



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

31st March 2022

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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 Banks’ 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 31st March 2022 and a comparison thereof with the figures as of 31st December 2021 and 30th June 2021 is as follows:

Particulars	Mar 2022	Dec 2021	Jun 2021
Total Capital Adequacy Ratio	20.44%	19.81%	18.12%
Tier 1 Capital Adequacy Ratio	19.29%	18.65%	16.97%
CET 1 Ratio	19.29%	18.65%	16.97%

- As of 31st March 2022, the Banks total Risk Weighted Assets (RWAs) amounted to AED 19,444 million, which comprised of 92.09% Credit Risk; 0.25% Market Risk and 7.66% 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
		31/03/2022	31/12/2021	30/09/2021	30/06/2021	31/03/2021
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,750,515	3,675,074	3,566,554	3,511,450	3,633,352
1a	Fully loaded ECL accounting model	3,617,296	3,587,958	3,502,372	3,495,554	3,530,811
2	Tier 1	3,750,515	3,675,074	3,566,554	3,511,450	3,633,352
2a	Fully loaded ECL accounting model Tier 1	3,617,296	3,587,958	3,502,372	3,495,554	3,530,811
3	Total capital	3,974,340	3,902,406	3,794,897	3,750,623	3,868,684
3a	Fully loaded ECL accounting model total capital	3,841,121	3,815,290	3,730,715	3,734,727	3,766,143
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	19,443,604	19,700,623	19,830,963	20,696,464	20,378,698
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.3%	18.7%	18.0%	17.0%	17.8%
5a	Fully loaded ECL accounting model CET1 (%)	18.6%	18.2%	17.7%	16.9%	17.3%
6	Tier 1 ratio (%)	19.3%	18.7%	18.0%	17.0%	17.8%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.6%	18.2%	17.7%	16.8%	17.3%
7	Total capital ratio (%)	20.4%	19.8%	19.1%	18.1%	19.0%

7a	Fully loaded ECL accounting model total capital ratio (%)	19.8%	19.4%	18.8%	18.0%	18.5%
Additional CET1 buffer requirements as a percentage of RWA						
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 (%)	9.9%	9.3%	8.6%	7.6%	8.5%
Leverage Ratio						
13	Total leverage ratio measure	24,525,134	25,715,125	25,888,048	26,527,308	26,322,769
14	Leverage ratio (%) (row 2/row 13)	15.3%	14.3%	14.2%	13.4%	13.3%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	14.7%	14.0%	13.9%	13.2%	13.2%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	14.7%	14.0%	13.9%	13.2%	13.2%
Liquidity Coverage Ratio						
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
Net Stable Funding Ratio						
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
ELAR						
21	Total HQLA	3,418,287	2,963,291	3,054,602	2,664,196	2,977,561
22	Total liabilities	17,511,871	18,583,522	18,447,851	19,105,811	18,954,362
23	Eligible Liquid Assets Ratio (ELAR) (%)	19.52%	15.95%	16.56%	13.94%	15.71%
ASRR						
24	Total available stable funding	17,596,628	18,431,938	18,269,673	19,399,439	18,345,074
25	Total Advances	15,176,152	15,680,935	15,874,783	16,340,615	16,442,171
26	Advances to Stable Resources Ratio (%)	86.24%	85.07%	86.89%	84.23%	89.63%

Risk Weighted Assets reduced to AED 19,444 million as at March 2022 from AED 19,700 million as of December 2021 due to a decrease in the balance sheet and the provisions taken during the period. This also led to a favorable movement in the Leverage ratio. An increase in the HQLA balances during the quarter led to an increase in the Eligible Liquid Asset Ratio with Advances to Stable Resources Ratio being broadly within an acceptable range.

The Bank is applying the transitional adjustment for the ECL amount in line with the requirements under Notice No. CBUAE/BSN/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
		31/03/2022	31/12/2021	31/03/2022
1	Credit risk (excluding counterparty credit risk)	17,906,021	18,186,591	1,880,132
2	Of which: standardised approach (SA)	17,906,021	18,186,591	1,880,132
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)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
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	47,909	24,358	5,030
21	Of which: standardised approach (SA)	47,909	24,358	5,030
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	1,489,674	1,489,674	156,416
24	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
25	Floor adjustment	-	-	-
26	Total (1+6+10+11+12+13+14+15+16+20+23)	19,443,604	19,700,623	2,041,578

Credit risk weighted assets reduced to AED 17,906 million as at March 2022 from AED 18,187 million as at December 2021 due to contraction in the balance sheet and provisions taken during the period.

Market risk weighted assets increased to AED 47.9 million as at March 2022 from AED 24.4 million as at December 2021 due to increase in the net open position.

3. Leverage ratio

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

		31/03/2022
1	Total consolidated assets as per published financial statements	21,455,408
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	40,319
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)	3,029,407
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	Leverage ratio exposure measure	24,525,134

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
		31/03/2022	31/12/2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	21,455,408	22,548,870
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	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	21,455,408	22,548,870
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)	40,319	-
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions		
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	Total derivative exposures (sum of rows 8 to 12)	40,319	-
Securities financing transactions			

14	Gross SFT assets (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	Total securities financing transaction exposures (sum of rows 14 to 17)	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	8,587,899	8,685,421
20	(Adjustments for conversion to credit equivalent amounts)	(5,558,492)	(5,519,166)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	Off-balance sheet items (sum of rows 19 to 21)	3,029,407	3,166,255
Capital and total exposures			
23	Tier 1 capital	3,750,515	3,675,074
24	Total exposures (sum of rows 7, 13, 18 and 22)	24,525,134	25,715,125
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	15.3%	14.3%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	14.7%	14.0%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	Applicable leverage buffers	-	-

The leverage ratio exposure has reduced due to decrease in the total assets of the Bank.

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	1,573,230	
1.2	UAE Federal Government Bonds and Sukuks	1,209,683	
	Sub Total (1.1 to 1.2)	2,782,913	2,782,913
1.3	UAE local governments publicly traded debt securities	602,212	
1.4	UAE Public sector publicly traded debt securities	33,162	
	Sub total (1.3 to 1.4)	635,374	635,374
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	Total	3,418,287	3,418,287
2	Total liabilities		17,511,871
3	Eligible Liquid Assets Ratio (ELAR)		19.5%

4.2 ASRR - Advances to Stable Resources Ratio

		Items	Amount
1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	14,497,082
	1.2	Lending to non-banking financial institutions	426,567
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	252,503
	1.4	Interbank Placements	0
	1.5	Total Advances	15,176,152
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	4,341,821
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	855,583
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	32,081
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	Total deduction	887,664
	2.2	Net Free Capital Funds	3,454,157
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	
	2.3.2	Interbank deposits with remaining life of more than 6 months	844,789
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	40,438
	2.3.5	Customer Deposits	13,257,244
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	14,142,471
	2.4	Total Stable Resources (2.2+2.3.7)	17,596,628
3		Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	86.2