ARAB BANK FOR INVESTMENT AND FOREIGN TRADE

(AL MASRAF)

CAPITAL ADEQUACY

PILLAR III DISCLOSURES

30 September 2023

Table of Contents

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 Bank's 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 30 September 2023 and a comparison thereof with the figures as of 30 June 2023 and 31 March 2023 is as follows:

Particulars	30/09/2023	30/06/2023	31/03/2023
Total Capital Adequacy Ratio	20.7%	20.5%	21.0%
Tier 1 Capital Adequacy Ratio	19.5%	19.3%	19.9%
CET 1 Ratio	19.5%	19.3%	19.9%

- As of 30 September 2023, the Banks total Risk Weighted Assets (RWAs) amounted to AED 18,720 million, which comprised of 92.22% Credit Risk; 0.25% Market Risk and 7.53% 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
		30/09/2023	**30/06/2023**	**31/03/2023**	**31/12/2022**	**30/09/2022**
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,650,802	3,654,513	3,607,139	3,630,845	3,829,011
1a	Fully loaded ECL accounting model	3,638,127	3,627,366	3,562,548	3,520,101	3,548,963
2	Tier 1	3,650,802	3,654,513	3,607,139	3,630,845	3,829,011
2a	Fully loaded ECL accounting model Tier 1	3,638,127	3,627,366	3,562,548	3,520,101	3,548,963
3	Total capital	3,866,606	3,873,432	3,816,113	3,842,653	4,048,358
3a	Fully loaded ECL accounting model total capital	3,853,931	3,846,285	3,771,522	3,731,909	3,768,310
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	18,719,963	18,926,659	18,131,592	18,398,715	19,065,779
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.5%	19.3%	19.9%	19.7%	20.1%
5a	Fully loaded ECL accounting model CET1 (%)	19.4%	19.2%	19.6%	19.1%	18.6%
6	Tier 1 ratio (%)	19.5%	19.3%	19.9%	19.7%	20.1%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.4%	19.2%	19.6%	19.1%	18.6%
7	Total capital ratio (%)	20.7%	20.5%	21.0%	20.9%	21.2%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.6%	20.3%	20.8%	20.3%	19.8%

	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 (%)	10.2%	10.0%	10.5%	10.4%	10.7%
	Leverage Ratio					
13	Total leverage ratio measure	24,199,244	25,025,800	23,780,212	23,595,654	23,364,329
14	Leverage ratio (%) (row 2/row 13)	15.1%	14.6%	15.2%	15.4%	16.4%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	15.0%	14.5%	15.0%	14.9%	15.2%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	15.1%	14.6%	15.2%	15.4%	16.4%
	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	2,944,596	3,249,571	2,913,842	2,262,544	2,420,411
22	Total liabilities	17,148,385	18,047,404	17,074,706	16,623,161	16,423,697
23	Eligible Liquid Assets Ratio (ELAR) (%)	17.2%	18.0%	17.1%	13.6%	14.7%
	ASRR					
24	Total available stable funding	15,636,645	15,924,069	15,801,128	15,887,922	15,598,492
25	Total Advances	13,233,882	13,565,704	13,685,056	14,412,044	14,841,058
26	Advances to Stable Resources Ratio (%)	84.6%	85.2%	86.6%	90.7%	95.1%

The Risk Weighted Assets (RWA) marginally declined during the period on the back of some loan repayments and as the Bank continued to selectively book new business. The RWAs reduced to AED 18,720 million as at 30 September 2023 as compared to AED 18,927 million as at 30 June 2023.

Leverage ratio increased to 15.1% as at 30 September 2023 compared to 14.6% as at 30 June 2023 due to decrease in the leverage ratio exposure and a marginal drop in the Tier 1 Capital due to a reduction in the partial add back of ECL under the IFRS transitional arrangements.

The ELAR ratio dropped to 17.2% compared to 18.0% as at June 2023 due to decrease in the balances with Central Bank of UAE. The ASRR ratio improved from 85.2% as at June 2023 to 84.6% as at June 2023 on the back of some loan repayments and as the Bank continued to selectively book new business.

The Bank is applying the transitional adjustment for the ECL amount in line with the requirements under Notice No. CBUAE/BSD/N/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
		30/09/2023	30/06/2023	30/09/2023
1	Credit risk (excluding counterparty credit risk)	17,239,140	17,461,844	1,810,110
2	Of which: standardised approach (SA)	17,239,140	17,461,844	1,810,110
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)	12,586	25,856	1,322
7	Of which: standardised approach for counterparty credit risk	12,586	25,856	1,322
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	12,586	25,856	1,322
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	45,998	3,450	4,830
21	Of which: standardised approach (SA)	45,998	3,450	4,830
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	1,409,653	1,409,653	148,014
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)**	**18,719,963**	**18,926,659**	**1,965,596**

Credit risk weighted assets decreased to AED 17,264 million as at September 2023 from AED 17,514 million as at June 2023 mainly on the back of some loan repayments. The total assets also declined during the period due to decrease in cash and balances with Central Bank of UAE and reduction in due from bank balances partially offset by the increase in the investment portfolio.

There was an increase in the Market risk weighted assets during the period as compared to 30 June 2023 due to increase in the net open position.

3. Leverage ratio

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

		30/09/2023
1	Total consolidated assets as per published financial statements	21,191,737
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	46,882
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)	2,960,625
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**	**24,199,244**

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
		30/09/2023	30/06/2023
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	21,191,737	22,083,263
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)**	**21,191,737**	**22,083,263**

Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	819	1,464
9	Add-on amounts for PFE associated with *all* derivatives transactions	46,063	93,149
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)**	**46,882**	**94,613**
Securities financing transactions			
14	Gross SFT *assets* (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	9,049,594	8,662,195
20	(Adjustments for conversion to credit equivalent amounts)	(6,088,969)	(5,814,272)
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)**	**2,960,625**	**2,847,923**
Capital and total exposures			
23	**Tier 1 capital**	**3,650,802**	**3,654,513**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**24,199,244**	**25,025,800**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	15.1%	14.6%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	15.1%	14.6%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**	-	-

The leverage ratio increased during the quarter due to a decrease in the leverage ratio exposure and a marginal drop in the Tier 1 Capital due to a reduction in the partial add back of ECL under the IFRS transitional arrangements.

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	2,285,010	
1.2	UAE Federal Government Bonds and Sukuks	99,300	
	Sub Total (1.1 to 1.2)	2,384,310	2,384,310
1.3	UAE local governments publicly traded debt securities	528,531	
1.4	UAE Public sector publicly traded debt securities	31,755	
	Sub total (1.3 to 1.4)	560,286	560,286
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**2,944,596**	**2,944,596**
2	Total liabilities		17,148,385
3	**Eligible Liquid Assets Ratio (ELAR)**		**17.2%**

The ELAR ratio dropped to 17.2% compared to 18.0% as at June 2023 due to decrease in the balances with Central Bank of UAE.

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)	12,496,533
	1.2	Lending to non-banking financial institutions	222,038
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	175,603
	1.4	Interbank Placements	339,708
	1.5	**Total Advances**	13,233,882
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	4,247,163
		Deduct:	
	2.1.1	Goodwill and other intangible assets	53,752
	2.1.2	Fixed Assets	509,470
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	337,737
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	**Total deduction**	900,959
	2.2	**Net Free Capital Funds**	3,346,204

	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	-
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	36,656
	2.3.5	Customer Deposits	12,253,785
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	12,290,441
	2.4	**Total Stable Resources (2.2+2.3.7)**	15,636,645
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	84.6%

The ratio improved from 85.2% as at June 2023 to 84.6% as at June 2023 on the back of some loan repayments and as the Bank continued to selectively book new business.