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al khaliji
France | فرنسا

Al Khaliji France S.A. – UAE operations

**Basel III Pillar 3 Disclosures
For the quarter ended
31 March 2022**

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1. Introduction and overview

Legal status and activities

Al Khaliji France S.A (the “Bank”) is a French registered bank with its Head Office in Paris, France (the “Head Office”). It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has two branches, one each in the Emirate of Dubai and Abu Dhabi.

Masraf Al Rayan and Al Khalij Commercial Bank, the latter being 100% shareholder of Al Khaliji France S.A, have completed a merger on 1 December 2021.

The Bank’s regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office’s registered address is P.O. Box 4207, Dubai, United Arab Emirates.

The principal activities of the Bank include accepting deposits, granting loans and advances and providing other banking services to customers in the United Arab Emirates.

Purpose and basis of preparation

The Bank is regulated by the Central Bank of the United Arab Emirates (“CBUAE”) and follows the Pillar 3 disclosure requirement guidelines issued by the CBUAE.

In February 2017, new Basel III capital regulations issued by CBUAE came into effect for all Banks in the UAE.

This document presents Pillar 3 disclosures which complements the Basel III minimum capital requirements and the supervisory review process of the Bank. These disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (vide Notice No. CBUAE/BSN/2020/4980, Notice No. CBUAE/BSN/2021/5508 and Notice No. CBUAE/BSN/2022/1887) published in 12 November 2020, 30 November 2021 and 09 May 2022 respectively.

Applicability of Pillar 3 disclosure templates

Below is the list of the CBUAE prescribed Pillar 3 disclosure templates which are applicable for quarterly publication and comparison to the disclosure included in this document.

Topic	Table	Information overview	Status
Overview of risk management and RWA	KM1	Key metrics	Included
	OV1	Overview of Risk Weighted Assets	Included
Leverage Ratio	LR2	Leverage ratio common disclosure template	Included
Liquidity	LIQ1	Liquidity Coverage Ratio	Not applicable
	LIQ2	Net Stable Funding Ratio	Not applicable
	ELAR	Eligible Liquid Assets Ratio	Included
	ASRR	Advances to Stable Resources Ratio	Included

2. Key metrics (KM1)

An overview of the bank's prudential regulatory metrics.

Sn.	Description	31-Mar-22	31-Dec-21
	Available capital (amounts)	AED'000	AED'000
1	Common Equity Tier 1 (CET1)	545,993	545,635
1a	Fully loaded ECL (Excepted Credit Losses) accounting model	545,993	545,635
2	Tier 1	545,993	545,635
2a	Fully loaded ECL accounting model Tier 1	545,993	545,635
3	Total capital	553,244	552,382
3a	Fully loaded ECL accounting model total capital	553,244	552,382
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA- for details refer to table 3- OV1)	689,706	647,696
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	79.16%	84.24%
5a	Fully loaded ECL accounting model CET1 (%)	79.16%	84.24%
6	Tier 1 ratio (%)	79.16%	84.24%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	79.16%	84.24%
7	Total capital ratio (%)	80.21%	85.28%
7a	Fully loaded ECL accounting model total capital ratio (%)	80.21%	85.28%
	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 (%)	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (rows 8 + 9 + 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	69.71%	74.78%
	Leverage Ratio		
13	Total leverage ratio measure	1,555,742	1,509,131
14	Leverage ratio (%) (row 2/row 13)	35.10%	36.16%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	35.10%	36.16%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	35.10%	36.16%
	Liquidity Coverage Ratio¹		
15	Total HQLA	NA	NA
16	Total net cash outflow	NA	NA
17	LCR ratio (%)	NA	NA
	Net Stable Funding Ratio¹		
18	Total available stable funding	NA	NA
19	Total required stable funding	NA	NA
20	NSFR ratio (%)	NA	NA
	ELAR		
21	Total HQLA	681,734	714,817
22	Total liabilities	820,991	805,024
23	Eligible Liquid Assets Ratio (ELAR) (%)	83.04%	88.79%
	ASRR		
24	Total available stable funding	1,255,367	1,228,802
25	Total Advances	450,651	420,838
26	Advances to Stable Resources Ratio (%)	35.90%	34.25%

¹ LCR and NSFR are not applicable (NA) for the Bank as per CB UAE regulations, instead the Bank in replacement is disclosing ELAR & ASRR; The capital ratio as of 31 Mar 22 is well-buffered and above the total capital required under ICAAP of 16.5% yet decreased (as compared to Dec 21 restated as change in regulatory RWA%) due to diversification in bank's placements to increase revenues;

The Bank has started to report leverage ratio requirements from 31 Dec 21 and remains comfortably above the minimum 3%;

Liquidity ratios (ELAR and ASRR) remain well-buffered and trend comfortably against the minimum requirements of 10% and 100% respectively.

3. Overview of Risk Weighted Assets (OV1)

An overview of total RWA forming the denominator of the risk-based capital requirements

Sn.	Description	RWA	RWA	Minimum capital requirements
		31-Mar-22	31-Dec-21	31-Mar-22
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	580,119	539,715	60,912
2	Of which: standardised approach (SA)	580,119	539,715	60,912
3				
4				
5				
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8				
9				
10				
11				
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				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	1,782	176	187
21	Of which: standardised approach (SA)	1,782	176	187
22				
23	Operational risk	107,805	107,805	11,320
24				
25				
26	Total (1+6+10+11+12+13+14+15+16+20+23)	689,706	647,696	72,419

The Credit Risk weighted assets (CRWA) of the Bank witnessed an increase during Q1'22 on the back of increase in commercial assets;

Market Risk Weighted assets (MRWA) increased during Q1'22 due to increase in Net Open position charge;

Operational Risk Weighted Assets (ORWA) continue to be a function of annual revenue as per Standardized Approach.

4. Leverage Ratio (LR2)

A detailed breakdown of LR components ratio denominator, on the actual LR, minimum requirements and buffers

Sn.	Description	31-Mar-22	31-Dec-21
On-balance sheet exposures		AED'000	AED'000
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,370,174	1,349,939
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)	(330)	(555)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	1,369,844	1,349,384
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)	-	-
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	1,122	1,450
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)	1,122	1,450
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	275,555	259,498
20	(Adjustments for conversion to credit equivalent amounts)	(90,779)	(101,201)
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)	184,776	158,297
Capital and total exposures			
23	Tier 1 capital	545,993	545,635
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,555,742	1,509,131
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	35.10%	36.16%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	35.10%	36.16%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	Applicable leverage buffers	0.00%	0.00%

5. Liquidity

5.1 Eligible Liquid Assets Ratio (ELAR)

Breakdown of bank's available high-quality liquid assets (HQLA) according to the CBUAE Regulations.

Sn.	Description	31-Mar-22	31-Mar-22
1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
		AED'000	AED'000
1.1	Physical cash in hand at the bank + balances with the CBUAE	681,734	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	681,734	681,734
1.3	UAE local governments publicly traded debt securities	-	
1.4	UAE Public sector publicly traded debt securities	-	
	Subtotal (1.3 to 1.4)	-	-
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	Total	681,734	681,734
2	Total liabilities		820,991
3	Eligible Liquid Assets Ratio (ELAR)		83.04%

ELAR of the Bank continues to operate at levels comfortably above the 10% minimum requirement as currently prescribed by the CBUAE.

5. Liquidity

5.2 Advances to Stable Resources Ratio (ASRR)

Breakdown of the bank's advances to Stables Resource ratio as per the Liquidity regulations.

Sn.	Description	31-Mar-22	31-Dec-21
		Amount	Amount
1	Computation of Advances	AED'000	AED'000
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	359,071	365,750
1.2	Lending to non-banking financial institutions	-	-
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-	-
1.4	Interbank Placements	91,580	55,088
1.5	Total Advances	450,651	420,838
2	Calculation of Net Stable Resources		
2.1	Total capital + general provisions	573,309	567,900
	Deduct:		
2.1.1	Goodwill and other intangible assets	330	555
2.1.2	Fixed Assets	1,791	1,954
2.1.3	Funds allocated to branches abroad	-	-
2.1.5	Unquoted Investments	-	-
2.1.6	Investment in subsidiaries, associates and affiliates	-	-
2.1.7	Total deduction	2,121	2,509
2.2	Net Free Capital Funds	571,188	565,391
2.3	Other stable resources:		
2.3.1	Funds from the head office	-	-
2.3.2	Interbank deposits with remaining life of more than 6 months	-	-
2.3.3	Refinancing of Housing Loans	-	-
2.3.4	Borrowing from non-Banking Financial Institutions	15,819	16,009
2.3.5	Customer Deposits	668,360	647,402
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-	-
2.3.7	Total other stable resources	684,179	663,411
2.4	Total Stable Resources (2.2+2.3.7)	1,255,367	1,228,802
3	Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	35.90	34.25

ASRR of the Bank continues to operate at levels comfortably below the 100% ceiling as currently prescribed by CBUAE.

6. Acronyms

Sn.	Abbreviations	Description
1.	ASRR	Advances to Stable Resources Ratio
2.	CB UAE	Central Bank of U.A.E.
3.	CCP	Central Counterparty
4.	CET1	Common Equity Tier 1
5.	D-SIB	Domestic Systemically Important Banks
6.	ECL	Expected Credit Losses
7.	HQLA	High Quality Liquid Assets
8.	ICAAP	Internal Capital Adequacy Assessment Process
9.	LC	Letter of Credit
10.	LCR	Liquidity Coverage Ratio
11.	LR	Leverage Ratio
12.	NSFR	Net Stable Funding Ratio
13.	PFE	Potential Future Exposure

7. Glossary

1. Capital conservation buffer

A capital buffer prescribed by BCBS and CBUAE under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should the bank's CET1 capital fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

2. Countercyclical capital buffer (CCyB)

The countercyclical capital buffer is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets.

3. Counterparty credit risk (CCR)

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

4. Credit Conversion Factor (CCF)

As prescribed by CBUAE, an estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default.

5. Credit risk adjustment (CRA)

This includes impairment allowances or provisions balances, and changes in ECL.

6. Credit risk mitigation (CRM)

Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

7. Domestic systemically important banks (D-SIB)

Domestic systemically important banks are deemed systemically relevant for the domestic financial system in which they operate. The CBUAE and the BCBS have developed a framework for identifying and dealing with D-SIBs. The Central Bank of the UAE annually assesses national banks at their consolidated group level and foreign banks at their UAE branch level; to designate banks whose failure could escalate to systemic risk for the UAE banking sector and eventually impact the economy.

8. Fully Loaded ECL

Means Bank's regulatory capital compared with a situation where the transitional arrangement for IFRS 9 had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

9. Internal Capital Adequacy Assessment Process (ICAAP)

A requirement under Pillar 2 of the Basel framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks.

10. Leverage ratio

A ratio introduced under Basel III/CRD that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

11. Liquidity Coverage Ratio (LCR)

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

7. Glossary (continued)

12. Net stable funding ratio (NSFR)

The ratio of available stable funding to stable funding required over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon.

13. Securities Financing Transactions (SFT)

Securities Financing Transactions are secured (i.e. collateralised) transactions that involve the temporary exchange of cash against securities, or securities against other securities, e.g. stock lending or stock borrowing or the lending or borrowing of other financial instruments, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.

14. Standardised Approach (SA)

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk-weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.