

Arab African International Bank – UAE Branches

Pillar 3 Disclosure – 30 September 2023

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Overview

1.1 Introduction

Arab African International Bank – United Arab Emirates Branches (the “Branches” of the “Bank”) - referred to as AAIBUAE within this document, unless the context requires otherwise-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”). 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. AAIB UAE provides a full range of services primarily comprising corporate and retail banking activities.

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 and disclosure requirements as stated under the Notice No. CBUAE/BSN/N/2020/4980 dated November 2020, CBUAE/BSN/N/2021/5508 dated November 2021 and CBUAE/BSN/N/2022/1887 dated May 2022 on the implementation of Pillar 3 standards.

1.2 Purpose of the Report

The Pillar 3 disclosures complement the Pillar 1 Minimum Capital Requirements and Pillar 2 Supervisory Review and Evaluation Process (SREP) with an aim to encourage market discipline by allowing market participants to assess key pieces of qualitative and quantitative information on risk exposures and risk management processes, and hence the capital adequacy of the Bank.

All Arab African International Bank – United Arab Emirates Branches are accessible at the following link: <https://aaib.com/annual-reports>

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 (CCB) of 2.5%.

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

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 Metrics (KM1)		30-Sep-2023	30-Jun-2023 (Reviewed)	31-Mar-2023	31-Dec-2022	30-Sep-2022
		AED'000	AED'000	AED'000	AED'000	AED'000
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	1,929,672	1,919,154	1,795,455	1,801,148	1,525,320
1a	Fully loaded ECL accounting model	1,929,672	1,919,154	1,795,455	1,801,148	1,525,320
2	Tier 1	1,929,672	1,919,154	1,795,455	1,801,148	1,525,320
2a	Fully loaded ECL accounting model Tier 1	1,929,672	1,919,154	1,795,455	1,801,148	1,525,320
3	Total capital	1,992,230	1,975,193	1,844,902	1,851,236	1,567,754
3a	Fully loaded ECL accounting model total capital	1,992,230	1,975,193	1,844,902	1,851,236	1,567,754
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	5,393,521	4,872,350	4,345,246	4,345,642	3,732,269
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	35.78%	39.39%	41.32%	41.45%	40.87%
5a	Fully loaded ECL accounting model CET1 (%)	35.78%	39.39%	41.32%	41.45%	40.87%
6	Tier 1 ratio (%)	35.78%	39.39%	41.32%	41.45%	40.87%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	35.78%	39.39%	41.32%	41.45%	40.87%
7	Total capital ratio (%)	36.94%	40.54%	42.46%	42.60%	42.01%
7a	Fully loaded ECL accounting model total capital ratio (%)	36.94%	40.54%	42.46%	42.60%	42.01%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	26.44%	30.04%	30.82%	30.95%	30.37%
Leverage Ratio						
13	Total leverage ratio measure	10,783,504	9,059,981	7,995,404	7,900,125	7,567,402
14	Leverage ratio (%) (row 2/row 13)	17.89%	21.18%	22.46%	22.80%	20.16%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	17.89%	21.18%	22.46%	22.80%	20.16%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	17.89%	21.18%	22.46%	22.80%	20.16%
Liquidity Coverage Ratio						
15	Total HQLA	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflow	N/A	N/A	N/A	N/A	N/A
17	LCR ratio (%)	N/A	N/A	N/A	N/A	N/A
Net Stable Funding Ratio						
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR ratio (%)	N/A	N/A	N/A	N/A	N/A
ELAR						
21	Total HQLA	1,803,842	889,897	1,288,851	1,169,704	866,453
22	Total liabilities	8,451,902	6,828,142	5,815,201	5,764,738	5,461,512
23	Eligible Liquid Assets Ratio (ELAR) (%)	21.34%	13.03%	22.16%	20.29%	15.86%
ASRR						
24	Total available stable funding	7,825,045	6,752,541	6,193,173	6,087,608	5,795,918
25	Total Advances	2,060,814	1,989,223	2,148,647	2,198,512	1,948,785
26	Advances to Stable Resources Ratio (%)	26.34%	29.46%	34.69%	36.11%	33.62%

As per CBUAE regulations, Branches are not required to report LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). Branches report ELAR (Eligible Assets Ratio) and ASRR (Advances 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
		30-Sep-2023	30-Jun-2023 (Reviewed)	30-Sep-2023
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	5,004,653	4,478,656	525,489
2	Of which: standardised approach (SA)	5,004,653	4,478,656	525,489
3				
4				
5				
6	Counterparty credit risk (CCR)	0	4,476	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	627	976	66
21	Of which: standardised approach (SA)	627	976	66
22				
23	Operational risk	388,241	388,241	40,765
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	5,393,521	4,872,350	566,320

Leverage Ratio

This section describes material differences between the total balance sheet assets, as reported in the financial statements, and the leverage ratio exposure measure.

Summary comparison of accounting assets vs leverage ratio exposure measure (LR1)

	30-Sep-23
	AED'000
1 Total consolidated assets as per financial statements	10,483,676
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3 Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	0
4 Adjustments for temporary exemption of central bank reserves (if applicable)	0
5 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
6 Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	0
7 Adjustments for eligible cash pooling transactions	0
8 Adjustments for derivative financial instruments	0
9 Adjustment for securities financing transactions (ie repos and similar secured lending)	0
10 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	299,967
11 Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-139
12 Other adjustments	0
13 Leverage ratio exposure measure	10,783,504

Leverage ratio common disclosure template (LR2)

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

Leverage Ratio		30-Sep-2023	30-Jun-2023
		AED'000	(Reviewed) AED'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	10,483,676	8,780,033
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)	-139	-110
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	10,483,537	8,779,923
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	0
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	0	22,382
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)	0	22,382
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

Leverage Ratio		30-Sep-2023	30-Jun-2023
		AED'000	(Reviewed) AED'000
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	911,763	715,533
20	(Adjustments for conversion to credit equivalent amounts)	(611,796)	(457,857)
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)	299,967	257,676
Capital and total exposures			
23	Tier 1 capital	1,929,672	1,919,154
24	Total exposures (sum of rows 7, 13, 18 and 22)	10,783,504	9,059,981
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	17.89%	21.18%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	17.89%	21.18%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%

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 30 September 2023, branches' ELAR is 21.34% which is more than the required minimum of 10%.

1	High Quality Liquid Assets	AED'000	
		Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,803,842	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,803,842	1,803,842
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	1,803,842	1,803,842
2	Total liabilities		8,451,902
3	Eligible Liquid Assets Ratio (ELAR)		21.34%

Advances to Stable Resources Ratio (ASRR)

The Advances to Stable Resources Ratio (ASRR) 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.

ASRR should not exceed 100%. As of 30 September 2023, branches' ratio is 26.34%, this is the equivalent percentage of the total advances being funded by stable resources (i.e., customer deposits).

	Items	AED'000
1	Computation of Advances	
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	1,949,487
1.2	Lending to non-banking financial institutions	82,593
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	0
1.4	Interbank Placements	28,734
1.5	Total Advances	2,060,814
2	Calculation of Net Stable Resources	
2.1	Total capital + general provisions	2,066,750
	Deduct:	
2.1.1	Goodwill and other intangible assets	139
2.1.2	Fixed Assets	24,901
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	25,040
2.2	Net Free Capital Funds	2,041,710
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	398,284
2.3.5	Customer Deposits	5,385,051
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
2.3.7	Total other stable resources	5,783,335
2.4	Total Stable Resources (2.2+2.3.7)	7,825,045
3	Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	26.34