

Arab African International Bank – UAE Branches

Pillar 3 Disclosure – 30 June 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/2020/4980 dated November 2020, CBUAE/BSN/2021/5508 dated November 2021 and CBUAE/BSN/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-Jun-2023	31-Mar-2023	31-Dec-2022	30-Sep-2022	30-Jun-2022
		AED'000	AED'000	AED'000	AED'000	AED'000
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	1,790,293	1,795,455	1,801,148	1,525,320	1,525,531
1a	Fully loaded ECL accounting model	1,790,293	1,795,455	1,801,148	1,525,320	1,525,531
2	Tier 1	1,790,293	1,795,455	1,801,148	1,525,320	1,525,531
2a	Fully loaded ECL accounting model Tier 1	1,790,293	1,795,455	1,801,148	1,525,320	1,525,531
3	Total capital	1,846,265	1,844,902	1,851,236	1,567,754	1,569,536
3a	Fully loaded ECL accounting model total capital	1,846,265	1,844,902	1,851,236	1,567,754	1,569,536
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	4,866,958	4,345,246	4,345,642	3,732,269	3,859,837
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	36.78%	41.32%	41.45%	40.87%	39.52%
5a	Fully loaded ECL accounting model CET1 (%)	36.78%	41.32%	41.45%	40.87%	39.52%
6	Tier 1 ratio (%)	36.78%	41.32%	41.45%	40.87%	39.52%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	36.78%	41.32%	41.45%	40.87%	39.52%
7	Total capital ratio (%)	37.93%	42.46%	42.60%	42.01%	40.66%
7a	Fully loaded ECL accounting model total capital ratio (%)	37.93%	42.46%	42.60%	42.01%	40.66%
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 (%)	27.43%	30.82%	30.95%	30.37%	29.02%
Leverage Ratio						
13	Total leverage ratio measure	9,067,339	7,995,404	7,900,125	7,567,402	8,236,738
14	Leverage ratio (%) (row 2/row 13)	19.74%	22.46%	22.80%	20.16%	18.52%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	19.74%	22.46%	22.80%	20.16%	18.52%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	19.74%	22.46%	22.80%	20.16%	18.52%
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	889,897	1,288,851	1,169,704	866,453	816,658
22	Total liabilities	6,828,142	5,815,201	5,764,738	5,461,512	6,286,449
23	Eligible Liquid Assets Ratio (ELAR) (%)	13.03%	22.16%	20.29%	15.86%	12.99%
ASRR						
24	Total available stable funding	6,752,541	6,193,173	6,087,608	5,795,918	6,393,733
25	Total Advances	1,989,223	2,148,647	2,198,512	1,948,785	2,671,798
26	Advances to Stable Resources Ratio (%)	29.46%	34.69%	36.11%	33.62%	41.79%

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-Jun-2023	31-Mar-2023	30-Jun-2023
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	4,473,264	3,954,414	469,693
2	Of which: standardised approach (SA)	4,473,264	3,954,414	469,693
3				
4				
5				
6	Counterparty credit risk (CCR)	4,476	1,375	470
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	976	1,216	102
21	Of which: standardised approach (SA)	976	1,216	102
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)	4,866,958	4,345,246	511,031

Composition of Capital

Capital Allocation

The Branches regulatory capital is analyzed in 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.

Table: Composition of Capital CC1

		30-Jun-2023
		AED'000
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	686,437
2	Retained earnings	959,819
3	Accumulated other comprehensive income (and other reserves)	144,147
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	0
5	Common share capital issued by third parties (amount allowed in group CET1)	0
6 Common Equity Tier 1 capital before regulatory deductions		1,790,403
Common Equity Tier 1 capital regulatory adjustments		
24	Total regulatory adjustments to Common Equity Tier 1	-110
25 Common Equity Tier 1 capital (CET1)		1,790,293
Additional Tier 1 capital: instruments		
Additional Tier 1 capital: regulatory adjustments		
38 Additional Tier 1 capital (AT1)		0
39 Tier 1 capital (T1= CET1 + AT1)		1,790,293
Tier 2 capital: instruments and provisions		
44	Provisions	55,972
45 Tier 2 capital before regulatory adjustments		55,972
Tier 2 capital: regulatory adjustments		
50 Total regulatory adjustments to Tier 2 capital		0
51 Tier 2 capital (T2)		55,972
52 Total regulatory capital (TC = T1 + T2)		1,846,265
53 Total risk-weighted assets		4,866,958
Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	36.78%
55	Tier 1 (as a percentage of risk-weighted assets)	36.78%
56	Total capital (as a percentage of risk-weighted assets)	37.93%
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	27.43%
The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.00%
63	Tier 1 minimum ratio	8.50%
64	Total capital minimum ratio	10.50%
Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	55,972
70	Cap on inclusion of provisions in Tier 2 under standardised approach	55,972

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		30-Jun-2023	31-Mar-2023
		AED'000	AED'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	8,787,369	7,712,509
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)	-110	0
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	8,787,259	7,712,509
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	22,382	6,874
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)	22,382	6,874
Securities financing transactions			
14	Gross SFT <i>assets</i> (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	715,533	845,747
20	(Adjustments for conversion to credit equivalent amounts)	(457,835)	(569,726)
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)	257,698	276,021
Capital and total exposures			
23	Tier 1 capital	1,790,293	1,795,455
24	Total exposures (sum of rows 7, 13, 18 and 22)	9,067,339	7,995,404
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	19.74%	22.46%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	19.74%	22.46%
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 June 2023, branches' ELAR is 13.03% which is more than the required minimum of 10%.

		AED'000	
1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	889,897	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	889,897	889,897
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	889,897	889,897
2	Total liabilities		6,828,142
3	Eligible Liquid Assets Ratio (ELAR)		13.03%

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%. The branches' ratio is 29.46%, 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)	1,768,377
	1.2	Lending to non-banking financial institutions	82,231
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	0
	1.4	Interbank Placements	138,615
	1.5	Total Advances	1,989,223
2		Calculation of Net Stable Ressources	
	2.1	Total capital + general provisions	1,985,195
		Deduct:	
	2.1.1	Goodwill and other intangible assets	110
	2.1.2	Fixed Assets	23,525
	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	23,635
	2.2	Net Free Capital Funds	1,961,560
	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	295,209
	2.3.5	Customer Deposits	4,495,772
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	4,790,981
	2.4	Total Stable Resources (2.2+2.3.7)	6,752,541
3		Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	29.46

Credit Risk

Credit Quality of Assets (CR1)

AED'000		a	b	c	d		e	f
		Gross carrying values of		Allowances / Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)	
		Defaulted exposures	Non- defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General		
1	Loans	160,974	1,861,960	188,906	160,974	27,932	1,834,028	
2	Debt securities	-	332,871	6,479	-	6,479	326,392	
3	Off-balance sheet exposures	11,590	703,943	14,313	11,352	2,961	701,220	
4	Total	172,564	2,898,774	209,698	172,326	37,372	2,861,640	

Credit Quality of Assets (CR2)

Changes in stock of defaulted loans and debt securities		AED'000
1	Defaulted loans and debt securities at the end of the previous reporting period	193,006
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	(87,697)
5	Other changes (including settlements)	55,665
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	160,974

The defaulted letter of guarantee of AED 55,665 thousand as the end of the previous reporting period 31 December 2022, was liquidated during the current reporting period. Hence, the same is shown under "other changes" in the above table CR2.

Standardized Approach - Credit Risk Exposures & CRM Impact (CR4)

The Branches has in place group standards, regulations of the Central Bank of the UAE and policies and procedures dedicated to monitor and manage risk from such activities.

AED' 000	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereigns and their central banks	1,786,977	-	1,786,977	-	455,354	25%
2 Public Sector Entities	35,383	-	35,383	-	35,383	100%
3 Multilateral development banks	-	-	-	-	-	0%
4 Banks	5,550,868	-	5,550,868	-	2,500,294	45%
5 Securities firms	-	-	-	-	-	0%
6 Corporates	1,248,264	703,943	964,030	257,460	1,221,490	63%
7 Regulatory retail portfolios	2,215	-	2,215	-	2,215	100%
8 Secured by residential property	-	-	-	-	-	0%
9 Secured by commercial real estate	-	-	-	-	-	0%
10 Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11 Past-due loans	160,974	11,590	-	238	238	0%
12 Higher-risk categories	-	-	-	-	-	0%
13 Other assets	200,982	-	200,982	-	258,290	129%
14 Total	8,985,663	715,533	8,540,455	257,698	4,473,264	46%

Standardized Approach - Exposures by Asset Classes & Risk Weights (CR5)

AED 000's	a	b	c	d	e	f	g	h	i
Risk weight	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Asset classes									
1 Sovereigns and their central banks	1,331,623	-	-	-	-	455,354	-	-	1,786,977
2 Public Sector Entities	-	-	-	-	-	35,383	-	-	35,383
3 Multilateral development banks	-	-	-	-	-	-	-	-	-
4 Banks	-	978,349	-	4,535,789	-	36,730	-	-	5,550,868
5 Securities firms	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	1,221,490	-	-	1,221,490
7 Regulatory retail portfolios	-	-	-	-	-	2,215	-	-	2,215
8 Secured by residential property	-	-	-	-	-	-	-	-	-
9 Secured by commercial real estate	-	-	-	-	-	-	-	-	-
10 Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11 Past-due loans	-	-	-	-	-	238	-	-	238
12 Higher-risk categories	-	-	-	-	-	-	-	-	-
13 Other assets	11,889	-	-	-	-	142,962	-	46,131	200,982
14 Total	1,343,512	978,349	-	4,535,789	-	1,894,372	-	46,131	8,798,153

Market Risk

Market risk under the standardized approach (MR1)

	AED 000's
	RWA
General Interest rate risk (General and Specific)	0
Equity risk (General and Specific)	0
Foreign exchange risk	976
Commodity risk	0
Simplified approach	0
Delta-plus method	0
Securitisation	0
Total	976