



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

30th September 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 30th September 2022 and a comparison thereof with the figures as of 31st March 2022 and 30th June 2022 is as follows:

Particulars	Sep 2022	Jun 2022	Mar 2022
Total Capital Adequacy Ratio	21.23%	21.01%	20.44%
Tier 1 Capital Adequacy Ratio	20.08%	19.86%	19.29%
CET 1 Ratio	20.08%	19.86%	19.29%

- As of 30th September 2022, the Banks total Risk Weighted Assets (RWAs) amounted to AED 19,066 million, which comprised of 92.04% Credit Risk; 0.15% Market Risk and 7.81% 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
		30/09/2022	30/06/2022	31/03/2022	31/12/2021	30/09/2021
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,829,011	3,741,479	3,750,515	3,675,074	3,566,554
1a	Fully loaded ECL accounting model	3,548,963	3,579,206	3,617,296	3,587,958	3,502,372
2	Tier 1	3,829,011	3,741,479	3,750,515	3,675,074	3,566,554
2a	Fully loaded ECL accounting model Tier 1	3,548,963	3,579,206	3,617,296	3,587,958	3,502,372
3	Total capital	4,048,358	3,958,051	3,974,340	3,902,406	3,794,897
3a	Fully loaded ECL accounting model total capital	3,768,310	3,795,778	3,841,121	3,815,290	3,730,715
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	19,065,779	18,840,274	19,443,604	19,700,623	19,830,963
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	20.1%	19.9%	19.3%	18.7%	18.0%
5a	Fully loaded ECL accounting model CET1 (%)	18.6%	19.0%	18.6%	18.2%	17.7%
6	Tier 1 ratio (%)	20.1%	19.9%	19.3%	18.7%	18.0%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.6%	19.0%	18.6%	18.2%	17.7%
7	Total capital ratio (%)	21.2%	21.0%	20.4%	19.8%	19.1%

7a	Fully loaded ECL accounting model total capital ratio (%)	19.8%	20.1%	19.8%	19.4%	18.8%
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 (%)	10.7%	10.5%	9.9%	9.3%	8.6%
Leverage Ratio						
13	Total leverage ratio measure	23,364,329	23,756,657	24,525,134	25,715,125	25,888,048
14	Leverage ratio (%) (row 2/row 13)	16.4%	15.7%	15.3%	14.3%	14.2%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	15.2%	15.1%	14.7%	14.0%	13.9%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	15.2%	15.7%	15.3%	14.3%	14.2%
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	2,420,411	3,014,090	3,418,287	2,963,291	3,054,602
22	Total liabilities	16,423,697	16,779,210	17,511,871	18,583,522	18,447,851
23	Eligible Liquid Assets Ratio (ELAR) (%)	14.74%	17.96%	19.52%	15.95%	16.56%
ASRR						
24	Total available stable funding	15,598,492	15,825,119	17,596,628	18,431,938	18,269,673
25	Total Advances	14,841,058	14,277,286	15,176,152	15,680,935	15,874,783
26	Advances to Stable Resources Ratio (%)	95.14%	90.22%	86.24%	85.07%	86.89%

Risk Weighted Assets increased to AED 19,066 million as at September 2022 from AED 18,840 million as of June 2022 due to an increase in the loans and advances during the period. There is a favorable movement in the Leverage ratio due to increase in Capital. There is a drop in the ELAR during the quarter due to reduction in the Central Bank balances. The ASRR increased during the quarter due to the increase in loans and advances balances. The CET1 capital also increased during the quarter due to the quarterly profit and the impact of the ECL transitional adjustment.

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
		30/09/2022	30/06/2022	30/09/2022
1	Credit risk (excluding counterparty credit risk)	17,547,789	17,325,738	1,842,518
2	Of which: standardised approach (SA)	17,547,789	17,325,738	1,842,518
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	28,316	24,862	2,973
21	Of which: standardised approach (SA)	28,316	24,862	2,973
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)	19,065,779	18,840,274	2,001,907

Credit risk weighted assets increased to AED 17,547 million as at September 2022 from AED 17,326 million as at June 2022 mainly due to increase in the loans and advances portfolio during the period.

There was a slight increase in Market risk weighted assets during the period due to increase in the net open position.

3. Leverage ratio

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

		30/09/2022
1	Total consolidated assets as per published financial statements	20,266,916
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	30,922
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)	3,066,491
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	23,364,329

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
		30/09/2022	30/06/2022
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	20,266,916	20,667,134
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)	20,266,916	20,667,134

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)	22,087	28,708
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	8,835	11,483
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)	30,922	40,191
Securities financing transactions			
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	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	8,320,114	8,594,054
20	(Adjustments for conversion to credit equivalent amounts)	(5,253,623)	(5,544,722)
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)	3,066,491	3,049,332
Capital and total exposures			
23	Tier 1 capital	3,829,011	3,741,479
24	Total exposures (sum of rows 7, 13, 18 and 22)	23,364,329	23,756,657
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	16.4%	15.7%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	15.2%	15.1%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	Applicable leverage buffers	-	-

The leverage ratio exposure has increased due to decrease in the total assets and increase in capital 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	925,251	
1.2	UAE Federal Government Bonds and Sukuks	997,263	
	Sub Total (1.1 to 1.2)	1,922,514	1,922,514
1.3	UAE local governments publicly traded debt securities	535,180	
1.4	UAE Public sector publicly traded debt securities	31,789	
	Sub total (1.3 to 1.4)	566,969	497,897
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	Total	2,489,483	2,420,411
2	Total liabilities		16,423,697
3	Eligible Liquid Assets Ratio (ELAR)		14.7%

There is a drop in the ratio during the quarter due to reduction in the Central Bank balances.

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)	14,021,415
	1.2	Lending to non-banking financial institutions	402,123
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	211,804
	1.4	Interbank Placements	205,716
	1.5	Total Advances	14,841,058
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	4,395,521
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	823,411
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	22,232
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	Total deduction	845,643
	2.2	Net Free Capital Funds	3,549,878
	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	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	11,865
	2.3.5	Customer Deposits	12,036,749
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	12,048,614
	2.4	Total Stable Resources (2.2+2.3.7)	15,598,492
3		Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	95.1

The ratio increased during the quarter due to the increase in loans and advances balances.