

Arab African International Bank – UAE Branches

Pillar 3 Disclosure – 30 June 2022

Table of Contents

1	OVERVIEW.....	3
1.1	INTRODUCTION.....	3
1.2	PURPOSE OF THE REPORT	3
2	OVERVIEW OF RISK MANAGEMENT & RWAS.....	4
	LIQUIDITY	9
	CREDIT RISK	11
	MARKET RISK.....	13

1 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.

AAIBUAE is regulated by the CBUAE and follows the Pillar 3 disclosure requirements as stated under the Notice No. CBUAE/BSN/2020/4980 dated November 2020 and CBUAE/BSN/2021/5508 dated November 2021 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/en/pages/Gulf--Region>

2 Overview of Risk Management & RWAs

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 ('CBAUE') 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 CBAUE, 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 'CBAUE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets

The CBAUE 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 (CBB) of 2.5%.

The assets of the Branch 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)

Key Metrics (KM1)		30-Jun-2022	31-Mar-2022	31-Dec-2021
		AED'000	AED'000	AED'000
Available capital (amounts)				
1	Common Equity Tier 1 (CET1)	1,525,531	1,525,536	1,525,536
1a	Fully loaded ECL accounting model	1,525,531	1,525,536	1,525,536
2	Tier 1	1,525,531	1,525,536	1,525,536
2a	Fully loaded ECL accounting model Tier 1	1,525,531	1,525,536	1,525,536
3	Total capital	1,569,536	1,569,492	1,571,142
3a	Fully loaded ECL accounting model total capital	1,569,536	1,569,492	1,571,142
Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	3,859,837	3,853,459	4,071,090
Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	39.52%	39.59%	37.47%
5a	Fully loaded ECL accounting model CET1 (%)	39.52%	39.59%	37.47%
6	Tier 1 ratio (%)	39.52%	39.59%	37.47%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	39.52%	39.59%	37.47%
7	Total capital ratio (%)	40.66%	40.73%	38.59%
7a	Fully loaded ECL accounting model total capital ratio (%)	40.66%	40.73%	38.59%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	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%
12	CET1 available after meeting the bank's minimum capital requirements (%)	29.02%	29.09%	26.97%
Leverage Ratio				
13	Total leverage ratio measure	8,236,738	7,845,541	7,863,714
14	Leverage ratio (%) (row 2/row 13)	18.52%	19.44%	19.40%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	18.52%	19.44%	19.40%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	18.52%	19.44%	19.40%
ELAR				
21	Total HQLA	816,658	782,165	1,068,539
22	Total liabilities	6,286,449	5,817,757	5,753,692
23	Eligible Liquid Assets Ratio (ELAR) (%)	12.99%	13.44%	18.57%
ASRR				
24	Total available stable funding	6,393,733	6,074,274	5,810,033
25	Total Advances	2,671,798	2,786,976	2,773,511
26	Advances to Stable Resources Ratio (%)	41.79%	45.88%	47.74%

As per CBUAE regulations, Branch is not required to report LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). Branch reports ELAR (Eligible Assets Ratio) and LSRR (Lending to Stable Resources Ratio) as an alternate.

Key Prudential Metrics and RWA (OV1)

Following metrics and RWA is calculated based on latest applicable CBUAE Capital Adequacy regulations for Banks operating in the UAE.

OV1 - Overview of RWA		RWA		Minimum capital requirements
		30-Jun-2022	31-Mar-2022	30-Jun-2022
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	3,520,362	3,516,458	369,638
2	Of which: standardised approach (SA)	3,520,362	3,516,458	369,638
3				
4				
5				
6	Counterparty credit risk (CCR)	0	0	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	2,729	255	287
21	Of which: standardised approach (SA)	2,729	255	287
22				
23	Operational risk	336,746	336,746	35,358
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	3,859,837	3,853,459	405,283

Composition of Capital

Capital Allocation

The Branches's 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

	AED'000
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	686,437
Retained earnings	711,528
Accumulated other comprehensive income (and other reserves)	127,566
<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>	0
Common share capital issued by third parties (amount allowed in group CET1)	0
Common Equity Tier 1 capital before regulatory deductions	1,525,531
Common Equity Tier 1 capital regulatory adjustments	
Total regulatory adjustments to Common Equity Tier 1	0
Common Equity Tier 1 capital (CET1)	1,525,531
Additional Tier 1 capital: instruments	
Additional Tier 1 capital: regulatory adjustments	
Additional Tier 1 capital (AT1)	0
Tier 1 capital (T1= CET1 + AT1)	1,525,531
Tier 2 capital: instruments and provisions	
Provisions	44,005
Tier 2 capital before regulatory adjustments	44,005
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	0
Tier 2 capital (T2)	44,005
Total regulatory capital (TC = T1 + T2)	1,569,536
Total risk-weighted assets	3,859,837
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	39.52%
Tier 1 (as a percentage of risk-weighted assets)	39.52%
Total capital (as a percentage of risk-weighted assets)	40.66%
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	29.02%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.00%
Tier 1 minimum ratio	8.50%
Total capital minimum ratio	10.50%

Leverage Ratio (LR2):

The Basel Committee on Banking Supervision (BCBS) introduced a leverage ratio in the 2010 Basel III package of reforms. Basel III leverage ratio framework and disclosure requirements followed in January 2014 with detailed specification of the leverage ratio framework (the “framework”).

		30-Jun-2022	31-Mar-2022
		AED'000	AED'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	8,047,372	7,610,788
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)	0	0
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	8,047,372	7,610,788
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	26,403	17,391
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)	26,403	17,391
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	420,360	538,498
20	(Adjustments for conversion to credit equivalent amounts)	(257,397)	(321,136)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	-
22	Off-balance sheet items (sum of rows 19 to 21)	162,963	217,362
Capital and total exposures			
23	Tier 1 capital	1,525,531	1,525,536
24	Total exposures (sum of rows 7, 13, 18 and 22)	8,236,738	7,845,541
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	18.52%	19.44%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	18.52%	19.44%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%

Main features of the framework

Leverage ratio is associated with both on- and off-balance sheet exposures. It also aims to make use of accounting measures to the greatest extent possible, while at the same time addressing concerns that (i) different accounting frameworks across jurisdictions raise level playing field issues and (ii) a framework based exclusively on accounting measures may not capture all risks. The leverage ratio is defined as the capital measure divided by the exposure measure, expressed as a percentage:

Leverage Ratio= Capital measure / Exposure measure. The minimum requirement is set at 3%.

Liquidity

Eligible Liquid Assets Ratio (ELAR)

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 June 30, 2022, branch's ELAR is 12.99% 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	816,658	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	816,658	816,658
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	816,658	816,658
2	Total liabilities		6,286,449
3	Eligible Liquid Assets Ratio (ELAR)		12.99%

Advances to Stable Resources Ratio (ASRR)

The Advances to Stable Resources Ratio (LSRR) 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.

LSRR should not exceed 100%. As of June 30, 2022, the branch's ratio is 41.79%, 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)	1,705,342
1.2	Lending to non-banking financial institutions	8,535
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	0
1.4	Interbank Placements	957,921
1.5	Total Advances	2,671,798
2	Calculation of Net Stable Resources	
2.1	Total capital + general provisions	1,789,046
	Deduct:	
2.1.1	Goodwill and other intangible assets	0
2.1.2	Fixed Assets	13,920
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	13,920
2.2	Net Free Capital Funds	1,775,126
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	266,799
2.3.5	Customer Deposits	4,351,808
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
2.3.7	Total other stable resources	4,618,607
2.4	Total Stable Resources (2.2+2.3.7)	6,393,733
3	Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	41.79

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	193,006	1,750,216	190,317	171,881	18,436	1,752,905
2	Debt securities	-	746,708	7,299	-	7,299	739,409
3	Off-balance sheet exposures	67,830	420,360	58,990	57,464	1,526	429,200
4	Total	260,836	2,917,284	256,606	229,345	27,261	2,921,514

Credit Quality of Assets (CR2)

		AED'000
1	Defaulted loans and debt securities at the end of the previous reporting period	470,157
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	-
5	Other changes (including settlements)	(277,151)
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	193,006

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
Sovereigns and their central banks	1,682,763	-	1,682,763	-	528,722	31%
Public Sector Entities	71,011	-	71,011	-	71,011	100%
Multilateral development banks	-	-	-	-	-	0%
Banks	5,075,962	-	5,075,962	-	1,503,211	30%
Securities firms	-	-	-	-	-	0%
Corporates	975,923	420,360	837,320	162,963	1,000,283	72%
Regulatory retail portfolios	2,558	-	2,558	-	2,558	100%
Secured by residential property	-	-	-	-	-	0%
Secured by commercial real estate	175,484	-	175,484	-	175,484	100%
Equity Investment in Funds (EIF)	-	-	-	-	-	0%
Past-due loans	193,006	67,830	31,491	-	31,491	12%
Higher-risk categories	-	-	-	-	-	0%
Other assets	128,133	-	128,133	-	202,322	158%
Total	8,304,840	488,190	8,004,722	162,963	3,515,082	40%

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									
Sovereigns and their central banks	1,154,041	-	-	-	-	528,722	-	-	1,682,763
Public Sector Entities	-	-	-	-	-	71,011	-	-	71,011
Multilateral development banks	-	-	-	-	-	-	-	-	-
Banks	-	3,449,235	-	1,626,727	-	-	-	-	5,075,962
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	1,000,283	-	-	1,000,283
Regulatory retail portfolios	-	-	-	-	-	2,558	-	-	2,558
Secured by residential property	-	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	175,484	-	-	175,484
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	31,491	-	-	31,491
Higher-risk categories	-	-	-	-	-	-	-	-	-
Other assets	6,043	-	-	-	-	68,602	-	53,488	128,133
Total	1,160,084	3,449,235	-	1,626,727	-	1,878,151	-	53,488	8,167,685

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	2,729
Commodity risk	0
Options	0
Simplified approach	0
Delta-plus method	0
Securitisation	0
Total	2,729