

Q1 2022

BASEL III

PILLAR 3



Contents

Overview 3

Overview of risk management, key prudential metrics and RWA..... 4

Leverage ratio 8

Liquidity..... 10

Overview

Pillar III of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

Enhanced requirements were issued by CB UAE in November 2020 and are effective from 31st December 21. 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. In some instances, Pillar 3 also requires supplementary information to be disclosed to improve the understanding of underlying risks. The disclosure requirements in this revision of the standard includes the following elements in addition to the existing disclosures:

- Consolidation of all existing BCBS disclosure requirements into the Pillar 3 framework – These disclosure requirements cover the composition of capital, the leverage ratio, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), interest rate risk in the banking book and remuneration.
- Two enhancements to the Pillar 3 framework – This standard introduces a “dashboard” of a bank's key prudential metrics which will provide users of Pillar 3 data with an overview of a bank's prudential position, and a new disclosure requirement for those banks which record prudent valuation adjustments (PVAs) to provide users with a granular breakdown of how a bank's PVAs are calculated.
- Revisions and additions to the Pillar 3 standard arising from ongoing reforms to the regulatory policy framework.

Overview of risk management, key prudential metrics and RWA

Key metrics (KM1)

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

		Mar – 2022 (AED 000)	Dec – 2021 (AED 000)
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	19,918,250	19,785,886
1a	Fully loaded ECL accounting model	19,918,250	19,785,886
2	Tier 1	19,918,250	19,785,886
2a	Fully loaded ECL accounting model Tier 1	19,918,250	19,785,886
3	Total capital	21,697,802	21,479,861
3a	Fully loaded ECL accounting model total capital	21,697,802	21,479,861
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	154,939,943	148,169,044
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	12.86%	13.35%
5a	Fully loaded ECL accounting model CET1 (%)	12.86%	13.35%
6	Tier 1 ratio (%)	12.86%	13.35%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.86%	13.35%
7	Total capital ratio (%)	14.00%	14.50%
7a	Fully loaded ECL accounting model total capital ratio (%)	14.00%	14.50%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-
10	Bank D-SIB additional requirements (%)	-	-
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 (%)	3.50%	4.00%
	Leverage Ratio		
13	Total leverage ratio measure	217,341,322	212,137,664
14	Leverage ratio (%) (row 2/row 13)	9.16%	9.33%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.16%	9.33%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.16%	9.33%
	Liquidity Coverage Ratio		
15	Total HQLA	30,388,954	30,666,357
16	Total net cash outflow	25,738,428	24,942,176
17	LCR ratio (%)	118.07%	122.95%
	Net Stable Funding Ratio		
18	Total available stable funding	99,461,963	100,211,233
19	Total required stable funding	93,008,094	88,838,851
20	NSFR ratio (%)	106.94%	112.80%

Overview of risk management and RWA (OVA)

Mashreq Group's Enterprise Risk Management Framework (ERMF) sets out the overarching arrangements for risk management, control and assurance within the Group, including how the business model of the Group gives rise to the risks that the Group is exposed to and the Group's risk profile.

The ERMF is designed to provide a consistent and structured approach to identify, assess, measure, control, monitor and report on the Group's risks. The ERMF helps to ensure that material risks implicit within the Group's business activities are identified and are managed on behalf of internal and external stakeholders, including shareholders, customers, employees and regulators. The Group has also developed a Risk Appetite Framework (RAF) which outlines the nature and absolute quantum of risk that the Group is willing to assume. Group's risk profile is monitored against the approved Risk Appetite Statement on a periodic basis and any breaches against the risk appetite are reviewed by the Board Risk Committee ("BRC").

Effective risk governance and oversight provides Management and other stakeholders with assurance that the Group's business activities will not be excessively impacted by risks that could have been reasonably foreseen. This, in turn, reduces the uncertainty of achieving the Group's strategic objectives

The Board of Directors (the "Board") through the Board Risk Committee has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC"). Board committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

The Risk Management Group (“RMG”) is independent of business groups and is led by a Chief Risk Officer (“CRO”) with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group (“IAG”) acts as the third line of defence function within the Group, independent from both the business units (“first line of defence”) and Risk Management & Compliance functions (“second line of defence”). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Group, in addition to Risk Management.

The Group’s Board has the overall responsibility for establishing and overseeing the implementation of the Group’s Enterprise Risk Management Framework (EMRF). In addition, the Board sets, communicates, and enforces the Group’s risk culture that consistently influences and aligns with the strategy and objectives of the Group, and thereby supports the embedding of this ERMF, risk policies and processes within the Group.

The Board is supported by Board committees in discharge of its responsibilities. Board Risk Committee (BRC) is the primary risk management committee with responsibility for the establishment and oversight of the Group’s ERMF on behalf of the Board. The Board and BRC are assisted by various committees including the Enterprise Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee etc.

The Board is ultimately responsible for enforcing the risk culture within the bank through the BRC and relevant management committees. Any decline in risk culture and risk profile is communicated to the Board by management via the risk governance structure in place within the Group

The Group has extensive systems and associated mechanisms in place to enable measurement, assessment and analysis of the Group’s risk profile including measurement and monitoring of Key Risk Indicators (KRI) and risk parameters.

Specifically, the Group benefits from risk measurement systems that enable the quantification of risk within credit, trading and non-traded market, operational (including fraud) and liquidity risks. In addition, the Group has systems in place to measure the Group’s capital requirements in line with regulatory guidelines.

Overview of Risk Weighted Assets (OV1)

The following table provides an overview of total Risk Weighted Assets.

		a	b	c
		RWA		Minimum capital requirements
		Mar – 2022 (AED 000)	Dec – 2021 (AED 000)	Mar – 2022 (AED 000)
1	Credit risk (excluding counterparty credit risk)	140,218,381	133,931,701	14,722,930
2	Of which: standardised approach (SA)	140,218,381	133,931,701	14,722,930
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)	2,014,074	1,453,437	211,478
7	Of which: standardised approach for counterparty credit risk	2,014,074	1,453,437	211,478
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	Securitisation exposures in the banking book	131,699	132,891	13,828
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	131,699	132,891	13,828
20	Market risk	3,130,974	3,206,199	328,752
21	Of which: standardised approach (SA)	3,130,974	3,206,199	328,752
22	Of which: internal models approach (IMA)			
23	Operational risk	9,444,816	9,444,816	991,706
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)	154,939,943	148,169,044	16,268,694

Leverage ratio

Summary comparison of accounting assets vs leverage ratio exposure (LR1)

		Mar - 2022 (AED 000)
1	Total consolidated assets as per published financial statements	182,581,256
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	1,638,817
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	346,020
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	4,502,065
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	39,443,407
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(11,170,241)
13	Leverage ratio exposure measure	217,341,323

Leverage ratio common disclosure template (LR2)

		In AED 000	
		a	b
		Mar – 2022	Dec – 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	171,381,778	169,582,799
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 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)	171,381,778	169,582,799
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)	550,707	786,849
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	1,463,367	1,159,626
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)	2,014,074	1,946,475
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	4,084,941	3,007,227
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	417,124	121,174
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	4,502,065	3,128,401
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	154,474,504	144,618,401
20	(Adjustments for conversion to credit equivalent amounts)	(115,031,097)	(107,138,412)
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)	39,443,407	37,479,989
Capital and total exposures			
23	Tier 1 capital	19,918,250	19,785,886
24	Total exposures (sum of rows 7, 13, 18 and 22)	217,341,323	212,137,664
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	9.16%	9.33%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	-	-
26	CBUAE minimum leverage ratio requirement	3%	3%
27	Applicable leverage buffers	6.16%	6.33%

Liquidity

Liquidity Coverage Ratio (LIQ1)

Mar - 2022 (AED 000)

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		30,388,954
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	24,646,154	1,232,308
4	Less stable deposits	7,591,472	759,147
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	14,143,320	3,535,830
7	Non-operational deposits (all counterparties)	36,448,074	22,844,571
8	Unsecured debt		
9	Secured wholesale funding		0
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	102,599	102,599
12	Outflows related to loss of funding of debt products	123,071	123,071
13	Credit and liquidity facilities	51,142,280	10,707,167
14	Other contractual funding obligations	0	0
15	Other contingent funding obligations	25,610,763	1,280,538
16	TOTAL CASH OUTFLOWS		40,585,231
Cash inflows			
17	Secured lending (eg reverse repo)	1,390,385	1,021,469
18	Inflows from fully performing exposures	16,169,990	13,729,333
19	Other cash inflows	96,001	96,001
20	TOTAL CASH INFLOWS		14,846,802
			Total adjusted value
21	Total HQLA		30,388,954
22	Total net cash outflows		25,738,428
23	Liquidity coverage ratio (%)		118.07%

- As set forth in the above table, the Group continues to maintain a strong LCR ratio of above 100%
- The Group maintained LCR of 118.07% on a monthly average during last quarter and 124.25% at end of March 22.