FAB Private Bank (Suisse) SA

formerly NBAD Private Bank (Suisse) SA

Pillar 3 Report for the year ending

December 31, 2018

FAB
First Abu Dhabi Bank

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1. Introduction

This document presents the Pillar 3 disclosures of FAB Private Bank (Suisse) SA thereafter "the Bank" as at 31 December 2018. 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 Basel III capital adequacy 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
- Pillar 3 on the publication of disclosures

The Bank is regulated by the Swiss Financial Market Supervisory Authority (FINMA) and follows the Pillar 3 disclosure requirements as stated under the FINMA circular 2016/01 "Disclosure – banks" lastly modified on 20 June 2018. The disclosure requirements are based guidance issued by the Basel Committee on Banking Supervision (BCBS) on the "Revised Pillar 3 disclosure requirements" issued in January 2015, the "Frequently asked questions on the revised Pillar 3 disclosure requirements" issued in August 2016, and the "Pillar 3 disclosure requirements – consolidated and enhanced framework" issued in March 2017.

The FINMA circular 2016/01 "Disclosure – banks" is applicable to all banks and securities dealers domiciled in Switzerland and subject to FINMA supervision. Quantitative and qualitative disclosures shall be made taking into account the meaningfulness in relation to the business activities performed and the regulatory approaches used.

The Board of directors shall approve the specific principles and the scope of disclosure on the basis of which the Bank complies with the provisions of the circular. The disclosure must be subject to internal control comparable to that applied to the publication of the annual financial statements. The publication of the data updated after each annual period must take place within four months of the closing of the annual financial statements.

The Pillar 3 disclosures are to be read in conjunction with the Annual Report as of 31 December 2018.

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2. KM1: Key Metrics

The key regulatory metrics are presented in the annual report for the year ended 2018.

3. OV1: Overview of RWA

The Capital Adequacy Ordinance and the related Circulars of FINMA define the Swiss capital requirements, to which the Bank fully complies. The FAB Group also applies the UAE Central Bank requirements in this area. The full Risk Management disclosures for the FAB Group are contained within the Annual Report which can be obtained from the FAB Group website (www.bankfab.com), and some additional disclosures for the Bank are available at www.fabsuisse.ch.

FAB Private Bank (Suisse) SA calculates its Swiss capital adequacy requirements using the International Standardised Approach for Credit Risk, the Standardised Approach for Market Risk and the Basic Indicator Approach for Operational Risk. In addition, capital is required to cover non-counterparty related risks such as fixed assets etc. or to cover items such as Credit Value Adjustments (CVA); these are also accounted for in the credit risk's caption.

The below table presents the details of RWA by risk category:

CHF 000	RWA	RWA	Minimum equity requirements
	2018	**2017**	**2018**
Credit Risk	272,745	319,682	21,820
Market Risk	36,913	20,438	2,953
Operational Risk	39,125	45,825	3,130
Amount below thresholds for deduction (250% risk weight)	-	-	-
Total	**348,783**	**385,945**	**27,903**

There are no significant changes highlighted compared to the previous year.

4. CR1: Credit quality of assets

A loan is considered as impaired when strong evidence indicates that the debtor is unlikely to be in a position to meet his future obligations, such as recognized financial difficulties or an actual default on contractual payments (default or delay of more than 90 days on interest or principal payments).

This information is automatically generated and the assessments are made for collectibility of the balances. During the assessments, the Bank takes into account the market value of the collateral (if any), co-signatures of third parties on pledge agreements, and the financial situation of the client. Impaired loans are valued individually and any loss in value is covered by specific valuation adjustments and provisions. Off-balance sheet items such as letters of

credit, irrevocable commitments, guarantees and other derivative financial instruments are included in this evaluation.

Bond investments held for medium-term requirements (i.e. to obtain a suitable investment yield but not to necessarily hold until maturity) as well as any other medium to long term share or fund investments are valued at the lower of cost or market value. Any impairments in value as well as any subsequent recoveries in value, are booked to 'Other ordinary expenses' or 'Other ordinary income'.

CHF 000	Defaulted exposures	Non-defaulted exposures	Impairment	Net values
Loans		328,282		328,282
Debt securities		72,520		72,520
Off Balance sheet		18,575		18,575
Total		419,377		419,377

5. CR2: Changes in stock of defaulted loans and debt securities

The below table shows the changes in defaulted loans and debt securities since the last reporting period.

	CHF 000
Defaulted loans and debt securities exposures as of end of last year	85
Loans and debt securities that have defaulted since the last reporting period	-
Positions backed to non-defaulted status	-
Amounts written off	(85)
Other changes	-
Defaulted loans and debt securities exposures as of the end of the year	-

6. CRB: Additional disclosures related to the credit quality of assets

6.1 General information

Any interest overdue by more than 90 days is considered non-performing. Any non-performing or impaired interest is no longer booked to the profit and loss account but directly to 'Provisions'. When the payment of interest is improbable, and consequently overdue then limits are of no value, and the Bank discontinues the booking of the interest.

A loan is no longer considered impaired if capital and interest in arrears are repaid, the servicing of the debt has resumed normally, additional tangible guarantees have been obtained for a value in excess of the existing unsecured debt and other solvency criteria have been met. Recoveries of loans with provisions or written-off in earlier periods are recorded in changes in value adjustment for default risk and losses from interest operations.

When a loan is considered totally or partially irrecoverable, or should the Bank decide to abandon recovery of a loan, it is fully written off. Write-offs are charged against previously established provisions and reduce the principle amount of a loan. Amounts recovered on

loans that have been fully amortized are credited directly to ‘Changes to provisions and other value adjustments, losses’.

Depreciation in value corresponds to the difference between the book value of the loan and the amount which the Bank can expect to recover, with due consideration for the counterparty risk and the net proceeds from the realization of any collateral held. Valuation adjustments and provisions are directly deducted from the corresponding assets.

Collateral obtained on loans and advances to clients is valued at its liquidation value and the Bank makes a valuation adjustment taking into account the solvency of the debtor. The liquidation value is the net proceeds that can be realized after deducting the holding costs and liquidation charges.

6.2 Breakdown of exposures by geographical area

The geographical distribution for total assets is as follows:

	31.12.2018	
	CHF 000	in %
Assets		
Europe	32'367	5%
Switzerland	218'629	33%
United Arab Emirates	165'920	25%
Other Middle East	60'945	9%
North America	59'270	9%
Caribbean area	116'347	18%
Africa	3'150	1%
Total assets (on basis of client's domicile)	**656'628**	**100%**

7. CR3: Credit risk mitigation techniques – overview

The credit policy covers all exposure which may entail losses if the counterparties are unable to reimburse part or all of their indebtedness towards the Bank. This includes current account loans and advances and risks arising from guarantees and derivatives transactions on foreign exchange, securities and other financial instruments.

The Bank mitigates credit risks by obtaining collateral security when required. Note 4.2 describes the 'Amounts Due From Clients', 'Contingent Liabilities', and 'Irrevocable Commitments' which are covered by collateral, with collateral being classified as 'mortgage

collateral', and 'other collateral'. 'Other collateral' is as per the internal guidelines of the Bank which limit acceptable collateral to instances when reliable prices and reasonable liquidity exist. As a general rule, investments such as private equity are not taken as acceptable collateral. Lending values based on collateral are determined based on pre-defined percentages depending on the nature of the collateral.

Collateral is mostly valued daily on the basis of pricing feeds from major pricing providers. For those assets which are not priced via automatic pricing feeds, alternative pricing sources are obtained by an independent middle office unit. In cases when regular prices are not available then these are not eligible as collateral.

Should the need for deleveraging arise, the Bank has the possibility to syndicate part of its loan exposures to FAB Group entities which would reduce risk weighted assets and therefore capital requirements.

Credit exposures must be weighted according to their risk – Risk Weighted Exposures and uses the standardized approach to determine the minimum capital requirements for credit risks as prescribed by FINMA requirements. The Bank did not change the approach used for determining capital requirements compared to last year.

CHF 000	Exposures unsecured	Exposures secured by collateral	Exposures secured by financial guarantees or credit derivatives
Loans included debt securities	32,404	295,878	-
Off balance sheet	386	18,189	-
Total	**32,790**	**314,067**	-
Of which: defaulted	-	-	-

8. CR5: Standardized approach – exposures by asset classes and risk weights

The below table presents the exposures after Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM) by asset classes and risk weights. No significant changes have occurred in the period under review.

Risk weight % / Asset classes CHF 000	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and CRM)**
Governments			182		644		37,433			**38,259**
Public Institutions			162							**162**
Banks and securities dealers			28,330		7,110		167			**35,607**
Corporates			1,986	26,526	1,710	908	37,401			**68,531**
Retail			1,364	25,616		7,149	65,564			**99,693**
Equity								4		**4**
Other assets							29,329			**29,329**
Total			**32,024**	**52,142**	**9,464**	**8,057**	**169,894**	**4**		**271,585**
Of which mortgages				52,142		4,226				
Of which past due exposures										

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9. LIQA – Liquidity Risk management

9.1 Governance of liquidity risk Management including policy in place, risk tolerance, risk mitigation, monitoring and reporting activities

Liquidity risk is defined as the risk that the Bank is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost. Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term. The Bank ensures that all liabilities can be met as they fall due under both business as usual and stress conditions without incurring undue cost.

The Bank has defined the liquidity risk appetite at a level so as to ensure that it has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs. The risk appetite is supported by a comprehensive risk management framework that includes approved limits for key funding and liquidity metrics, stress testing and a contingency funding plan. The liquidity risk appetite is also defined at a level to ensure continued compliance with regulatory requirements through the reporting of Liquidity Coverage Ratio and Net Stable Funding Ratio.

All liquidity policies and procedures are subject to review and approval by the relevant stakeholders. Liquidity positions (based on contractual and behavioural maturity assumptions) and limits are regularly monitored and are subject to formal internal reporting and external communications.

9.2 Funding strategy including diversification of funding sources

Liquidity or funding risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades of the FAB Group which may cause certain sources of funding to dry up immediately. The Bank currently has a surplus of capital, and is not relying on external financing sources other than the FAB Group. Surplus capital is placed at a diversified range of well-rated Banks, and into treasury bills and highly rated bonds with varying maturities to enable quick access to funds should needs arise. In the event of forced liquidation of the Bank's financial investments, some of these would be sold on the secondary market at a discount, due to formal monthly redemption requirements.

The liquidity of both treasury and own account positions is monitored regularly, to ensure sufficient liquid assets are always maintained. The Bank has to comply with a number of regulatory liquidity requirements, and these were all met throughout the year.

9.3 Stress testing policy and approach

Annually, the bank reviews and approves the results of stress tests to identify, quantify and analyze the impact of possible extreme liquidity stress events on cash inflows, outflows and the Bank’s liquidity position. Test parameters may include variables such as adherence with regulatory requirements, the time horizons, stickiness of cash flows, availability of HQLA,

external event etc. As part of FAB Group, the Bank also takes into account the enhanced liquidity stress testing performed at Group level.

9.4 Contingency funding plan

The Bank has put in place a contingency funding plan (CFP) to address its financial obligations during periods of extreme stress. The CFP represents a detailed action plan to be followed in the event that certain Early Warning Indicators (EWI's) are triggered. The EWI's are re-assessed for its appropriateness and effectiveness on a regular basis and have been parameterized in the form of a Severity Impact Assessment Matrix (SIAM) which helps measure the potential seriousness of any impending crisis. The impact measurement is reflected in the form of varying levels of severity and associated escalation levels. Annually, the CFP is reviewed and approved by the relevant stakeholders and also forms an integral part of the global CFP performed at FAB Group level.

9.5 High Quality Liquid Assets and Liquidity Coverage Ratio

High Quality Liquid Assets (HQLA) represent low risk, unencumbered instruments which can be easily and rapidly converted into cash. HQLA are under the control of the Bank's Treasury unit and mainly serve to address Liquidity Coverage Ratio (LCR) requirements. As at 31 December 2018, HQLA amounted to CHF 149 million mainly composed of US Treasury bills and Swiss National Bank balances and the LCR ratio was 303% versus 100% requirements.

9.6 Balance sheet items by contractual maturity:

CHF 000 Assets / Liabilities	At sight	Within 3 months	Within 3 and 12 months	Within 12 months and 5 years	After 5 years	No maturity	Total
Liquid assets	82,257						**82,257**
Amounts due from banks	121,790	16,659					**138,449**
Amounts due from clients	26,932	166,540	8,847	39,430	17,792		**259,541**
Mortgage loans		3,460		60,561	4,720		**68,741**
Positive replacement values of derivative financial instruments	3,267						**3,267**
Financial investments	3	58,744		13,773			**72,520**
Accrued income and prepaid expenses		2,417					**2,417**
Tangible fixed assets						29,329	**29,329**
Other assets		107					**107**
Total Assets (A)	**234,249**	**247,927**	**8,847**	**113,764**	**22,512**	**29,329**	**656,628**
Amounts due to banks	1,779	277,619	1,099	18,147	4,320		**302,964**
Amounts due in respect of client deposits	250,061						**250,061**
Negative replacement values of derivative financial instruments	3,469						**3,469**
Accrued expenses and deferred income		2,356					**2,356**
Other liabilities		166					**166**
Provisions		500					**500**
Bank's equity						97,112	**97,112**
Total Liabilities (B)	**255,309**	**280,641**	**1,099**	**18,147**	**4,320**	**97,112**	**656,628**
Gap (A) minus (B)	(21,060)	(32,714)	7,748	95,617	18,192	-67,783	-
Cumulative gap (A) minus (B)	**(21,060)**	**(53,774)**	**(46,026)**	**49,591**	**67,783**	**-**	**-**

9.7 Off- Balance sheet items by contractual maturity:

Off Balance sheet CHF 000	At sight	Within 3 months	Within 3 and 12 months	Within 12 months and 5 years	After 5 years	Total
Contingent liabilities	2,897	-	3,102	10,390	1,800	**18,189**
Irrevocable commitments	386	-	-	-	-	**386**
Total	3,283	-	3,102	10,390	1,800	**18,575**

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10. ORA – Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations and are faced by all departments. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. This is handled by an established framework of policies and procedures to identify, assess, monitor, control, manage and report risks. Where appropriate, risk is mitigated by way of insurance. The framework also provides the interrelation with other risk categories. The key elements of the operational risk framework are operating loss incident management, risk self-assessment and key risk indicators.

The Board has oversight responsibility for operational risk management in the Bank. This responsibility is exercised through the Risk Management department, which acts as the central point in co-ordinating various efforts and initiatives that relate to operational risk management including alignment with other operational risk mitigating strategies such as Business Continuity Management, etc. Compliance with policies and procedures is supported by periodic reviews undertaken by the internal and external auditors. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

The Risk Committee and Board of Directors receives regular reporting on operational risks including on levels of any transaction reversals, reconciliation differences, unsettled trades, transaction volumes, levels of manually sourced prices, any operational losses, any complaints, reviews of access rights to the IT system and other security matters, update/tests on the Bank's business continuity plan (including regular updates on disaster impact analysis, related planned measures and tests of these plans), both performance statistics and qualitative comments on the outsourcing provider, and lastly commentary on any personnel changes.

The Bank uses the basis indicator approach for the calculation of capital adequacy requirements. Under this approach, the minimum required capital corresponds to 15% of the average earnings indicators of the three previous years.