

Basel III - Pillar 3 Disclosures

31 Mar 2023

National Bank of Umm Al Qaiwain



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1. General Information:

National Bank of Umm Al-Qaiwain (PSC) (the “Bank”) is a Public Shareholding Company (ADX listed) incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“U.A.E.”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982.

The Group comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and its subsidiary Twin Towns Marketing Management LLC (100% ownership), Dubai. The Bank is engaged in providing products and services to customers in Retail, Corporate, Small and Medium Enterprise, Treasury and Trade finance in both conventional and Islamic banking.

2. Executive Summary:

The Central Bank of the UAE has published notice number CBUAE/BSN/2020/4980 in November 2020 and CBUAE/BSN/2021/5508 on 30 November 2021 regarding Pillar 3 disclosures. These disclosures have been prepared in accordance with these guidelines along with the Board approved disclosure Policy of the Bank.

2.1. Purpose

The purpose of this report is to enable market participants to access key information relating to Bank’s regulatory capital and risk exposures in order to increase transparency and confidence about Bank’s exposure to risk and the overall adequacy of its regulatory capital.

2.2. Overview of Basel III Requirements

The Bank complies with the Basel 3 standards and guidelines, which have been implemented in the UAE through notice reference CBUAE/BSN/2022/5280 dated 30 December 2022.

For Pillar 1, Bank has adopted the Standardized Approach for Credit Risk, the Standardized Approach for Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.

Pillar 2 covers additional risk areas such as concentration risk, strategic risk, reputational risk and liquidity risk. The risk and capital assessment of these other areas are commonly referred as “Internal Capital Adequacy Assessment Process (ICAAP)”. Under ICAAP report, the Bank assesses the above mentioned risk (where applicable) and measures that after combining the pillar 1+Pillar 2 risk the Bank can withstand the regulatory and internal capital requirements. The Bank submits ICAAP report to CBUAE on annual basis.

Pillar 3 focuses on Market Discipline and complements the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy . This report is prepared in line with the same objective.

2.3. Capital Management

The Bank’s aim is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank’s future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 10.5%. Bank continues to maintain one of the highest capital adequacy ratio in the UAE banking industry, which stands at 46.66% (as of Q1 2023), which is far higher than the 10.5% i.e. the minimum prescribed levels stipulated by Central Bank of the UAE. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability when needed.

1. Overview of risk management and RWA
1.1. Template KM1: Key metrics (at consolidated group level)

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
In AED'000		31 Mar 23	31 Dec 22	30 Sep 22	30 Jun 22	31 Mar 22
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	4,767,195	4,583,381	4,684,668	4,408,136	4,796,303
1a	Fully loaded ECL accounting model	4,767,195	4,583,381	4,684,668	4,408,136	4,796,303
2	Tier 1	4,767,195	4,583,381	4,684,668	4,408,136	4,796,303
2a	Fully loaded ECL accounting model Tier 1	4,767,195	4,583,381	4,684,668	4,408,136	4,796,303
3	Total capital	4,886,156	4,704,340	4,807,931	4,526,208	4,924,322
3a	Fully loaded ECL accounting model total capital	4,886,156	4,704,340	4,807,931	4,526,208	4,924,322
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	10,471,181	10,627,427	10,877,644	10,462,176	11,267,618
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	45.53%	43.13%	43.07%	42.13%	42.57%
5a	Fully loaded ECL accounting model CET1 (%)	45.53%	43.13%	43.07%	42.13%	42.57%
6	Tier 1 ratio (%)	45.53%	43.13%	43.07%	42.13%	42.57%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	45.53%	43.13%	43.07%	42.13%	42.57%
7	Total capital ratio (%)	46.66%	44.27%	44.20%	43.26%	43.70%
7a	Fully loaded ECL accounting model total capital ratio (%)	46.66%	44.27%	44.20%	43.26%	43.70%
	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 (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	36.16%	33.77%	33.70%	32.76%	33.20%

	Leverage Ratio					
13	Total leverage ratio measure	16,171,543	15,732,213	15,526,626	15,532,337	15,806,954
14	Leverage ratio (%) (row 2/row 13)	29.48%	29.13%	30.17%	28.38%	30.34%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	29.48%	29.13%	30.17%	28.38%	30.34%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	29.48%	29.13%	30.17%	28.38%	30.34%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	2,951,743	2,261,716	2,474,637	2,121,544	1,725,255
22	Total liabilities	9,175,339	9,106,295	9,020,433	8,971,441	8,908,760
23	Eligible Liquid Assets Ratio (ELAR) (%)	32.17%	24.84%	27.43%	23.65%	19.37%
	ASRR					
24	Total available stable funding	12,294,750	12,307,161	11,953,254	11,928,170	12,051,672
25	Total Advances	7,847,539	7,740,835	7,732,543	7,257,844	7,606,978
26	Advances to Stable Resources Ratio (%)	63.83%	62.90%	64.69%	60.85%	63.12%

Note: LCR & NSFR as NA as these applies to DSIB.

1.2. Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
In AED'000		T 31 Mar 2023	T-1 31 Dec 2022	T 31 Mar 2023
1	Credit risk (excluding counterparty credit risk)	9,514,666	9,669,791	999,040
2	Of which: standardised approach (SA)	9,516,875	9,676,691	999,272
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)	-	-	-
7	Of which: standardised approach for counterparty credit risk	1,105	3,450	116
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	1,105	3,450	116
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	-	-	-
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)	-	-	-
20	Market risk	78,897	75,328	8,284
21	Of which: standardised approach (SA)	78,897	75,328	8,284
22	Of which: internal models approach (IMA)			
23	Operational risk	875,409	875,409	91,918
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)	10,471,181	10,627,427	1,099,474

2. Leverage ratio

2.1. Template LR1: Summary comparison of accounting assets vs leverage ratio exposure

In AED'000	a 31 Mar 2023
Total consolidated assets as per published financial statements	14,173,315
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(264,616)
Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
Adjustments for temporary exemption of central bank reserves (if applicable)	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
Adjustments for eligible cash pooling transactions	-
Adjustments for derivative financial instruments	2,209
Adjustment for securities financing transactions (ie repos and similar secured lending)	-
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,914,497
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
Other adjustments	346,138
Leverage ratio exposure measure	16,171,543

2.2. Template LR2: Leverage ratio common disclosure template

		a	b
In AED'000		T 31 Mar 2023	T-1 31 Dec 2022
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	14,519,453	14,101,134
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)	-	-
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)	(264,616)	(327,943)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	14,254,837	13,773,191
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)	1,292	902
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	286	4,271
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)	2,209	7,242
Securities financing transactions			
14	Gross SFT <i>assets</i> (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)	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	2,943,078	3,048,039
20	(Adjustments for conversion to credit equivalent amounts)	(1,028,581)	(1,096,260)
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)	1,914,497	1,951,779

Capital and total exposures			
23	Tier 1 capital	4,767,195	4,583,381
24	Total exposures (sum of rows 7, 13, 18 and 22)	16,171,543	15,732,213
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	29.48%	29.13%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	29.48%	29.13%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	Applicable leverage buffers	26.48%	26.13%

3. Liquidity Risk Management

3.1. Template LIQ1: Liquidity Coverage Ratio (LCR)

This is not applicable to the Bank as our bank is not a D-SIB Bank.

3.2. Template ELAR: Eligible Liquid Assets Ratio

		31-Mar-23	In AED'000
1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,795,316	
1.2	UAE Federal Government Bonds and Sukuks	30,207	
	Sub Total (1.1 to 1.2)	2,825,523	2,825,523
1.3	UAE local governments publicly traded debt securities	126,220	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	126,220	126,220
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	Total	2,951,743	2,951,743
2	Total liabilities		9,175,339
3	Eligible Liquid Assets Ratio (ELAR)		32.17%

3.3. **Template ASRR: Advances to Stables Resource Ratio**

The table below provides the breakdown of the Bank's Advances to Stable Resource Ratio (ASRR) as per the UAE CB Liquidity Regulations.

			In AED'000
		Items	Amount
1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	6,362,502
	1.2	Lending to non-banking financial institutions	101,315
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	65,115
	1.4	Interbank Placements	1,318,607
	1.5	Total Advances	7,847,539
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	5,292,124
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	263,334
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	1,192
	2.1.6	Investment in subsidiaries, associates and affiliates	707
	2.1.7	Total deduction	265,233
	2.2	Net Free Capital Funds	5,026,891
	2.3	Other stable resources:	0
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	0
	2.3.5	Customer Deposits	7,267,859
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	7,267,859
	2.4	Total Stable Resources (2.2+2.3.7)	12,294,750
3		Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	63.83