

Arab African International Bank - UAE Branches

Pillar 3 Report

March 31, 2022
(Pre-Audit)

Table of Contents

Overview.....	3
Overview of Risk Management & RWAs.....	4
Capital Adequacy (KM1).....	4
Key Prudential Metrics and RWA (OV1).....	6
Leverage Ratio (LR2).....	7
Liquidity.....	8
Eligible Liquid Assets Ratio.....	8
Lending to Stable Resources Ratio (LSRR).....	9

Overview

Arab African International Bank – UAE Branches (the “Branches” of the “Bank”) operates in the United Arab Emirates (“UAE”) through its two branches located in the Emirates of Dubai and Abu Dhabi which are registered under a banking license issued by the Central Bank of United Arab Emirates (“CBUAE”). The address of both branches are as follows: Office G02, Dubai National Insurance & Reinsurance P.S.C Building, Al Wasl, P.O. Box 1049, Dubai and Kamala Tower, Zayed The First Street, Al Khalidiyah, P.O.Box 928, Abu Dhabi. Arab African International Bank (the “Head Office”) is an Egyptian Joint Stock company incorporated in Cairo, Egypt. The Branches are a segment of the Head Office which is held 48.96 % each by the Central Bank of Egypt and Kuwait Investment Authority which are therefore the ultimate controlling parties.

Reporting Framework

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

Since the UAE operations is a branch, no other entity is considered for the consolidation purpose and details around Arab African International Bank – UAE Branches only are included.

Period of reporting

This report is in respect of the quarter ended 31 March 2022

Overview of Risk Management & RWA

Capital Adequacy (KM1)

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

- To comply with the capital requirements set by the Central Bank of UAE;
- To safeguard the Branches ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2020, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2020 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

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

The assets of the Branch are risk weighted as to their relative Credit, Market, and Operational risk.

Credit risk includes both On and Off-balance sheet risks.

Market risk is the risk that value of equity, the results or the continuity in the trading book is threatened by movements in the level and/or volatility of market prices to which the UAE banking operations are exposed. It also comprises the impact from foreign exchange risk on positions in the whole balance sheet.

Operational risk is the risk of direct or indirect losses due to inadequate or deficient internal processes, from inadequate systems, human error and internal- and external incidents of fraud, or from other external events.

The objective of below table is to provide an overview of bank's prudential regulatory metrics which covers the key prudential metrics related to regulatory capital, leverage ratio and liquidity standards. Accordingly, the Bank has disclosed all applicable metric values using the standards specified for the reporting period.

Key Risk Metrics		31-Mar-2022	31-Dec-2021
		AED'000	AED'000
Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	1,525,536	1,525,536
1a	Fully loaded ECL accounting model	1,525,536	1,525,536
2	Tier 1	1,525,536	1,525,536
2a	Fully loaded ECL accounting model Tier 1	1,525,536	1,525,536
3	Total capital	1,569,492	1,571,142
3a	Fully loaded ECL accounting model total capital	1,569,492	1,571,142
Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	3,853,459	4,071,090
Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	39.59%	37.47%
5a	Fully loaded ECL accounting model CET1 (%)	39.59%	37.47%
6	Tier 1 ratio (%)	39.59%	37.47%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	39.59%	37.47%
7	Total capital ratio (%)	40.73%	38.59%
7a	Fully loaded ECL accounting model total capital ratio (%)	40.73%	38.59%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	29.09%	26.97%
Leverage Ratio			
13	Total leverage ratio measure	7,845,541	7,863,714
14	Leverage ratio (%) (row 2/row 13)	19.44%	19.40%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	19.44%	19.40%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	19.44%	19.40%
Liquidity Coverage Ratio			
15	Total HQLA	N/A	N/A
16	Total net cash outflow	N/A	N/A
17	LCR ratio (%)	N/A	N/A
Net Stable Funding Ratio			
18	Total available stable funding	N/A	N/A
19	Total required stable funding	N/A	N/A
20	NSFR ratio (%)	N/A	N/A
ELAR			
21	Total HQLA	782,165	1,068,539
22	Total liabilities	5,817,757	5,753,692
23	Eligible Liquid Assets Ratio (ELAR) (%)	13.44%	18.57%
ASRR			
24	Total available stable funding	6,074,274	5,810,033
25	Total Advances	2,786,976	2,773,511
26	Advances to Stable Resources Ratio (%)	45.88%	47.74%

As per CBUAE regulations, Branch is not required to report LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). Branch reports ELAR (Eligible Assets Ratio) and LSRR (Lending to Stable Resources Ratio) as an alternate.

Key Prudential Metrics and RWA (OV1)

The purpose of this metric is to provide an overview of total risk weighted assets.

OV1 - Overview of RWA		RWA		Minimum capital requirements
		31-Mar-2022	31-Dec-2021	31-Mar-2022
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	3,516,458	3,648,445	369,228
2	Of which: standardised approach (SA)	3,516,458	3,648,445	369,228
3				
4				
5				
6	Counterparty credit risk (CCR)	0	0	0
7	Of which: standardised approach for counterparty credit risk	0	0	0
8				
9				
10				
11				
12	Equity investments in funds - look-through approach	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0
14	Equity investments in funds - fall-back approach	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in the banking book	0	0	0
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0
20	Market risk	255	574	27
21	Of which: standardised approach (SA)	255	574	27
22				
23	Operational risk	336,746	422,071	35,358
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	3,853,459	4,071,090	404,613

Leverage Ratio (LR2)

This section describes the key factors that have had a material impact on the leverage ratio for this reporting period.

Leverage Ratio		31-Mar-2022	31-Dec-2021
		AED'000	AED'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	7,610,788	7,679,805
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	0	0
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	0	0
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0	0
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	0	0
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	7,610,788	7,679,805
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	0	766
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	17,391	19,999
10	(Exempted CCP leg of client-cleared trade exposures)	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	Total derivative exposures (sum of rows 8 to 12)	17,391	20,765
Securities financing transactions			
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0	0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	CCR exposure for SFT assets	0	0
17	Agent transaction exposures	0	0
18	Total securities financing transaction exposures (sum of rows 14 to 17)	0	0
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	538,498	465,085
20	(Adjustments for conversion to credit equivalent amounts)	(321,136)	(301,941)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	Off-balance sheet items (sum of rows 19 to 21)	217,362	163,145
Capital and total exposures			
23	Tier 1 capital	1,525,536	1,525,536
24	Total exposures (sum of rows 7, 13, 18 and 22)	7,845,541	7,863,714
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	19.44%	19.40%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	19.44%	19.40%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	Applicable leverage buffers		

Liquidity Ratio

Eligible Liquid Assets Ratio

Eligible Liquid Assets Ratio is a measure to ensure banks hold minimum buffers of liquid assets. The ratio requires the bank to hold an amount equivalent to 10% of its total balance sheet liabilities (excluding those included in regulatory capital) in high quality liquid assets. Central Bank reporting for BRF 8 details the requirements of the ratio.

As of March 31, 2022, branch's ELAR is 13.44% which is more than the required minimum of 10%.

		AED'000	AED'000
1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank and balances with the CBUAE	782,165	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	782,165	782,165
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	782,165	782,165
2	Total liabilities		5,817,757
3	Eligible Liquid Assets Ratio (ELAR)		13.44%

Advances to Stable Resources Ratio (ASRR)

The Advances to Stable Resources Ratio (LSRR) is a measure that recognizes both the actual uses as well as the likely uses of funds in terms of the contractual maturity and behavioural profile of the sources of funds available to the bank, to ensure that there are limited maturity mismatches and cliff effects. Central Bank reporting for BRF 7 details the requirements of the ratio.

LSRR should not exceed 100%. The branch's ratio is 45.88%, this is the equivalent percentage of the total advances being funded by stable resources (i.e., customer deposits).

			AED'000
		Items	Amount
1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	1,752,000
	1.2	Lending to non-banking financial institutions	8,695
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	0
	1.4	Interbank Placements	1,026,281
	1.5	Total Advances	2,786,976
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	1,818,093
		Deduct:	
	2.1.1	Goodwill and other intangible assets	0
	2.1.2	Fixed Assets	14,075
	2.1.3	Funds allocated to branches abroad	0
	2.1.5	Unquoted Investments	0
	2.1.6	Investment in subsidiaries, associates and affiliates	0
	2.1.7	Total deduction	14,075
	2.2	Net Free Capital Funds	1,804,018
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	281,811
	2.3.5	Customer Deposits	3,988,445
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	4,270,256
	2.4	Total Stable Resources (2.2+2.3.7)	6,074,274
3		Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	45.88