Arab African International Bank – UAE Branches

# Pillar 3 Disclosure – 31 March 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.

AAIBUAE is regulated by the CBUAE and follows the Pillar 3 disclosure requirements as stated under the Notice No. CBUAE/BSD/N/2020/4980 dated November 2020 and CBUAE/BSD/N/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

# 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) | 31-Mar-2023 | 31-Dec-2022 | 30-Sep-2022 | 30-Jun-2022 | 31-Mar-2022 |
|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| | **Available capital (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 1,795,455 | 1,801,148 | 1,525,320 | 1,525,531 | 1,525,536 |
| 1a | Fully loaded ECL accounting model | 1,795,455 | 1,801,148 | 1,525,320 | 1,525,531 | 1,525,536 |
| 2 | Tier 1 | 1,795,455 | 1,801,148 | 1,525,320 | 1,525,531 | 1,525,536 |
| 2a | Fully loaded ECL accounting model Tier 1 | 1,795,455 | 1,801,148 | 1,525,320 | 1,525,531 | 1,525,536 |
| 3 | Total capital | 1,844,902 | 1,851,236 | 1,567,754 | 1,569,536 | 1,569,492 |
| 3a | Fully loaded ECL accounting model total capital | 1,844,902 | 1,851,236 | 1,567,754 | 1,569,536 | 1,569,492 |
| | **Risk-weighted assets (amounts)** | | | | | |
| 4 | Total risk-weighted assets (RWA) | 4,345,246 | 4,345,642 | 3,732,269 | 3,859,837 | 3,853,459 |
| | **Risk-based capital ratios as a percentage of RWA** | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 41.32% | 41.45% | 40.87% | 39.52% | 39.59% |
| 5a | Fully loaded ECL accounting model CET1 (%) | 41.32% | 41.45% | 40.87% | 39.52% | 39.59% |
| 6 | Tier 1 ratio (%) | 41.32% | 41.45% | 40.87% | 39.52% | 39.59% |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 41.32% | 41.45% | 40.87% | 39.52% | 39.59% |
| 7 | Total capital ratio (%) | 42.46% | 42.60% | 42.01% | 40.66% | 40.73% |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 42.46% | 42.60% | 42.01% | 40.66% | 40.73% |
| | **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 (%) | 30.82% | 30.95% | 30.37% | 29.02% | 29.09% |
| | **Leverage Ratio** | | | | | |
| 13 | Total leverage ratio measure | 7,995,404 | 7,900,125 | 7,567,402 | 8,236,738 | 7,845,541 |
| 14 | Leverage ratio (%) (row 2/row 13) | 22.46% | 22.80% | 20.16% | 18.52% | 19.44% |
| 14a | Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13) | 22.46% | 22.80% | 20.16% | 18.52% | 19.44% |
| 14b | Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 22.46% | 22.80% | 20.16% | 18.52% | 19.44% |
| | **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 | 1,288,851 | 1,169,704 | 866,453 | 816,658 | 782,165 |
| 22 | Total liabilities | 5,815,201 | 5,764,738 | 5,461,512 | 6,286,449 | 5,817,757 |
| 23 | Eligible Liquid Assets Ratio (ELAR) (%) | 22.16% | 20.29% | 15.86% | 12.99% | 13.44% |
| | **ASRR** | | | | | |
| 24 | Total available stable funding | 6,193,173 | 6,087,608 | 5,795,918 | 6,393,733 | 6,074,274 |
| 25 | Total Advances | 2,148,647 | 2,198,512 | 1,948,785 | 2,671,798 | 2,786,976 |
| 26 | Advances to Stable Resources Ratio (%) | 34.69% | 36.11% | 33.62% | 41.79% | 45.88% |

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 |
|---|---|---|---|---|
| | | 31-Mar-2023 | 31-Dec-2022 | 31-Mar-2023 |
| | | AED'000 | AED'000 | AED'000 |
| 1 | Credit risk (excluding counterparty credit risk) | 3,954,414 | 4,006,381 | 415,213 |
| 2 | Of which: standardised approach (SA) | 3,954,414 | 4,006,381 | 415,213 |
| 3 | [redacted] | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | Counterparty credit risk (CCR) | 1,375 | 658 | 144 |
| 7 | Of which: standardised approach for counterparty credit risk | 0 | 0 | 0 |
| 8 | [redacted] | | | |
| 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 | [redacted] | | | |
| 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 | 1,216 | 1,857 | 128 |
| 21 | Of which: standardised approach (SA) | 1,216 | 1,857 | 128 |
| 22 | [redacted] | | | |
| 23 | Operational risk | 388,241 | 336,746 | 40,765 |
| 24 | [redacted] | | | |
| 25 | | | | |
| **26** | **Total (1+6+10+11+12+13+14+15+16+20+23)** | **4,345,246** | **4,345,642** | **456,251** |

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# 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 | 31-Mar-2023 AED'000 | 31-Dec-2022 AED'000 |
|---|---|---|---|
| **On-balance sheet exposures** | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 7,712,509 | 7,657,741 |
| 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)** | 7,712,509 | 7,657,741 |
| **Derivative exposures** | | | |
| 8 | Replacement cost associated with *all* 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 *all* derivatives transactions | 6,874 | 3,290 |
| 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)** | 6,874 | 3,290 |
| **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 |
| **Other off-balance sheet exposures** | | | |
| 19 | Off-balance sheet exposure at gross notional amount | 845,747 | 712,173 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | (569,726) | (473,079) |
| 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)** | 276,021 | 239,094 |
| **Capital and total exposures** | | | |
| 23 | **Tier 1 capital** | 1,795,455 | 1,801,148 |
| 24 | **Total exposures (sum of rows 7, 13, 18 and 22)** | 7,995,404 | 7,900,125 |
| **Leverage ratio** | | | |
| 25 | **Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)** | 22.46% | 22.80% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 22.46% | 22.80% |
| 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 March 31, 2023 branches' ELAR is 22.16% 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 | 1,288,851 | |
| 1.2 | UAE Federal Government Bonds and Sukuks | 0 | |
| | Sub Total (1.1 to 1.2) | 1,288,851 | 1,288,851 |
| 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** | **1,288,851** | **1,288,851** |
| **2** | Total liabilities | | 5,815,201 |
| **3** | **Eligible Liquid Assets Ratio (ELAR)** | | **22.16%** |

## 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 34.69%, 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) | 1,880,000 |
| | 1.2 | Lending to non-banking financial institutions | 84,663 |
| | 1.3 | Net Financial Guarantees & Stand-by LC (issued - received) | 0 |
| | 1.4 | Interbank Placements | 183,984 |
| | **1.5** | **Total Advances** | 2,148,647 |
| **2** | | **Calculation of Net Stable Ressources** | |
| | 2.1 | Total capital + general provisions | 1,918,359 |
| | | **Deduct:** | |
| | 2.1.1 | Goodwill and other intangible assets | 139 |
| | 2.1.2 | Fixed Assets | 22,810 |
| | 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** | 22,949 |
| | **2.2** | **Net Free Capital Funds** | 1,895,410 |
| | **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 | 272,197 |
| | 2.3.5 | Customer Deposits | 4,025,566 |
| | 2.3.6 | Capital market funding/ term borrowings maturing after 6 months from reporting date | 0 |
| | **2.3.7** | **Total other stable resources** | 4,297,763 |
| | **2.4** | **Total Stable Resources (2.2+2.3.7)** | 6,193,173 |
| **3** | | **Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)** | 34.69 |