



CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT (BASEL III – PILLAR 3 DISCLOSURES)

FOR THE PERIOD ENDING 31 MARCH 2022



Basel-III Pillar-3 Reports

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1. Introduction to Bank's Capital adequacy framework

This document presents the Pillar 3 disclosures of FAB ("the Group") on a consolidated basis as at 31 March 2022. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Group is regulated by the Central Bank of UAE (CBUAE) and follows the Pillar 3 disclosure requirements as stated under the CBUAE guidelines, issued in November 2020, on the implementation of Basel III standards. CBUAE also initiated Basel III regulatory reporting in 2017 with new capital standards for UAE Banks.

The Pillar 3 disclosures are to be read in conjunction with the Consolidated Interim Financial Statements as of 31 March 2022.

2. Overview of risk management and RWA

2.1 KM1: Key metrics (at consolidated group level)

		All numbers in AED 000s				
		31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	75,739,632	71,995,317	74,288,348	71,440,262	68,838,719
1a	Fully loaded ECL accounting model	75,702,653	71,831,997	73,769,061	70,564,153	67,843,256
2	Tier 1	86,494,382	82,750,067	85,043,098	82,195,012	79,593,469
2a	Fully loaded ECL accounting model Tier 1	86,457,403	82,586,747	84,523,811	81,318,903	78,598,006
3	Total capital	92,914,249	88,982,629	91,170,240	88,410,597	85,317,097
3a	Fully loaded ECL accounting model total capital	92,877,270	88,819,309	90,650,953	87,534,488	84,321,634
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	582,794,055	578,995,264	572,782,777	548,250,281	504,142,837
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	13.0%	12.4%	13.0%	13.0%	13.7%
5a	Fully loaded ECL accounting model CET1 (%)	13.0%	12.4%	12.9%	12.9%	13.5%
6	Tier 1 ratio (%)	14.8%	14.3%	14.8%	15.0%	15.8%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	14.8%	14.3%	14.8%	14.8%	15.6%
7	Total capital ratio (%)	15.9%	15.4%	15.9%	16.1%	16.9%
7a	Fully loaded ECL accounting model total capital ratio (%)	15.9%	15.3%	15.8%	16.0%	16.7%
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 (%)	0.01%	0.01%	0.01%	0.01%	0.01%
10	Bank D-SIB additional requirements (%)	1.50%	1.50%	1.50%	1.50%	1.50%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	4.01%	4.01%	4.01%	4.01%	4.01%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.44%	4.87%	5.42%	5.63%	6.42%

		31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21
	Leverage Ratio					
13	Total leverage ratio measure	1,081,909,475	1,132,340,411	1,109,425,161	1,075,264,129	1,066,689,810
14	Leverage ratio (%) (row 2/row 13)	7.99%	7.31%	7.67%	7.64%	7.46%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2a/row 13)	7.99%	7.29%	7.62%	7.56%	7.37%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7.99%	7.31%	7.67%	7.64%	7.46%
	Liquidity Coverage Ratio					
15	Total HQLA	319,489,272	359,727,822	342,525,522	321,145,349	325,119,284
16	Total net cash outflow	266,798,414	269,918,432	268,090,129	239,547,440	221,860,531
17	LCR ratio (%)	119.75%	133.27%	127.77%	134.06%	146.54%
	Net Stable Funding Ratio					
18	Total available stable funding	486,513,977	495,937,928	488,332,573	467,196,821	469,901,201
19	Total required stable funding	480,509,212	474,335,668	469,292,139	444,280,422	434,907,056
20	NSFR ratio (%)	101.25%	104.55%	104.06%	105.16%	108.05%

As part of the TESS relief provided by the UAE Central Bank in response to COVID-19, the Bank is able to fully utilise its 1.50 % D-SIB buffer and 60% of its capital conservation buffer without supervisory consequences until 30 June 2022.

2.2 OV1: Overview of RWA

All numbers in AED 000s

		RWA	Minimum capital requirements
		31-Mar-22	31-Mar-22
1	Credit risk (excluding counterparty credit risk)	478,472,799	50,267,994
2	Of which: standardised approach (SA)	478,472,799	50,267,994
3	Counterparty credit risk (CCR)	11,657,788	1,224,068
4	Of which: standardised approach for counterparty credit risk	11,657,788	1,224,068
5	Equity investments in funds - look-through approach	-	-
6	Equity investments in funds - mandate-based approach	5,391,923	566,152
7	Equity investments in funds - fall-back approach	-	-
8	Settlement risk	-	-
9	Securitization exposures in the banking book	-	-
10	Of which: securitization external ratings-based approach (SEC-ERBA)	-	-
11	Of which: securitization standardised approach (SEC-SA)	-	-
12	Market risk	54,486,779	5,721,112
13	Of which: standardised approach (SA)	54,486,779	5,721,112
14	Operational risk	32,514,765	3,414,050
15	Total (1+3+5+6+7+8+9+12+14)	582,794,055	61,193,376

Base capital requirement as per CBUAE guidelines is 10.5% for total capital adequacy ratio

3. Leverage ratio

3.1 LR1: Summary comparison of accounting assets vs leverage ratio exposure

		All numbers in AED 000s
		Mar'22
1	Total consolidated assets as per published financial statements ¹	1,294,290,630
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(1,078,355)
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 ²	20,379,136
9	Adjustment for securities financing transactions (ie repos and similar secured lending) ³	26,338,854
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(236,574,315)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(21,446,473)
13	Leverage ratio exposure measure	1,081,909,475

¹Total consolidated assets includes assets plus Off Balance Sheet items, consisting of uncommitted undrawn facilities which are taken at 0% CCF for the purpose of capital calculations, but 10% CCF for purpose of Leverage Ratio.

²Positive MTM has been taken under Adjustments for derivative financial instruments, and therefor removed from total consolidated assets section.

³ Includes Repos and Reverse Repos, minus any repledged collaterals (not part of balance sheet).

3.2 LR2: Leverage ratio common disclosure template

		All numbers in AED 000s	
		Mar'22	Dec'21
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	940,334,396	967,860,182
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)	(44,538,921)	(46,260,645)
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)	(21,446,473)	(21,219,944)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	874,349,002	900,379,593
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)	6,164,816	10,391,970
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	8,391,709	9,079,217
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 (1.4 x sum of rows 8 to 12)	20,379,136	27,259,662
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	62,737,234	76,427,861
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	8,140,540	4,309,561
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	70,877,774	80,737,422

		Mar'22	Dec'21
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	352,877,878	342,710,957
20	(Adjustments for conversion to credit equivalent amounts)	(236,574,315)	(218,747,222)
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)	116,303,563	123,963,735
Capital and total exposures			
23	Tier 1 capital	86,494,382	82,750,067
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,081,909,475	1,132,340,412
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	7.99%	7.31%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	7.99%	7.31%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	Applicable leverage buffers (D-SIB buffer)	0.5%	0.5%

FAB Group subsidiaries 'MISMAK', 'First Gulf Properties', 'First Merchant International' and 'Abu Dhabi National Prop.' have been deconsolidated.

4. Liquidity

4.1 LIQ1: Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (LCR) is a Basel III liquidity requirement. LCR's objective is to promote the short-term resilience of the bank's liquidity risk profile, by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) to meet the liquidity needs for a 30-calendar day liquidity stress scenario. Basel III accord requires that banks maintain a minimum LCR of 100%. The ratio is calculated on FAB group level basis and is being used for regulatory reporting. As a response to minimize the effects of the pandemic in UAE, CBUAE reduced the LCR limit to 70% from 100%.

		All numbers in AED 000s	
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		319,489,272
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	56,037,188	2,801,859
4	Less stable deposits	40,330,233	4,033,023
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	65,813,847	16,453,462
7	Non-operational deposits (all counterparties)	356,114,659	187,540,026
8	Unsecured debt	21,937,461	21,937,461
9	Secured wholesale funding		13,644,387
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	7,205,532	7,205,532
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	221,463,284	49,962,328
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	44,155,832	2,207,792
16	TOTAL CASH OUTFLOWS		305,785,870

		Total unweighted value (average)	Total weighted value (average)
Cash inflows			
17	Secured lending (eg. reverse repo)	13,707,555	6,265,033
18	Inflows from fully performing exposures	33,526,303	22,472,761
19	Other cash inflows	10,249,662	10,249,662
20	TOTAL CASH INFLOWS		38,987,456
			Total adjusted value
21	Total HQLA		319,489,272
22	Total net cash outflows		266,798,414
23	Liquidity coverage ratio (%)		119.75%

Note : The number is average of three month end data points.

The main drivers for Bank's high LCR is significant investment in HQLA comprising cash and bank balances (Level 1) and liquid investments mostly in level 2A.

The composition of HQLA is given in Table below:

All numbers in AED 000s	
Level 1	288,321,582
Level 2A	25,307,611
Level 2B	5,860,079

Level 1 assets which are regarded as having highest market liquidity (0% haircut in LCR) comprises more than 90% of the total HQLA. This ensures that the Bank is resilient to even severe disruption of market liquidity

The change in LCR between Q4 2021 to Q1 2022 is largely attributed to the significant growth in the loan book which was predominantly funded by highly CB cash placements.

The Group has consistently maintained a robust LCR with significant buffers over the regulatory minima as evident from the exhibit below showing the evolution since Mar'2021.

All numbers in AED 000s					
	31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21
Total HQLA	319,489,272	359,727,822	342,525,522	321,145,349	325,119,284
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LCR ratio (%)	119.75%	133.27%	127.77%	134.06%	146.54%

The main reason for the high LCR is the Bank's conscious strategy to preserve liquidity in the form of freely repatriable Central Bank placements at overnight notice.

