البـنـك الـعـربـي المـتـحـد
UNITED ARAB BANK

Basel III - Market Disclosures

Quarterly Pillar 3 Reporting – 31st March 2022

Capital Adequacy & Risk Management

Contents

Quarterly Pillar 3 Reports as per the revised CBUAE requirements:

1. Introduction

This report provides Quarterly Pillar 3 disclosures for United Arab Bank PJSC referred to as "UAB" or the "Bank".

The scope of the quarterly disclosures are limited to specific tables that cover the composition of capital, the Leverage ratio, the Liquidity Coverage Ratio (LCR), Eligible Liquid Assets Ratio (ELAR) and Advances to Stables Resource Ratio (ASRR). The semi-annual and annual disclosures are more expansive and include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes, remuneration, capital management and capital adequacy.

The report is prepared as per the enhanced Pillar 3 Disclosure requirements guidelines issued by CBUAE in November 2020 and are effective from 31st December 2021. The enhanced Pillar 3 disclosures focus on regulatory measures required under Pillar 1 of the Basel framework for measuring credit, market and operational risks and their associated resulting risk-weighted assets (RWA) and capital requirements.

The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types and/or to cover other risks. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

The capital requirements are computed using the Basel III framework of the Basel Committee on Banking Supervision (Basel Committee), after applying the amendments advised by the CBUAE, within national discretion. The Basel framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process complemented by Pillar 3 market discipline.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

In November 2020, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk.

The purpose of Pillar 3 - Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the Bank.

The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Bank, and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.

2. About the Bank

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

The bank does not have any subsidiaries and therefore there is no consolidation required.

3. Overview of Risk Management, Key prudential metrics and Risk Weighted Assets (RWA)

Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organization, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

UAB's Approach to Pillar 1

Pillar 1 Risks	Approach
Credit Risk	The Bank uses the **Standardized Approach** for calculating regulatory capital requirements for Credit Risk. This approach allows the use of external ratings from designated credit-rating agencies wherever available in determining the appropriate risk weights. The risk weights are determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors.
Market Risk	The Bank uses the **Standardized Approach** for calculating regulatory capital requirements for Market Risk.
Operational Risk	The Bank uses the **Basic Indicator Approach** for calculating regulatory capital requirements for Operational Risk.

KM1: Key Metrics for the Bank

Key prudential regulatory metrics related to regulatory capital, leverage ratio and liquidity standards have been included in the following table:

No	Key Metrics	31-Mar-2022	31-Dec-2021
1	Common Equity Tier 1 (CET1)	1,500,581	1,507,681
1a	Fully loaded ECL accounting model (Note 1)	1,500,581	1,507,681
2	Tier 1	1,500,581	1,507,681
2a	Fully loaded ECL accounting model Tier 1	1,500,581	1,507,681
3	Total capital	1,633,494	1,644,239
3a	Fully loaded ECL accounting model total capital	1,633,494	1,644,239
4	**Total risk-weighted assets (RWA)**	**11,444,483**	**11,924,386**
5	Common Equity Tier 1 ratio (%)	13.11%	12.64%
5a	Fully loaded ECL accounting model CET1 (%)	13.11%	12.64%
6	Tier 1 ratio (%)	13.11%	12.64%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.11%	12.64%
7	Total capital ratio (%)	14.27%	13.79%
7a	Fully loaded ECL accounting model total capital ratio (%)	14.27%	13.79%
8	Capital conservation buffer requirement (2.5% from 2019) (%) (Note 2)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.77%	3.29%
13	Total leverage ratio measure	16,171,153	17,138,289
14	**Leverage ratio (%) (row 2/row 13)**	**9.28%**	**8.79%**
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.28%	8.79%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.28%	8.79%
15	Total HQLA	2,934,746	3,077,935
16	Total net cash outflow	2,799,669	3,216,771
17	**LCR ratio (%)**	**104.82%**	**95.68%**
18	Total available stable funding	6,926,440	7,582,284
19	Total required stable funding	7,546,566	8,838,073
20	**NSFR ratio (%)**	**91.78%**	**85.79%**
21	Total HQLA	2,008,422	2,588,923
22	Total liabilities	12,426,425	13,573,003
23	**Eligible Liquid Assets Ratio (ELAR) (%)**	**16.16%**	**19.07%**
24	Total available stable funding	10,495,562	10,962,743
25	Total Advances	8,442,147	8,843,830
26	**Advances to Stable Resources Ratio (%)**	**80.44%**	**80.67%**

Note 1: "Fully Loaded" means bank's regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements". UAB have not used transitional arrangement.

Note 2: As part of the capital stimulus package provided by the CBUAE under the TESS program, Banks are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2021 until 30 June 2022. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% for reporting periods falling within the specified duration.

OV1: Overview of Risk Weighted Assets

The following table provides an overview of total RWAs forming the denominator of the risk-based capital requirements. Further breakdown of RWAs are presented in subsequent parts.

AED 000s

		Risk Weighted Assets 31-Mar-2022	Risk Weighted Assets 31-Dec-2021	Minimum Capital Requirements * 31-Mar-2022
1	Credit risk (excluding counterparty credit risk)	10,541,951	10,838,749	1,106,905
2	Of which: Standardized approach (SA)	10,541,951	10,838,749	1,106,905
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)	91,044	85,852	9,560
7	Of which: Standardized approach for counterparty credit risk	91,044	85,852	9,560
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
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	Securitization exposures in the banking book	-	-	-
17	Of which: Securitization internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: Securitization external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: Securitization Standardized approach (SEC-SA)	-	-	-
20	Market risk	3,465	2,835	364
21	Of which: Standardized approach (SA)	3,465	2,835	364
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	808,022	996,951	84,842
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)**	**11,444,483**	**11,924,386**	**1,201,671**

*The minimum capital requirements applied is 10.5%

4. Leverage Ratio

The Basel 3 leverage ratio is calculated by dividing the tier 1 capital by the leverage ratio exposure.

LRI: Summary Comparison of Accounting Assets Vs Leverage Ratio Exposure AED 000s

		31-Mar-2022
S No	**Description**	**Amount**
1	Total consolidated assets as per published financial statements	14,020,671
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 securitized 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 recognized 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	27,190
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2,123,291
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**	**16,171,153**

The Leverage Ratio Exposure consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are calculated by including replacement value, Potential Future Exposures (PFE) and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on balance sheet exposures. Those exposures are the starting point for calculating the BCBS Leverage Ratio Exposure, as shown in the LR2 table. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and securities financing transactions (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

LR2: Leverage Ratio Common Disclosure Template

AED 000s

On-balance sheet exposures		31-Mar-22	31-Dec-21
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	14,000,288	15,163,988
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)	(30,893)	(119,778)
4	(Adjustment for securities received under securities financing transactions that are recognized 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)**	13,969,395	15,044,210
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	20,384	16,054
9	Add-on amounts for PFE associated with *all* derivatives transactions	35,664	45,127
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)**	78,467	85,653
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)**	-	-
19	Off-balance sheet exposure at gross notional amount	5,158,985	4,951,009
20	(Adjustments for conversion to credit equivalent amounts)	(3,035,693)	(2,941,767)
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)**	2,123,291	2,009,242
23	**Tier 1 capital**	**1,500,581**	**1,507,681**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**16,171,153**	**17,139,105**
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.279%**	**8.797%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.279%	8.797%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	**Applicable leverage buffers**	**6.279%**	**5.797%**

5. Liquidity Risk Management

Liquidity risk is the risk that the Bank cannot meet its financial liabilities when they come due. Liquidity risk can materialize both through its trading book (market liquidity risk) and banking book (funding liquidity risk) positions.

UAB as per the CBUAE is required to monitor and maintain mainly the below ratios:

- Eligible Liquid Asset (ELAR) Ratio
- Advanced to Stable Funding (ASR) Ratio

In addition, UAB as per the bank's internal Risk appetite statement (RAS) is required to monitor Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio.

LIQ1: Liquidity Coverage Ratio (LCR)

		31-Mar-2022	
		Total unweighted value (Avg.)	**Total weighted value (Avg.)**
High-quality liquid assets			
1	Total HQLA		2,934,746
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	3,531,523	158,169
3	Stable deposits	0	0
4	Less stable deposits	3,531,523	158,169
5	**Unsecured wholesale funding, of which:**	5,151,409	2,320,908
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	6,442	1,611
7	Non-operational deposits (all counterparties)	5,144,967	2,319,297
8	Unsecured debt	0	0
9	**Secured wholesale funding**		0
10	**Additional requirements, of which:**	2,404,869	683,961
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding of debt products	0	0
13	Credit and liquidity facilities	2,404,869	683,961
14	**Other contractual funding obligations**	420,592	0
15	**Other contingent funding obligations**	242,787	12,139
16	**Total Cash Outflows**		**3,175,177**
Cash inflows			
17	**Secured lending (e.g. reverse repo)**		
18	**Inflows from fully performing exposures**	844,062	423,470
19	**Other cash inflows**	(47,962)	(47,962)
20	**Total Cash Inflows**	**796,101**	**375,508**
			Total adjusted value
21	**Total HQLA**		**2,934,746**
22	**Total net cash outflows**		**2,799,669**
23	**Liquidity coverage ratio (%)**		**104.82%**

ELAR: Eligible Liquid Assets Ratio

1	High Quality Liquid Assets	Nominal amount	31-Mar-2022 Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,536,346	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,536,346	1,536,346
1.3	UAE local governments publicly traded debt securities	640,528	
1.4	UAE Public sector publicly traded debt securities	183,504	
	Subtotal (1.3 to 1.4)	824,032	472,076
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**2,360,378**	**2,008,422**
2	Total liabilities		12,426,425
3	**Eligible Liquid Assets Ratio (ELAR)**		**16.16%**

ASRR: Advances to Stables Resource Ratio

AED 000s

		Items	31-Mar-2022
1		**Computation of Advances**	**Amount**
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,351,612
	1.2	Lending to non-banking financial institutions	159,403
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	429,852
	1.4	Interbank Placements	501,280
	1.5	**Total Advances**	8,442,147
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	1,779,900
		Deduct:	
	2.1.1	Goodwill and other intangible assets	0
	2.1.2	Fixed Assets	404,263
	2.1.3	Funds allocated to branches abroad	0
	2.1.5	Unquoted Investments	76
	2.1.6	Investment in subsidiaries, associates and affiliates	0
	2.1.7	**Total deduction**	404,339
	2.2	**Net Free Capital Funds**	1,375,561
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	143,228
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	1,677,999
	2.3.5	Customer Deposits	7,298,774
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	**9,120,001**
	2.4	**Total Stable Resources (2.2+2.3.7)**	**10,495,562**
Advances to Stable Resources Ratio (1.6/ 2.4*100)			**80.44%**