Habib Bank Limited, United Arab Emirates
Pillar III Disclosures
As of March 31, 2022

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1. Introduction and overview

Legal Status and activities

Habib Bank Limited - UAE Branches operates as a branch of Habib Bank Limited with its Head Office ("Head Office") in Pakistan. In the United Arab Emirates ("UAE"), it operates through its six branches (2021: six branches) located in the emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of the UAE ("UAE Central Bank"). Habib Bank Limited, is listed on the Pakistan Stock Exchange.

The principal activities of Habib Bank Limited - UAE Branches (hereafter these branches are referred to as the "Bank") are to provide retail and corporate banking services in the UAE. These financial statements represent the combined statement of financial position and results of the six branches (2021: six branches) of the Bank in the UAE. The registered address of the Bank is P.O. Box 888, Dubai, UAE.

Purpose and basis of preparation

The Bank is regulated by the Central Bank of the United Arab Emirates ("CBUAE") and follows the Pillar III 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. Additional guidelines for Basel III were issued over the course of 2019/2020 in consultations with the UAE Banks.

This document presents Pillar III disclosures in line with CBUAE guidance 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 (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 21 respectively.

2. Overview of Risk Management and RWA

2.1 Key metrics (KM1)

AED in '000

		Mar 31, 2022	Dec 31, 2021
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	243,141	281,612
1a	Fully loaded ECL accounting model	240,165	277,644
2	Tier 1	243,141	281,612
2a	Fully loaded ECL accounting model Tier 1	240,165	277,644
3	Total capital	265,733	307,304
3a	Fully loaded ECL accounting model total capital	262,757	303,336
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	1,938,258	2,187,737
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	12.54%	12.87%
5a	Fully loaded ECL accounting model CET1 (%)	12.39%	12.69%
6	Tier 1 ratio (%)	12.54%	12.87%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	12.39%	12.69%
7	Total capital ratio (%)	13.71%	14.05%
7a	Fully loaded ECL accounting model total capital ratio (%)	13.56%	13.87%
	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 (%) (row 8 + row 9+ row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.21%	3.55%
	Leverage Ratio		
13	Total leverage ratio measure	2,589,672	2,942,548
14	Leverage ratio (%) (row 2/row 13)	9.39%	9.57%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.27%	9.44%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.39%	9.57%
	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	555,477	676,746
22	Total liabilities	2,115,581	2,412,331
23	Eligible Liquid Assets Ratio (ELAR) (%)	26.26%	28.05%
	ASRR		
24	Total available stable funding	1,963,021	2,189,900
25	Total Advances	1,249,392	1,346,923
26	Advances to Stable Resources Ratio (%)	63.65%	61.51%

**As per CBUAE regulations, Liquidity Coverage Ratio and Net Stable Funding Ratio are not applicable on the bank being a branch of a foreign bank. The bank uses Eligible Liquid Asset Ratio (ELAR) and Lending to Stable Resources Ratio (LSRR) as an alternate.*

The capital as of March 31, 2022 reduced by 34 bps mainly due to unrealized loss of AED 37 million on FVOCI securities. The ratio however remained above the regulatory requirement of 13% (including 2.5% capital conservation buffer).

The Bank’s leverage ratio requirement remains comfortably above the minimum 3%. Liquidity ratios (ELAR and ASRR) also remain well-buffered with ASRR showing increase during Q1 ’22.

2.2 Bank risk management approach (OVA)

Business and Overall Risk Profile

Habib Bank Limited UAE (hereafter "HBL-UAE" or 'the Bank'), foreign branch of Habib Bank Limited Pakistan (hereafter "HBL"), principal revenue stream is generated through wholesale banking model in addition to other products offer by the Bank to the customer. The Bank also offers traditional deposit products such as current and savings accounts to the customers, which are mainly used to finance the asset book. The bank also considers deploying liquidity in FI which are low risk assets, in fixed income securities and other treasury products to generate revenues and maintain a balanced risk profile.

The primary risks to the Bank arise from extending credit to corporate and institutional banking. While carrying the business the Bank is also exposed to a range of other risk types which includes market, operational, liquidity, compliance, reputational, country and legal risk. The Bank is proactively monitoring and enhancing the risk management strategies that drive the direction of its risk management processes, product range and risk diversification strategies.

Corporate and Risk Governance

HBL-UAE overall risk management responsibility resides with the Board of Directors (hereafter "the Board", "BOD") of Habib Bank Limited. The Board ensures effective risk governance, control and oversight of the Bank processes with the help of Board and management level committees at Head Office and through HBL-UAE management committees. Though, Board remains the ultimate responsible for the domestic and foreign branch operations and the financial stability of the Bank.

In order to effectively discharge this responsibility, the Board is assisted by various Board Committees based on their respective Board approved 'Term of Reference' (TOR), namely Board Audit Committee (BAC), Board Risk Management Committee (BMRC), Board Human Resource and Remuneration Committee (BHRRC), Board Compliance and Conduct Committee (BCNCC), Board Development Finance Committee (BDFC), Board IT Committee (BITC), Board Oversight Committee -International Governance (BOC- IG), Board Nomination and Remuneration Committee (BNRC) and Shariah Board (SB). These committees are supported by the management level committees formalized at Habib Bank Limited Pakistan which are also responsible to oversee the international operations and respective committees.

HBL-UAE management actively manages risk, primarily through the risk department with oversight by the Management Committee (MANCOM), Integrated Risk Management Committee (IRMC), Assets & Liabilities Committee (ALCO), Compliance Committee of Management (CCM), Information Technology Steering Committee (ITSC) and Branch Risk and Control Committee (BRCC). To ensure overall governance is in placed the Bank has formalized UAE Corporate Governance (UAEGC) committee based on the Board approved TOR which comprises of HBL-UAE management and HBL Pakistan members.

Risk Management Function

The Bank has a well-developed and robust risk management framework in line with the Group Risk Management and HBL-UAE local regulatory requirement which is developed and implemented based on the local operations, size and complexity, and target market diversification. The Bank's risk management framework is based on strong Board oversight, multi-tier management supervision, efficient systems, documented risk appetite, and clearly articulated policies and procedures.

The Board of Directors provides the strategic direction for effective risk management and ensures that a robust risk management framework is in place including the required human resources, policies, procedures and systems. It is supported in this task by the Board Risk Management Committee (BRMC) as well as by various management committees.

For effective implementation of the risk management framework, the Risk Management function, headed by the Chief Risk Officer (CRO), operates independently of business units within the HBL. Risk Management is responsible for the development and implementation of risk policies and for monitoring the risks associated with various activities of the Bank. The CRO reports to the President, with a functional reporting line to the BRMC.

CRO is responsible for ensure effective functioning of Risk Management and implementation of ERM framework across the bank. CRO has been delegated by the BRMC to ensure development & implementation of risk policies, processes, tools and systems, in light of regulations and best market practice. Leading risk strategy and risk appetite framework of the bank, CRO remain responsible for active contribution in key decision-making processes of the bank. To discharge the responsibility of effective risk management, CRO ensure strong, independent and dynamic risk management function with all required financial, system and physical resources.

For international operations, CRO has a dedicated direct report Head of International & FI Risk at HBL who remain responsible for risk management implementation across international location of Habib Bank Limited. Head of Risk Management UAE monitor the overall risk profile and manage the risk function within the HBL-UAE branch in line with CBUAE requirement. To maintain the independence Head of Risk Management UAE reports to Head of International & FI Risk.

The Risk Management function comprises of the following areas:
- Credit Policy & Analytics
- Credit Approvals
- Credit Administration
- Program Based Lending Risk
- Market & Liquidity Risk Management
- Enterprise Risk Management

Due to the branch operation, some of the role remain centralized at HBL however for all local HBL UAE requirement the deliverables are oversighted by Head Risk Management UAE and Head International & FI Risk. This structure enables the knowledge enrichment and broaden the understanding consider the availability of market practices wherever can be adopted.

Risk Management Framework

The management of HBL UAE is committed to manage processes with effective risk management and compliance to ensure a viable balance sheet for long term. The Board of Directors has ultimate responsibility for setting HBL UAE risk appetite for ensuring risk is managed effectively. The Board and management foster a risk and compliance culture and follows the 'three line of defense' which ensure the segregation between risk owner, risk oversight and assurance role. Board have empowered all level employees to raise grievances, improper behavior by using whistle blowing mechanism and Operational risk incident reporting. Management is also flexible and promote suggestions to purse the Bank's strategic goals. The management believes in transparency and acknowledgement of risk and accordingly take necessary action to ensure timely risk is mitigated or managed within the Bank's approved risk appetite.

Risk Management Framework is developed to ensure a comprehensive management of risks throughout the Bank, HBL employs a risk management framework that is applicable to all levels of the organization with strong Board oversight. In 2021, a Risk Governance function has been introduced at HBL, whose role is to formulate credit policies and procedures and provide oversight related to portfolio management and automation. The Bank has strong credit management practices that include regular Early Alert Committee meetings and rapid portfolio reviews to help ensure the strength and resilience of its credit portfolio. In 2021, to strengthened usage of internal credit risk rating framework the Bank gone through Obligor Risk Rating model validation to ensure the effectiveness of models are in place and can be used effectively.

Risk management systems continued to evolve to facilitate business growth whilst limiting the effect of any residual risks. Market and liquidity risk indicators are reviewed on a monthly basis by the Market & Liquidity Risk Committee and by Global ALCO at HBL. A comprehensive structure is in place to ensure that the Bank does not exceed its tolerance for market risk. Policies and procedures are in place to govern operational risk management practices in a systematic and consistent manner. Key tools such as Risk & Control Self-Assessment, Key Risk Indicators and Operational Loss Data Management are used to gauge the likelihood and severity of operational risk incidents. The Bank's operational risk profile and fraud risk assessment are regularly shared with senior management and Board if required.

The Enterprise Risk Management (ERM) function, set up at HBL in 2020, applies to all functions within HBL, ensuring a robust and consistent approach to risk management at all levels of the organization. HBL's ERM framework outlines the components, key principles and concepts of ERM; suggests a common risk language; and provides a clear direction and guidance for integrated risk management within the Bank. This is expected to bring synergies across the various risk management components and strengthen the risk identification, monitoring and controlling mechanism across HBL including foreign branches. During the year, ERM implemented a New Product Initiative Assessment process which aims to comprehensively identify, assess and mitigate all risks within new products and services, to ensure that they are adequately addressed before launch.
Other risks are also managed by HBL under various explicit framework available which includes but not limited to Anti-Money Laundering, Information Security risk.

For Basel reporting, the Bank has adopted the Standardized Approach for credit risk and the Basic Indicator Approach for operational risk. In addition, the Bank has adopted the simple approach for recognizing eligible collateral for credit risk mitigation. The Bank's goal is to develop resources internally to embed Basel related processes and methodologies in its risk practices. The Bank follows the Standardized Approach for market risk. The Bank has various other internal tools / MIS used for risk assessment and management reporting.

Stress Testing

Stress testing is an important tool of the risk management and is considered an integral part of the ICAAP under regulatory requirement. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the Bank. Relevant factors in this concept are size of the Bank, sophistication and diversification of its activities, materiality of different risk types and the Bank's vulnerability to them.

The determination of the most plausible scenarios is based on largely qualitative analysis and includes assessing various scenarios (with a risk focus) to determine how the particular scenario and sensitivity test could disrupt Bank performance and transform competitive dynamics.

The Bank has developed the stress and sensitivity test based on qualitative analysis and expert judgment. For stressing of risks that are driven by factors internal to bank or risks that don't have any external/macroeconomic dependency, appropriate parameters are used to define mild, medium and severe stress scenarios and a sensitivity approach is used to determine and quantify the level of risk based on fixed parameters. This included developing scenarios with a risk focus to determine how the particular scenario could disrupt the Banks performance and capital position. The risks and associated capital value are aggregated together without any diversification benefit being applied and the shock / parameter sensitivity was applied independently to each risk factor, based on a top down approach with some sensitivity analysis being conducted to determine the level of shock to be applied to each risk factor independently.

2.3 Overview of RWA (OV1)

The Risk Weighted Assets (RWAs) of the Bank witnessed a decrease during Q1 ‘22 as compared to last year due reduction in funded advances.

AED '000

		RWA		Minimum capital requirements
		Mar 31, 2022	Dec 31, 2021	Mar 31, 2022
1	Credit risk (excluding counterparty credit risk)	1,746,315	1,993,587	227,021
2	Of which: standardised approach (SA)	1,746,315	1,993,587	227,021
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)	61,040	61,756	7,935
7	Of which: standardised approach for counterparty credit risk	61,040	61,756	7,935
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	-	-	-
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	3,945	5,436	513
21	Of which: standardised approach (SA)	3,945	5,436	513
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	126,958	126,958	16,505
24	Amounts below thresholds for deduction (subject to 250% risk weight)	22,684	23,273	-
25	Floor adjustment	-	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**1,938,258**	**2,187,737**	**251,974**

3. Leverage Ratio

3.1 Leverage ratio common disclosure template (LR2)

AED '000

		Mar 31, 2022	Dec 31, 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	2,368,240	2,703,359
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)	(2,339)	(2,345)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**2,365,901**	**2,701,014**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	9,701	6,027
9	Add-on amounts for PFE associated with *all* derivatives transactions	80,468	74,018
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)**	**90,170**	**80,045**
Securities financing transactions			
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)**	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	716,353	629,587
20	(Adjustments for conversion to credit equivalent amounts)	(582,752)	(468,097)
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)**	**133,601**	**161,489**
Capital and total exposures			
23	**Tier 1 capital**	**243,141**	**281,612**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**2,589,672**	**2,942,548**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**9.39%**	**9.57%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**9.39%**	**9.57%**
26	CBUAE minimum leverage ratio requirement	**3.00%**	**3.00%**
27	**Applicable leverage buffers**	**-**	**-**

4. Liquidity

4.1 Eligible Liquidity Asset Ratio (ELAR)

The following table presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

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	291,305	
1.2	UAE Federal Government Bonds and Sukuks	61,617	
	Sub Total (1.1 to 1.2)	352,922	352,922
1.3	UAE local governments publicly traded debt securities	56,944	
1.4	UAE Public sector publicly traded debt securities	-	
	Sub total (1.3 to 1.4)	56,944	56,944
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	**Total**	**409,866**	**409,866**
2	Total liabilities		2,170,285
3	**Eligible Liquid Assets Ratio (ELAR)**		**18.89%**

The above represents simple average of 3 monthly ELAR returns as submitted to CBUAE in Q1'22.

4.2 Advances to Stable Resources Ratio (ASRR)

The following table presents the breakdown of the Bank's Advances to Stable Resources Ratio (ASRR), as per the CBUAE Liquidity Regulations.

The above represents simple average of 3 monthly ELAR returns as submitted to CBUAE in Q1'22.

AED '000

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	441,955
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	2,543
	1.4	Interbank Placements	884,950
	1.5	**Total Advances**	1,329,448
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	291,700
		Deduct:	
	2.1.1	Goodwill and other intangible assets	756
	2.1.2	Fixed Assets	12,206
	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**	12,962
	2.2	**Net Free Capital Funds**	278,738
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	4,058
	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	120,215
	2.3.5	Customer Deposits	1,578,738
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	**Total other stable resources**	1,703,011
	2.4	**Total Stable Resources (2.2+2.3.7)**	1,981,750
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**67.08**