SAMPLE BANKING POLICY DOCUMENT

Capital Adequacy and Risk Management Policy

Policy Reference: BAP-CAR-001 | Version: 2.1 | Effective Date: January 1, 2026

1. Purpose and Scope

This Capital Adequacy and Risk Management Policy establishes the framework for maintaining adequate capital levels to support the bank's risk profile and business activities. This policy applies to all departments, subsidiaries, and branches of the bank operating within the UAE and internationally.

2. Capital Adequacy Requirements

2.1 Minimum Capital Requirements

The bank must maintain minimum capital ratios as specified by the Central Bank of the UAE and Basel III framework. The following minimum requirements must be maintained at all times:

Capital Ratio Type	Minimum Requirement	Bank Target
Common Equity Tier 1 (CET1)	4.5%	8.0%
Tier 1 Capital Ratio	6.0%	10.0%
Total Capital Ratio	8.0%	12.0%
Capital Conservation Buffer	2.5%	3.0%
Leverage Ratio	3.0%	5.0%

2.2 Capital Planning Process

The bank shall maintain a robust capital planning process that includes:

• Annual capital planning aligned with the bank's strategic plan and budget

• Stress testing to assess capital adequacy under adverse scenarios

• Internal Capital Adequacy Assessment Process (ICAAP) conducted annually

• Regular monitoring and reporting of capital ratios to the Board of Directors

• Contingency capital planning with defined trigger points and actions

3. Risk Management Framework

3.1 Credit Risk Management

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet their financial obligations. The bank manages credit risk through:

• Comprehensive credit assessment process for all lending activities

• Credit concentration limits by sector, geography, and individual borrower

• Regular credit portfolio review and stress testing

• Loan classification and provisioning as per Central Bank guidelines

• Credit risk appetite statements approved by the Board Risk Committee

3.2 Market Risk Management

Market risk arises from changes in market prices including interest rates, foreign exchange rates, and equity prices. Market risk is managed through:

• Value at Risk (VaR) limits approved by the Board Risk Committee

• Daily marking to market of all trading positions

• Sensitivity limits for interest rate risk in the banking book

• Foreign currency position limits and hedging strategies

• Regular stress testing against historical and hypothetical scenarios

3.3 Liquidity Risk Management

The bank must maintain adequate liquidity to meet its obligations as they fall due without incurring unacceptable losses. Key requirements include:

Liquidity Metric	Regulatory Minimum	Internal Limit
Liquidity Coverage Ratio (LCR)	100%	120%
Net Stable Funding Ratio (NSFR)	100%	115%
Loan to Deposit Ratio	Max 100%	Max 90%

4. Governance and Reporting

4.1 Board Responsibilities: The Board of Directors is responsible for approving the Capital Adequacy Policy and ensuring adequate capital levels are maintained at all times.

4.2 Risk Committee: The Board Risk Committee oversees implementation of the risk management framework and reviews capital adequacy quarterly.

4.3 Management Reporting: Monthly capital adequacy reports are submitted to senior management. Quarterly reports are presented to the Board Risk Committee.

5. Policy Review

This policy is reviewed annually or when significant changes occur in the regulatory environment, business model, or risk profile of the bank. The Risk Management Division is responsible for maintaining and updating this policy.

Approved by: Board Risk Committee | Next Review Date: January 1, 2027