



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

FOR THE PERIOD ENDING 30 SEPTEMBER 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 30 September 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 30 September 2022.

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/BSN/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

		30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	76,568,483	75,213,544	75,739,632	71,995,317	74,288,348
1a	Fully loaded ECL accounting model	76,291,874	74,955,866	75,702,653	71,831,997	73,769,061
2	Tier 1	87,323,233	85,968,294	86,494,382	82,750,067	85,043,098
2a	Fully loaded ECL accounting model Tier 1	87,046,624	85,710,616	86,457,403	82,586,747	84,523,811
3	Total capital	93,798,773	92,497,195	92,914,249	88,982,629	91,170,240
3a	Fully loaded ECL accounting model total capital	93,522,164	92,239,517	92,877,270	88,819,309	90,650,953
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	583,517,380	594,813,474	582,794,055	578,995,264	572,782,777
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	13.12%	12.64%	13.00%	12.43%	12.97%
5a	Fully loaded ECL accounting model CET1 (%)	13.07%	12.60%	12.99%	12.41%	12.88%
6	Tier 1 ratio (%)	14.96%	14.45%	14.84%	14.29%	14.85%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	14.92%	14.41%	14.83%	14.26%	14.76%
7	Total capital ratio (%)	16.07%	15.55%	15.94%	15.37%	15.92%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.03%	15.51%	15.94%	15.34%	15.83%
	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 (%)	5.57%	5.05%	5.44%	4.87%	5.42%

		30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21
	Leverage Ratio					
13	Total leverage ratio measure	1,222,218,753	1,141,650,537	1,081,909,475	1,132,340,411	1,109,425,161
14	Leverage ratio (%) (row 2/row 13)	7.14%	7.53%	7.99%	7.31%	7.67%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2a/row 13)	7.12%	7.51%	7.99%	7.29%	7.62%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7.14%	7.53%	7.99%	7.31%	7.67%
	Liquidity Coverage Ratio					
15	Total HQLA	407,168,953	328,875,495	319,489,272	359,727,822	342,525,522
16	Total net cash outflow	243,086,557	265,259,917	266,798,414	269,918,432	268,090,129
17	LCR ratio (%)	167.77%	124.19%	119.75%	133.27%	127.77%
	Net Stable Funding Ratio					
18	Total available stable funding	567,962,693	504,390,155	486,513,977	495,937,928	488,332,573
19	Total required stable funding	510,075,964	502,209,290	480,509,212	474,335,668	469,292,139
20	NSFR ratio (%)	111.35%	100.43%	101.25%	104.55%	104.06%

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	RWA	Minimum capital requirements
		30-Sep-22	30-Jun-22	30-Sep-22
1	Credit risk (excluding counterparty credit risk)	480,542,624	476,312,264	50,456,975
2	Of which: standardised approach (SA)	480,542,624	476,312,264	
3	Counterparty credit risk (CCR)	10,064,993	10,457,555	1,056,824
4	Of which: standardised approach for counterparty credit risk	10,064,993	10,457,555	
5	Credit valuation adjustment (CVA)	6,057,389	13,073,396	636,026
6	Equity investments in funds - look-through approach	-	-	
7	Equity investments in funds - mandate-based approach	5,497,386	5,681,669	577,226
8	Equity investments in funds - fall-back approach	-	-	
9	Settlement risk	-	-	
10	Securitization exposures in the banking book	-	-	
11	Of which: securitization external ratings-based approach (SEC-ERBA)	-	-	
12	Of which: securitization standardised approach (SEC-SA)	-	-	
13	Market risk	48,840,223	56,773,825	5,128,223
14	Of which: standardised approach (SA)	48,840,223	56,773,825	
15	Operational risk	32,514,765	32,514,765	3,414,050
16	Total (1+3+5+6+7+8+9+10+13+15)	583,517,380	594,813,474	61,269,325

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

Increase in Credit risk (excl. CCR) primarily on account of the Non-trading investments portfolio

Decrease in MRWA mainly on account of reduction in trading positions and change in maturity profile during the quarter

3. Leverage ratio

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

All numbers in AED 000s

		30-Sep-22
1	Total consolidated assets as per published financial statements ¹	1,427,153,075
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(70,912)
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	18,554,118
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending) ³	34,356,471
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(235,293,457)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(22,480,541)
13	Leverage ratio exposure measure	1,222,218,753

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 replighted collaterals (not part of balance sheet).

3.2 LR2: Leverage ratio common disclosure template

		All numbers in AED 000s	
		30-Sep-22	30-Jun-22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,074,282,522	988,810,711
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)	(58,399,997)	(41,974,404)
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)	(22,480,541)	(22,588,235)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	993,401,983	924,248,072
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)	6,312,275	4,812,632
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	6,940,667	7,925,020
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)	18,554,118	17,832,712
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	83,636,128	75,357,807
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	9,120,340	8,423,081
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	92,756,468	83,780,888

		30-Sep-22	30-Jun-22
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	352,799,641	350,432,347
20	(Adjustments for conversion to credit equivalent amounts)	(235,293,457)	(234,643,482)
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)	117,506,184	115,788,865
Capital and total exposures			
23	Tier 1 capital	87,323,233	85,968,294
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,222,218,753	1,141,650,537
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	7.14%	7.53%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	7.14%	7.53%
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 >7.1% (vis-à-vis 3.5% threshold). Decline by 39 bps QoQ primarily due to overall increase in Total Assets and Overall Capital mainly on account of Q3 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. 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		407,168,953
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	69,888,334	3,494,417
4	Less stable deposits	21,572,096	2,157,210
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	77,158,486	19,289,622
7	Non-operational deposits (all counterparties)	379,818,915	197,200,233
8	Unsecured debt	17,108,420	17,108,420
9	Secured wholesale funding		8,432,526
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	2,930,432	2,930,432
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	190,535,226	35,499,603
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	79,357,087	3,967,854
16	TOTAL CASH OUTFLOWS		290,080,315

		Total unweighted value (average)	Total weighted value (average)
Cash inflows			
17	Secured lending (eg reverse repo)	11,372,164	5,047,773
18	Inflows from fully performing exposures	45,957,289	31,883,076
19	Other cash inflows	10,062,910	10,062,910
20	TOTAL CASH INFLOWS		46,993,758
			Total adjusted value
21	Total HQLA		407,168,953
22	Total net cash outflows		243,086,557
23	Liquidity coverage ratio (%)		167.77%

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	370,563,228
Level 2A	29,284,896
Level 2B	7,320,829

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 increase in LCR between two quarter is predominantly due to increase in banks HQLA portfolio.

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 Sept'2021.

	All numbers in AED 000s				
	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21
Total HQLA	407,168,953	328,875,495	319,489,272	359,727,822	342,525,522
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LCR ratio (%)	167.77%	124.19%	119.75%	133.27%	127.77%

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