MCB Bank Limited – UAE Branch

BASEL – PILLAR 3 DISCLOSURES

FOR THE QUARTER ENDED 31 MARCH 2022

Contents

1. Introduction to Bank

MCB Bank Limited (the "Head Office") is a Pakistan registered bank with its principal office in Lahore, Pakistan.
It commenced its operations in the United Arab Emirates (UAE) in 2014 as a wholesale bank and currently has one branch (the "Branch") in Dubai.

The address of the registered office of the Branch is P.O. Box 6481, Dubai.

These financial statements reflect the activities of the Branch of MCB Bank Limited in the United Arab Emirates only (the "Branch") and exclude all transactions, assets and liabilities of the Head Office.

2. Introduction to Bank's Capital adequacy framework

Central Bank of UAE published final Capital Adequacy Standards and Guidance along with Notice 4980/2020 on 12th November 2020. This included revised Standards and Guidance with respect to Pillar 3 – Market Disclosures. Further to this, the Central Bank of UAE provided explanatory notes and disclosure templates for Pillar 3 on 30th November 2021 as part of Notice 5508/2021. The Standards prescribed the effective date of these disclosures to be 31st December 2021 and quarterly thereon.

This document presents the Pillar 3 disclosures of MCB Bank Limited – UAE Branch ("the Bank") as at 31 March 2022. 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.

2.1 Regulatory Framework

The framework is structured around the following three Pillars:

1. Pillar 1 on minimum capital requirements for credit, market and operational risk
2. Pillar 2 on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
3. Pillar 3 on market discipline

2.2 Pillar 1 – Minimum Capital Requirement

Pillar 1 defines the total minimum capital requirements for credit, market and operational risk. MCB Bank Limited - UAE Branch uses standardized approach for assessment of Credit, Market and Operational Risk weighted assets (RWA). Under the standardized approach, regulatory prescribed risk weights and parameters are applied to calculate Pillar 1 capital requirements.

CBUAE has put in regulatory thresholds for Common Equity Tier 1, Tier 1 and overall regulatory Capital.

1. CET1 must be at least 7.0% of risk weighted assets (RWA);
2. Tier 1 Capital must be at least 8.5% of RWA;
3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.

On top of this minimum capital requirement CBUAE has also mandated the Banks to keep additional buffers.

- In addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital
- To achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth and in addition to the CCB requirements, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet the CCyB requirements by using CET1 capital. The level of the CCyB requirements will vary between 0% - 2.5% of RWA and be communicated by the Central Bank with an adequate notice period.

These requirements are summarized in the table below:

Capital Element	Requirement
Minimum Common Equity Tier 1 Ratio	7.0%
Minimum Tier 1 Capital Ratio	8.5%
Minimum Capital Adequacy Ratio	10.5%
Capital Conservation Buffer	2.5%
Domestic Systemically Important Banks Buffer	1.5%
Countercyclical buffer (0% - 2.5%)	0%

The capital ratios for MCB Bank Limited - UAE Branch as of 31 March 2022 are given below. All of these are well above the CBUAE minimum.

Common Equity Tier 1 Ratio	29.85%
Capital Adequacy Ratio	30.95%

2.3 Pillar 2 – ICAAP and Supervisory Review Process

The ICAAP is considered as an essential tool to address all current and potential material risks. MCB Bank ensures that it not only satisfies the minimum regulatory capital requirements of CBUAE but also maintains appropriate internal capital levels in line with the current and anticipated capital requirements and to withstand stress scenarios. Key highlights of ICAAP are as below:

- Business background & Group structure
- Business model and products offered by bank
- Stress Testing
- Risk assessment and disclosures
- Business strategy & financial projections

2.4 Pillar 3 – Market Discipline

The Bank discloses to its external stakeholder's detailed qualitative and quantitative information on its risk management practice and capital adequacy in line with the CBUAE Pillar 3 guidelines. Pillar 3 complements the Pillar 1 - minimum capital requirements and the Pillar 2 – ICAAP and supervisory review process. The purpose of Pillar 3 disclosures is to enhance market discipline through disclosure requirements which allows market participants to assess the risk exposures of the Bank around capital, material risk exposures and internal risk assessment processes and mitigation strategies, and hence assess the strength of the Bank. The reporting frequency of the revised set of disclosures has been defined by CBUAE.

3. Overview of risk management and RWA

3.1 KM1: Key metrics

		a	b	c	d	e
		Mar-22	**Dec-21**	**T-2**	**T-3**	**T-4**
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	87,367	87,379			
1a	Fully loaded ECL accounting model	87,367	87,379			
2	Tier 1	87,367	87,379			
2a	Fully loaded ECL accounting model Tier 1	87,367	87,379			
3	Total capital	90,589	90,418			
3a	Fully loaded ECL accounting model total capital	90,589	90,418			
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	292,709	280,632			
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	29.8%	31.1%			
5a	Fully loaded ECL accounting model CET1 (%)	29.8%	31.1%			
6	Tier 1 ratio (%)	29.8%	31.1%			
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	29.8%	31.1%			
7	Total capital ratio (%)	30.9%	32.2%			
7a	Fully loaded ECL accounting model total capital ratio (%)	30.9%	32.2%			

	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	
9	Countercyclical buffer requirement (%)	0.0%	0.0%	
10	Bank D-SIB additional requirements (%)	0.0%	0.0%	
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	
12	CET1 available after meeting the bank's minimum capital requirements (%)	20.4%	21.7%	
	Leverage Ratio			
13	Total leverage ratio measure	1,194,760	1,025,901	
14	Leverage ratio (%) (row 2/row 13)	7.3%	8.5%	
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	7.3%	8.5%	
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7.3%	8.5%	
	Liquidity Coverage Ratio			
15	Total HQLA			
16	Total net cash outflow			
17	LCR ratio (%)			
	Net Stable Funding Ratio			
18	Total available stable funding			
19	Total required stable funding			
20	NSFR ratio (%)			
	ELAR			
21	Total HQLA	754,019	627,771	
22	Total liabilities	1,040,345	923,720	
23	Eligible Liquid Assets Ratio (ELAR) (%)	72%	68%	
	ASRR			
24	Total available stable funding			

		952,920	856,467	
25	Total Advances	134,658	64,992	
26	Advances to Stable Resources Ratio (%)	14.1%	7.6%	

3.2 OV1: Overview of RWA

All numbers in AED 000s

		a	b	c
		RWA		**Minimum capital requirements**
		Mar-22	**Dec-21**	**Mar-22**
1	Credit risk (excluding counterparty credit risk)	257,788	243,141	27,068
2	Of which: standardised approach (SA)	257,788	243,141	27,068
3	[redacted]			
4				
5				
6	Counterparty credit risk (CCR)	-		-
7	Of which: standardised approach for counterparty credit risk	-		-
8	[redacted]			
9				
10				
11				
12	Equity investments in funds - look-through approach	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0
14	Equity investments in funds - fall-back approach	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in the banking book	0	0	0
17	[redacted]			

18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0
20	Market risk	252	3031	26.46
21	Of which: standardised approach (SA)	252	3031	26.46
22	[redacted]			
23	Operational risk	34668.75	34460	3640.21875
24	[redacted]			
25				
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**292,709**	**280,632**	**30,734**

4. Leverage ratio

LR2: Leverage ratio common disclosure template

All numbers in AED 000s

		a	b
		Mar-22	**Dec-21**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1135869	1015945
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	0	0
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)	0	0
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	0	0
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)**	1135869	1015945
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	0	0
9	Add-on amounts for PFE associated with *all* derivatives transactions	0	0
10	(Exempted CCP leg of client-cleared trade exposures)	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	**Total derivative exposures (sum of rows 8 to 12)**	0	0
Securities financing transactions			

14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	0	0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	CCR exposure for SFT assets	0	0
17	Agent transaction exposures	0	0
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	0	0
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	68663	22512
20	(Adjustments for conversion to credit equivalent amounts)	-9772	-12556
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	**Off-balance sheet items (sum of rows 19 to 21)**	58891	9956
Capital and total exposures			
23	**Tier 1 capital**	87367	87379
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	1194760	1025901
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	7.31%	8.52%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	7.31%	8.52%
26	CBUAE minimum leverage ratio requirement	3.50%	3.50%
27	**Applicable leverage buffers**		

5. Liquidity

5.1 ELAR: Eligible Liquid Assets Ratio

Eligible Liquid Assets Ratio is a Basel III liquidity requirement.

All numbers in AED 000s

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	754,019	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	754,019	754,019
1.3	UAE local governments publicly traded debt securities		
1.4	UAE Public sector publicly traded debt securities		
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	**754,019**	**754,019**
2	Total liabilities		1,040,345
3	**Eligible Liquid Assets Ratio (ELAR)**		**0.72**

5.2 ASRR: Advances to Stables Resource Ratio

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	84,658
	1.2	Lending to non-banking financial institutions	0
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	50,000
	1.4	Interbank Placements	
	1.5	**Total Advances**	134,658
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	94,668
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	1,989
	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**	1,989
	2.2	**Net Free Capital Funds**	92,679
	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	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	55,613
	2.3.5	Customer Deposits	804,628
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	860,241
	2.4	**Total Stable Resources (2.2+2.3.7)**	952,920
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	14.13