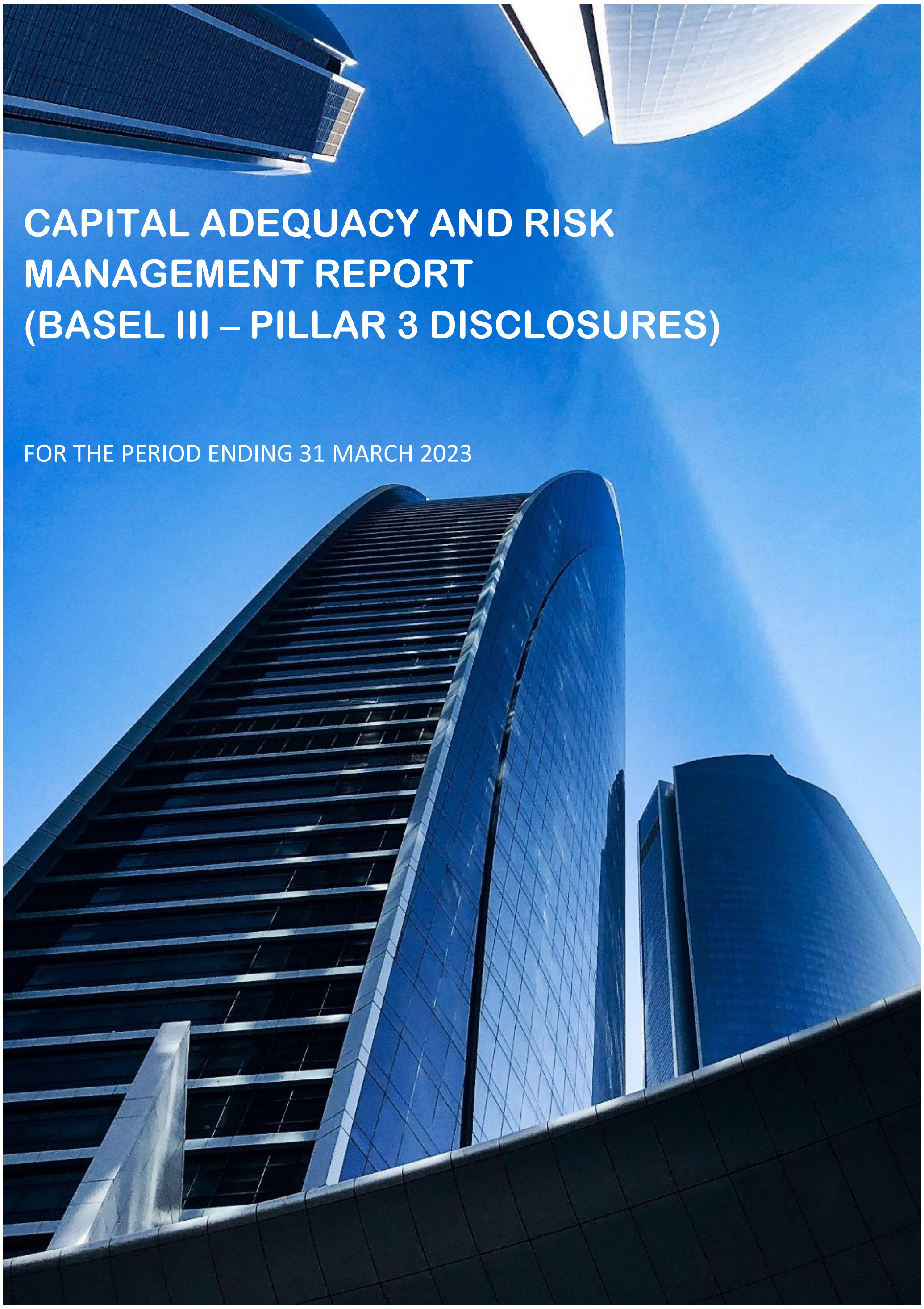
CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT (BASEL III – PILLAR 3 DISCLOSURES)

FOR THE PERIOD ENDING 31 MARCH 2023



بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

Basel-III Pillar-3 Reports

Contents

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 2023. 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 2023.

1.1 Regulatory Framework

The Group assesses its capital adequacy based on the updated Basel III regulations published by the CBUAE vide notice no. CBUAE/BSD/N/2020/4980 in Nov 2020. The framework is structured around the following three Pillars:

- Pillar 1 on minimum capital requirements for credit, market and operational risk
- Pillar 2 on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar 3 on market discipline

Please refer to the Annual Pillar 3 disclosure for a detailed summary of the Capital regulations

2. Overview of risk management and RWA

2.1 KM1: Key metrics (at consolidated group level)

All numbers in AED 000s

		31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	74,937,375	72,101,999	76,568,483	75,213,544	75,739,632
1a	Fully loaded ECL accounting model CET1	74,937,375	72,101,999	76,291,874	74,955,866	75,702,653
2	Tier 1	85,692,125	82,856,749	87,323,233	85,968,294	86,494,382
2a	Fully loaded ECL accounting model Tier 1	85,692,125	82,856,749	87,046,624	85,710,616	86,457,403
3	Total capital	92,050,706	89,267,500	93,798,773	92,497,195	92,914,249
3a	Fully loaded ECL accounting model total capital	92,050,706	89,267,500	93,522,164	92,239,517	92,877,270
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	568,007,677	571,890,389	583,517,380	594,813,474	582,794,055
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	13.19%	12.61%	13.12%	12.64%	13.00%
5a	Fully loaded ECL accounting model CET1 (%)	13.19%	12.61%	13.07%	12.60%	12.99%
6	Tier 1 ratio (%)	15.09%	14.49%	14.96%	14.45%	14.84%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	15.09%	14.49%	14.92%	14.41%	14.83%
7	Total capital ratio (%)	16.21%	15.61%	16.07%	15.55%	15.94%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.21%	15.61%	16.03%	15.51%	15.94%
	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 (%)	0.05%	0.05%	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)	4.05%	4.05%	4.01%	4.01%	4.01%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.71%	5.11%	5.57%	5.05%	5.44%

	Leverage Ratio					
13	Total leverage ratio measure	1,280,777,878	1,192,744,196	1,222,218,753	1,141,650,537	1,081,909,475
14	Leverage ratio (%) (row 2/row 13)	6.69%	6.95%	7.14%	7.53%	7.99%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	6.69%	6.95%	7.12%	7.51%	7.99%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	6.69%	6.95%	7.14%	7.53%	7.99%
	Liquidity Coverage Ratio					
15	Total HQLA	421,565,045	395,144,270	407,168,953	328,875,495	319,489,272
16	Total net cash outflow	262,143,588	239,855,660	243,086,557	265,259,917	266,798,414
17	LCR ratio (%)	161.11%	164.69%	167.77%	124.19%	119.75%
	Net Stable Funding Ratio					
18	Total available stable funding	580,193,161	577,121,943	567,962,693	504,390,155	486,513,977
19	Total required stable funding	546,799,460	538,682,087	510,075,964	502,209,290	480,509,212
20	NSFR ratio (%)	106.11%	107.14%	111.35%	100.43%	101.25%
	ELAR					
21	[redacted]					
22						
23						
	ASRR					
24	[redacted]					
25						
26						

Fully loaded ECL accounting model: The Central Bank of the UAE issued the "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements" which provides for a "Prudential Filter" that permits Banks to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years, on a proportionate basis

2.2 OV1: Overview of RWA

All numbers in AED 000s

		RWA		Minimum capital requirements
		31-Mar-23	31-Dec-22	31-Mar-23
1	Credit risk (excluding counterparty credit risk)	475,508,240	476,783,534	49,928,365
2	Of which: standardised approach (SA)	475,508,240	476,783,534	
3	Counterparty credit risk (CCR)	8,541,071	8,557,425	896,812
4	Of which: standardised approach for counterparty credit risk	8,541,071	8,557,425	
5	Credit valuation adjustment (CVA)	5,038,561	5,034,922	529,049
6	Equity investments in funds - look-through approach			
7	Equity investments in funds - mandate-based approach	5,784,367	5,659,416	607,359
8	Equity investments in funds - fall-back approach			
9	Settlement risk			
10	Securitisation exposures in the banking book	396,492	-	41,632
11	Of which: securitisation external ratings-based approach (SEC-ERBA)	396,492	-	
12	Of which: securitisation standardised approach (SEC-SA)			
13	Market risk	39,764,361	42,880,507	4,175,258
14	Of which: standardised approach (SA)	39,764,361	42,880,507	
15	Operational risk	32,974,585	32,974,585	3,462,331
16	**Total (1+3+5+6+7+8+9+10+13+15)**	**568,007,677**	**571,890,389**	**59,640,806**

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

CRWA declined marginally despite balance sheet growth during the quarter due to increases in 0% RW sovereign exposures and ongoing RWA optimisation initiatives

The decrease in MR RWA during Q1 2023 compared to Q4 2022 is mainly driven by:

- **FX Risk:** Decrease in FX Risk exposure during the quarter driven by a decrease in GCC FX positions.
- **IR General Risk:** Decrease in General IR Risk charge (esp. USD and EUR) driven by a lower duration of the positions and risk reduction in the trading books

3. Leverage ratio

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

All numbers in AED 000s

		31-Mar-23
1	Total consolidated assets as per published financial statements[1]	1,494,941,548
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	59,906
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]	17,340,823
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)[3]	38,398,067
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(247,253,060)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(22,709,406)
13	**Leverage ratio exposure measure**	**1,280,777,878**

[1]Total 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.

[2]Positive 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

		31-Mar-23	31-Dec-22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,127,651,198	1,044,855,251
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)	(58,654,059)	(69,106,092)
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)	(22,709,407)	(22,677,894)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**1,046,287,732**	**953,071,265**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,093,564	4,579,389
9	Add-on amounts for PFE associated with *all* derivatives transactions	7,292,738	6,840,923
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)**	**17,340,823**	**15,988,437**
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	88,081,091	96,790,835
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	8,971,036	7,663,709
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**97,052,127**	**104,454,544**
Other off-balance sheet exposures			

		31-Mar-23	31-Dec-22
19	Off-balance sheet exposure at gross notional amount	367,350,256	360,253,464
20	(Adjustments for conversion to credit equivalent amounts)	(247,253,060)	(241,023,516)
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)**	**120,097,196**	**119,229,948**
Capital and total exposures			
23	**Tier 1 capital**	**85,692,125**	**82,856,749**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**1,280,777,878**	**1,192,744,194**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	6.69%	6.95%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	N/A	N/A
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**	0.5%	0.5%

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

Current Leverage ratio at comfortable level >6.5% (vis-à-vis 3.5% threshold). Decline by 26 bps QoQ primarily due to overall increase in Total Assets and Overall Capital mainly on account of Q1 profits offset by lower FCT and fair value reserves.

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.

All numbers in AED 000s

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		**421,565,045**
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**		
3	Stable deposits	68,963,388	3,448,169
4	Less stable deposits	26,601,263	2,660,126
5	**Unsecured wholesale funding, of which:**		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	83,273,727	20,818,432
7	Non-operational deposits (all counterparties)	376,595,198	210,001,374
8	Unsecured debt	21,090,196	21,090,196
9	**Secured wholesale funding**		9,831,262
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	3,596,789	3,596,789
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	179,682,092	29,724,442
14	**Other contractual funding obligations**	3,614,408	3,614,408
15	**Other contingent funding obligations**	103,648,136	5,182,407
16	**TOTAL CASH OUTFLOWS**		**309,967,605**
Cash inflows			

17	**Secured lending (eg reverse repo)**	21,048,516	11,618,326
18	**Inflows from fully performing exposures**	40,829,898	28,689,723
19	**Other cash inflows**	7,515,968	7,515,968
20	**TOTAL CASH INFLOWS**		**47,824,017**
			Total adjusted value
21	**Total HQLA**		421,565,045
22	**Total net cash outflows**		262,143,588
23	**Liquidity coverage ratio (%)**		161.11%

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

	(Amount in AED)
Level 1	385,612,426
Level 2A	27,619,742
Level 2B	8,332,877

Level 1 assets which are regarded as having highest market liquidity (0% haircut in LCR) comprises more than 91% of the total HQLA. This ensures that the Bank is resilient to even severe disruption of market liquidity

FAB has consistently maintained a robust LCR with significant buffers over the regulatory minima as evident from the exhibit below showing the evolution since Mar'2022.

(Amounts in AED'000)	**31-Mar-23**	**31-Dec-22**	**30-Sep-22**	**30-Jun-22**	**31-Mar-22**
Total HQLA	421,565,045	395,144,270	407,168,953	328,875,495	319,489,272
Total net cash outflow	262,143,588	239,855,660	243,086,557	265,259,917	266,798,414
LCR ratio (%)	161.11%	164.69%	167.77%	124.19%	119.75%

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.

ELAR: Not applicable

ASRR: Not applicable