (ALCO) in the UAE is responsible for ensuring that the Bank maintains a strong and comfortable capital position in UAE. Based on the balance sheet plan, the Bank prepares a capital plan to determine the capital requirement, which is reviewed and approved by the country ALCO and Group Treasury. An update on the capital position is provided to the country ALCO on a regular basis.

During Q1 2017, Central Bank of UAE has issued the Basel 3 capital calculation guidelines for banks operating in UAE which are only effective from 2017 and hence have not been considered for these financial statements.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, includes share capital, reserves and retained earnings and the element of fair value reserve relating to unrealised gains / losses on financial assets classified as available-for-sale and cash flow hedges.

- Tier 2 capital includes qualifying subordinated liabilities.

The Bank has complied with all regulatory requirements issued by the Central Bank of the UAE during the year. The following is the Bank's capital adequacy position under Basel II at 31 December:

	2016	2015
	AED 000	AED 000
Basel II capital adequacy ratio (CAR)		
Capital Base		
Tier 1 capital	**5,350,159**	5,544,779
Tier 2 capital	**2,148,865**	2,296,231
Total capital base (sum of tier 1 and tier 2 capital)	**7,499,024**	7,841,010
Risk Weighted Assets		
Credit Risk	**43,794,979**	44,712,132
Market Risk	**926,892**	1,923,755
Operational Risk	**4,599,158**	5,269,393
Total risk weighted assets (RWA)	**49,321,029**	51,905,280
Total regulatory capital expressed as % of RWA (Minimum 12%)	**15.20%**	15.11%
Tier 1 capital ratio expressed as % of RWA (Minimum 8%)	**10.85%**	10.68%