



**المصرف**  
**AL MASRAF**  
المصرف العربي للاستثمار والتجارة الخارجية Arab Bank for Investment & Foreign Trade

**ARAB BANK FOR INVESTMENT AND FOREIGN TRADE**  
**(AL MASRAF)**

**CAPITAL ADEQUACY**  
**PILLAR III DISCLOSURES**

**31<sup>st</sup> March 2023**

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## 1. Summary

- This Basel III - Pillar 3 Report for Arab Bank for Investment and Foreign Trade (“Al Masraf” or “the bank”) has been prepared in accordance with the public/ market disclosure requirements and guidelines in respect of Pillar 3 of Basel III, as prescribed by the Central Bank of the UAE (CBUAE) and other clarifications received from time to time along with the Pillar 3 Formal Disclosure Policy of the Bank.
- The purpose of this report is to inform market participants of the key components, scope and effectiveness of the Bank’s risk measurement processes, risk profile and capital adequacy. This is accomplished by providing consistent and understandable disclosure of the Bank’s risk profile in a manner that enhances comparability with other institutions.
- The Bank has adopted the Standardized Approach for Credit Risk, and Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.
- This Pillar 3 Report provides details on the Bank’s risk weighted assets, which form the basis for the calculation of the capital requirement, leverage ratio and liquidity.
- In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, the Bank’s capital adequacy as at 31<sup>st</sup> March 2023 and a comparison thereof with the figures as of 31st December 2022 and 30th September 2022 is as follows:

| Particulars                          | Mar 2023 | December 2022 | Sep 2022 |
|--------------------------------------|----------|---------------|----------|
| <b>Total Capital Adequacy Ratio</b>  | 21.05%   | 20.89%        | 21.23%   |
| <b>Tier 1 Capital Adequacy Ratio</b> | 19.89%   | 19.73%        | 20.08%   |
| <b>CET 1 Ratio</b>                   | 19.89%   | 19.73%        | 20.08%   |

- As of 31<sup>st</sup> March 2023, the Banks total Risk Weighted Assets (RWAs) amounted to AED 18,132 million, which comprised of 92.2% Credit Risk; 0.02% Market Risk and 7.78% Operational Risk.
- Numbers are stated in AED thousands unless stated otherwise.

## 2. Overview of risk management and Risk Weighted Assets

### 2.1 KM1 - Key Metrics

|    |   | a          | b          | c          | d          | e          |
|----|---|------------|------------|------------|------------|------------|
|    |   | 31/03/2023 | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 |
|    | <b>Available capital (amounts)</b>                      |            |            |            |            |            |
| 1  | Common Equity Tier 1 (CET1)                             | 3,607,139  | 3,630,845  | 3,829,011  | 3,741,479  | 3,750,515  |
| 1a | Fully loaded ECL accounting model                       | 3,562,548  | 3,520,101  | 3,548,963  | 3,579,206  | 3,617,296  |
| 2  | Tier 1  | 3,607,139  | 3,630,845  | 3,829,011  | 3,741,479  | 3,750,515  |
| 2a | Fully loaded ECL accounting model Tier 1                | 3,562,548  | 3,520,101  | 3,548,963  | 3,579,206  | 3,617,296  |
| 3  | Total capital   | 3,816,113  | 3,842,653  | 4,048,358  | 3,958,051  | 3,974,340  |
| 3a | Fully loaded ECL accounting model total capital         | 3,771,522  | 3,731,909  | 3,768,310  | 3,795,778  | 3,841,121  |
|    | <b>Risk-weighted assets (amounts)</b>                   |            |            |            |            |            |
| 4  | Total risk-weighted assets (RWA)                        | 18,131,592 | 18,398,715 | 19,065,779 | 18,840,274 | 19,443,604 |
|    | <b>Risk-based capital ratios as a percentage of RWA</b> |            |            |            |            |            |
| 5  | Common Equity Tier 1 ratio (%)                          | 19.9%      | 19.7%      | 20.1%      | 19.9%      | 19.3%      |
| 5a | Fully loaded ECL accounting model CET1 (%)              | 19.6%      | 19.1%      | 18.6%      | 19.0%      | 18.6%      |
| 6  | Tier 1 ratio (%)  | 19.9%      | 19.7%      | 20.1%      | 19.9%      | 19.3%      |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%)      | 19.6%      | 19.1%      | 18.6%      | 19.0%      | 18.6%      |
| 7  | Total capital ratio (%)                                 | 21.0%      | 20.9%      | 21.2%      | 21.0%      | 20.4%      |

|   |  |            |            |            |            |            |
|---|--|------------|------------|------------|------------|------------|
| 7a  | Fully loaded ECL accounting model total capital ratio (%)  | 20.8%      | 20.3%      | 19.8%      | 20.1%      | 19.8%      |
| <b>Additional CET1 buffer requirements as a percentage of RWA</b> |  |            |            |            |            |            |
| 8   | Capital conservation buffer requirement (2.5% from 2019) (%)   | 2.5%       | 2.5%       | 2.5%       | 2.5%       | 2.5%       |
| 9   | Countercyclical buffer requirement (%)   | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       |
| 10  | Bank D-SIB additional requirements (%)   | 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.0%       |
| 11  | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)                              | 2.5%       | 2.5%       | 2.5%       | 2.5%       | 2.5%       |
| 12  | CET1 available after meeting the bank's minimum capital requirements (%)                                 | 10.5%      | 10.4%      | 10.7%      | 10.5%      | 9.9%       |
| <b>Leverage Ratio</b>   |  |            |            |            |            |            |
| 13  | Total leverage ratio measure   | 23,780,212 | 23,595,654 | 23,364,329 | 23,756,657 | 24,525,134 |
| 14  | Leverage ratio (%) (row 2/row 13)  | 15.2%      | 15.4%      | 16.4%      | 15.7%      | 15.3%      |
| 14a   | Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)                                     | 15.0%      | 14.9%      | 15.2%      | 15.1%      | 14.7%      |
| 14 b  | Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 15.2%      | 15.4%      | 16.4%      | 15.7%      | 15.3%      |
| <b>Liquidity Coverage Ratio</b>                                   |  |            |            |            |            |            |
| 15  | Total HQLA   | NA         | NA         | NA         | NA         | NA         |
| 16  | Total net cash outflow   | NA         | NA         | NA         | NA         | NA         |
| 17  | LCR ratio (%)  | NA         | NA         | NA         | NA         | NA         |
| <b>Net Stable Funding Ratio</b>                                   |  |            |            |            |            |            |
| 18  | Total available stable funding   | NA         | NA         | NA         | NA         | NA         |
| 19  | Total required stable funding  | NA         | NA         | NA         | NA         | NA         |
| 20  | NSFR ratio (%)   | NA         | NA         | NA         | NA         | NA         |
| <b>ELAR</b>   |  |            |            |            |            |            |
| 21  | Total HQLA   | 2,913,842  | 2,262,544  | 2,420,411  | 3,014,090  | 3,418,287  |
| 22  | Total liabilities  | 17,074,706 | 16,623,161 | 16,423,697 | 16,779,210 | 17,511,871 |
| 23  | Eligible Liquid Assets Ratio (ELAR) (%)  | 17.07%     | 13.61%     | 14.74%     | 17.96%     | 19.52%     |
| <b>ASRR</b>   |  |            |            |            |            |            |
| 24  | Total available stable funding   | 15,801,128 | 15,887,922 | 15,598,492 | 15,825,119 | 17,596,628 |
| 25  | Total Advances   | 13,685,056 | 14,412,044 | 14,841,058 | 14,277,286 | 15,176,152 |
| 26  | Advances to Stable Resources Ratio (%)   | 86.61%     | 90.71%     | 95.14%     | 90.22%     | 86.24%     |

The Risk Weighted Assets (RWA) declined during the period on the back of some loan repayments and as the Bank continued to selectively book new business. The RWAs reduced to AED 18,132 million as at 31 March 2023 as compared to AED 18,399 million as at 31 December 2022 and AED 19,066 million as at 30 September 2022.

Leverage ratio dropped marginally to 15.2% as at 31 March 2023 compared to 15.4% as at December 2022 due to an increase in the leverage ratio exposure and a marginal drop in the Tier 1 Capital due to a reduction in the partial add back of ECL under the IFRS transitional arrangements.

The ELAR and ASRR at 17.07% and 86.61% improved as compared to the 31 December 2022 as the Bank continued to manage its balance sheet and funding position. The ratios were above the minimum limits set by Central Bank of UAE.

The Bank is applying the transitional adjustment for the ECL amount in line with the requirements under Notice No. CBUAE/BSD/N/2020/2016 – “Regulation Regarding Accounting provisions and Capital Requirements – Transitional Arrangements” issued by CBUAE.

## 2.2 OV1 - Overview of Risk Weighted Assets

|    |  | a                 | b                 | c                            |
|----|--|-------------------|-------------------|------------------------------|
|    |  | RWA               |                   | Minimum capital requirements |
|    |  | 31/03/2023        | 31/12/2022        | 31/03/2023                   |
| 1  | Credit risk (excluding counterparty credit risk)                     | 16,699,436        | 16,934,768        | 1,753,441                    |
| 2  | Of which: standardised approach (SA)                                 | 16,699,436        | 16,934,768        | 1,753,441                    |
| 3  | Of which: foundation internal ratings-based (F-IRB) approach         | -                 | -                 | -                            |
| 4  | Of which: supervisory slotting approach                              | -                 | -                 | -                            |
| 5  | Of which: advanced internal ratings-based (A-IRB) approach           | -                 | -                 | -                            |
| 6  | Counterparty credit risk (CCR)                                       | 18,478            | 9,868             | 1,940                        |
| 7  | Of which: standardised approach for counterparty credit risk         | 18,478            | 9,868             | 1,940                        |
| 8  | Of which: Internal Model Method (IMM)                                | -                 | -                 | -                            |
| 9  | Of which: other CCR  | -                 | -                 | -                            |
| 10 | Credit valuation adjustment (CVA)                                    | -                 | -                 | -                            |
| 11 | Equity positions under the simple risk weight approach               | -                 | -                 | -                            |
| 12 | Equity investments in funds - look-through approach                  | -                 | -                 | -                            |
| 13 | Equity investments in funds - mandate-based approach                 | -                 | -                 | -                            |
| 14 | Equity investments in funds - fall-back approach                     | -                 | -                 | -                            |
| 15 | Settlement risk  | -                 | -                 | -                            |
| 16 | Securitisation exposures in the banking book                         | -                 | -                 | -                            |
| 17 | Of which: securitisation internal ratings-based approach (SEC-IRBA)  | -                 | -                 | -                            |
| 18 | Of which: securitisation external ratings-based approach (SEC-ERBA)  | -                 | -                 | -                            |
| 19 | Of which: securitisation standardised approach (SEC-SA)              | -                 | -                 | -                            |
| 20 | Market risk  | 4,025             | 44,426            | 423                          |
| 21 | Of which: standardised approach (SA)                                 | 4,025             | 44,426            | 423                          |
| 22 | Of which: internal models approach (IMA)                             | -                 | -                 | -                            |
| 23 | Operational risk   | 1,409,653         | 1,409,653         | 148,014                      |
| 24 | Amounts below thresholds for deduction (subject to 250% risk weight) | -                 | -                 | -                            |
| 25 | Floor adjustment   | -                 | -                 | -                            |
| 26 | <b>Total (1+6+10+11+12+13+14+15+16+20+23)</b>                        | <b>18,131,592</b> | <b>18,398,715</b> | <b>1,903,817</b>             |

Credit risk weighted assets decreased to AED 16,699 million as at March 2023 from AED 16,935 million as at December 2022 mainly on the back of some loan repayments. However, overall total assets increased due to increase in cash and balances with Central Bank of UAE during the period.

There was a drop in Market risk weighted assets during the period as compared to 31 December 2022 on the back of reduced underlying exposures.

### 3. Leverage ratio

#### 3.1 LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure

|    |   | 31/03/2023        |
|----|---|-------------------|
| 1  | Total consolidated assets as per published financial statements   | 21,077,595        |
| 2  | Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | -                 |
| 3  | Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference  | -                 |
| 4  | Adjustments for temporary exemption of central bank reserves (if applicable)  | -                 |
| 5  | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure                | -                 |
| 6  | Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting  | -                 |
| 7  | Adjustments for eligible cash pooling transactions  | -                 |
| 8  | Adjustments for derivative financial instruments  | 80,198            |
| 9  | Adjustment for securities financing transactions (ie repos and similar secured lending)   | -                 |
| 10 | Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)   | 2,622,419         |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital   | -                 |
| 12 | Other adjustments   | -                 |
| 13 | <b>Leverage ratio exposure measure</b>  | <b>23,780,212</b> |

The Bank computes the Leverage Ratio on a quarterly basis. Leverage ratio exposure also includes the credit converted amounts for off balance sheet items ie. Letters of Credit, Letters of Guarantee etc.

#### 3.2 LR2 - Leverage ratio common disclosure template

|                                   |  | a                 | b                 |
|-----------------------------------|--|-------------------|-------------------|
|                                   |  | 31/03/2023        | 31/12/2022        |
| <b>On-balance sheet exposures</b> |  |                   |                   |
| 1                                 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)            | 21,077,595        | 20,580,225        |
| 2                                 | Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework | -                 | -                 |
| 3                                 | (Deductions of receivable assets for cash variation margin provided in derivatives transactions)                                     | -                 | -                 |
| 4                                 | (Adjustment for securities received under securities financing transactions that are recognised as an asset)                         | -                 | -                 |
| 5                                 | (Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)                   | -                 | -                 |
| 6                                 | (Asset amounts deducted in determining Tier 1 capital)   | -                 | -                 |
| 7                                 | <b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)</b>  | <b>21,077,595</b> | <b>20,580,225</b> |

| <b>Derivative exposures</b>              |   |                   |                   |
|--|---|-------------------|-------------------|
| 8  | Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting) | 5,506             | 241               |
| 9  | Add-on amounts for PFE associated with <i>all</i> derivatives transactions  | 74,691            | 35,224            |
| 10                                       | (Exempted CCP leg of client-cleared trade exposures)  | -                 | -                 |
| 11                                       | Adjusted effective notional amount of written credit derivatives  | -                 | -                 |
| 12                                       | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)  | -                 | -                 |
| 13                                       | <b>Total derivative exposures (sum of rows 8 to 12)</b>   | <b>80,198</b>     | <b>35,465</b>     |
| <b>Securities financing transactions</b> |   |                   |                   |
| 14                                       | Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions  | -                 | -                 |
| 15                                       | (Netted amounts of cash payables and cash receivables of gross SFT assets)  | -                 | -                 |
| 16                                       | CCR exposure for SFT assets   | -                 | -                 |
| 17                                       | Agent transaction exposures   | -                 | -                 |
| 18                                       | <b>Total securities financing transaction exposures (sum of rows 14 to 17)</b>  | <b>-</b>          | <b>-</b>          |
| <b>Other off-balance sheet exposures</b> |   |                   |                   |
| 19                                       | Off-balance sheet exposure at gross notional amount   | 7,912,222         | 7,961,139         |
| 20                                       | (Adjustments for conversion to credit equivalent amounts)   | (5,289,803)       | (4,981,175)       |
| 21                                       | (Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)  | -                 | -                 |
| 22                                       | <b>Off-balance sheet items (sum of rows 19 to 21)</b>   | <b>2,622,419</b>  | <b>2,979,964</b>  |
| <b>Capital and total exposures</b>       |   |                   |                   |
| 23                                       | <b>Tier 1 capital</b>   | <b>3,607,139</b>  | <b>3,630,845</b>  |
| 24                                       | <b>Total exposures (sum of rows 7, 13, 18 and 22)</b>   | <b>23,780,212</b> | <b>23,595,654</b> |
| <b>Leverage ratio</b>                    |   |                   |                   |
| 25                                       | <b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>   | 15.2%             | 15.4%             |
| 25a                                      | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)  | 15.2%             | 15.4%             |
| 26                                       | CBUAE minimum leverage ratio requirement  | 3.0%              | 3.0%              |
| 27                                       | <b>Applicable leverage buffers</b>  | <b>-</b>          | <b>-</b>          |

The leverage ratio marginally dropped during the quarter due to an increase in the leverage ratio exposure due to an increase in the overall total assets and a marginal drop in the Tier 1 Capital as already mentioned on page 4 of this Disclosure Report.

## 4. Liquidity

### 4.1 ELAR - Eligible Liquid Assets Ratio

| 1          | High Quality Liquid Assets   | Nominal amount   | Eligible Liquid Asset |
|------------|--|------------------|-----------------------|
| 1.1        | Physical cash in hand at the bank + balances with the CBUAE                                | 2,165,503        |                       |
| 1.2        | UAE Federal Government Bonds and Sukuks  | 176,544          |                       |
|            | Sub Total (1.1 to 1.2)   | 2,342,047        | 2,342,047             |
| 1.3        | UAE local governments publicly traded debt securities                                      | 539,848          |                       |
| 1.4        | UAE Public sector publicly traded debt securities  | 31,947           |                       |
|            | Sub total (1.3 to 1.4)   | 571,795          | 571,795               |
| 1.5        | Foreign Sovereign debt instruments or instruments issued by their respective central banks | -                | -                     |
| <b>1.6</b> | <b>Total</b>   | <b>2,913,842</b> | <b>2,913,842</b>      |
| <b>2</b>   | <b>Total liabilities</b>   |                  | <b>17,074,706</b>     |
| <b>3</b>   | <b>Eligible Liquid Assets Ratio (ELAR)</b>   |                  | <b>17.1%</b>          |

The ELAR ratio improved from 13.6% as at December 2022 to 17.1% as at March 2023 due to increase in the balances with Central Bank of UAE.

### 4.2 ASRR - Advances to Stable Resources Ratio

|          |              | Items   | Amount            |
|----------|--------------|---|-------------------|
| <b>1</b> |              | <b>Computation of Advances</b>  |                   |
|          | 1.1          | Net Lending (gross loans - specific and collective provisions + interest in suspense) | 12,952,063        |
|          | 1.2          | Lending to non-banking financial institutions   | 251,019           |
|          | 1.3          | Net Financial Guarantees & Stand-by LC (issued - received)                            | 182,086           |
|          | 1.4          | Interbank Placements  | 299,888           |
|          | <b>1.5</b>   | <b>Total Advances</b>   | <b>13,685,056</b> |
| <b>2</b> |              | <b>Calculation of Net Stable Ressources</b>   |                   |
|          | 2.1          | Total capital + general provisions  | 4,313,855         |
|          |              | <b>Deduct:</b>  |                   |
|          | 2.1.1        | Goodwill and other intangible assets  | 54,181            |
|          | 2.1.2        | Fixed Assets  | 616,567           |
|          | 2.1.3        | Funds allocated to branches abroad  | -                 |
|          | 2.1.5        | Unquoted Investments  | 77,345            |
|          | 2.1.6        | Investment in subsidiaries, associates and affiliates                                 | -                 |
|          | <b>2.1.7</b> | <b>Total deduction</b>  | <b>748,093</b>    |
|          | <b>2.2</b>   | <b>Net Free Capital Funds</b>   | <b>3,565,762</b>  |



|          |              |   |                   |
|----------|--------------|---|-------------------|
|          | <b>2.3</b>   | <b>Other stable resources:</b>  |                   |
|          | 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                                   | 8,678             |
|          | 2.3.5        | Customer Deposits   | 12,226,688        |
|          | 2.3.6        | Capital market funding/ term borrowings maturing after 6 months from reporting date | -                 |
|          | <b>2.3.7</b> | <b>Total other stable resources</b>   | <b>12,235,366</b> |
|          | <b>2.4</b>   | <b>Total Stable Resources (2.2+2.3.7)</b>   | <b>15,801,128</b> |
| <b>3</b> |              | <b>Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)</b>                            | <b>86.6%</b>      |

The ratio improved from 90.7% as at December 2022 to 86.6% as at March 2023 due to reduction in the loans and advances balances as mentioned on page 5 of this disclosure report.