Al Hilal Bank PJSC

Pillar 3 Report

30 September 2023

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1. Metrics (at consolidated group level)

1.1 Key Metrics for the Group (KM1)

In AED'000	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22	30-Sep-22
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,354,482	1,437,447	1,453,601	1,441,043	1,539,511
Tier 1	1,354,482	1,437,447	1,453,601	1,441,043	1,539,511
Total capital	1,457,182	1,536,745	1,552,175	1,542,336	1,639,686
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	9,203,172	8,932,018	8,863,222	9,104,225	9,022,753
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	14.72%	16.09%	16.40%	15.83%	17.06%
Tier 1 ratio (%)	14.72%	16.09%	16.40%	15.83%	17.06%
Total capital ratio (%)	15.83%	17.20%	17.51%	16.94%	18.17%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
Bank D-SIB additional requirements (%)	0%	0%	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2.50%	2.50%	2.50%	2.50%	2.50%
CET1 available after meeting the bank's min capital requirements (%)	5.33%	6.70%	7.01%	6.44%	7.67%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	13,373,595	12,915,944	12,709,092	13,268,735	13,663,772
Basel III leverage ratio (%)	10.13%	11.13%	11.44%	10.86%	11.27%
ELAR					
Total HQLA	1,966,072	1,595,121	1,467,096	1,521,856	1,911,774
Total liabilities	10,830,526	10,454,788	10,476,018	10,905,721	11,412,142
Eligible Liquid Assets Ratio (ELAR) (%)	18.15%	15.26%	14.00%	13.95%	16.75%
ASRR					
Total available stable funding	10,283,864	8,447,708	8,502,526	9,514,192	10,011,864
Total Advances	8,095,612	7,992,624	7,714,800	7,798,762	7,569,286
Advances to Stable Resources Ratio (%)	78.72%	94.61%	90.74%	81.97%	75.60%

1.2 Risk Management and Risk Weighted Assets

1.3 Our approach to measuring risk exposure and risk-weighted assets.

Depending on the intended purpose, the reporting of risk exposure may differ under International Financial Reporting Standards (IFRS) when compared to reporting for regulatory capital purposes. Our Pillar 3 disclosures are based on risk exposure used to derive the regulatory capital required under Pillar 1. Our risk-weighted assets (RWA) are calculated according to the BCBS Basel III framework, as implemented by the Central Bank of UAE.

1.4 RWA development in Q3'2023

The OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type. Over the quarter, total RWA increased from AED 8.93Bn to AED 9.2Bn.

Counterparty Credit Risk Capital & CVA: In Q3'23, the capital requirement for Counterparty Credit Risk under the standardised approach has increased compared to Q2'23 due to the increase in Mark to Market (MTM) of the Profit Rate Swaps (PRS). Net MTM has increased from AED 35.36Mn in Q2'23 to AED 38.33Mn in Q3'23. Credit Value Adjustment (CVA) RWA also decreased from AED 33.29Mn to AED 32.52Mn.

Equity Investment in Funds (EIF): RWA has been calculated using the Look through Approach (LTA) for Equity Investment in Funds (EIF) for the two funds - Global Sukuk Fund (GSF) and GCC Equity Fund. RWA has dropped marginally from AED 48.33Mn in Q2'23 to AED 45.03Mn in Q3'23. The drop is attributed mainly to the reduction in market value of the funds and reduction in risk weight of funds.

Market Risk Capital: Market Risk comprises of only Foreign Exchange risk. There has been an increase in RWA from 122.96Mn AED in Q2'23 to 126.05Mn AED in Q3'23. The change is due to increase in net FX open position.

1.5 Overview of risk weighted assets (OV1)

There has been an increase of AED 271Mn in total risk weighted assets (RWA) over the last quarter mainly due to increase in regulatory retail portfolio of AED 115Mn.

AED'000

	RWA		Minimum capital requirements
	30-Sep-23	30-Jun-23	30-Sep-23
Credit risk (excluding counterparty credit risk)	8,201,336	7,929,568	1,066,174
Of which: standardised approach (SA)	8,201,336	7,929,568	1,066,174
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
Of which: supervisory slotting approach	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
Counterparty credit risk (CCR)	14,647	14,273	1,538
Of which: standardised approach for counterparty credit risk	14,647	14,273	1,538
Credit valuation adjustment (CVA)	32,520	33,294	3,415
Equity investments in funds - look-through approach	45,036	48,337	4,729
Equity investments in funds - mandate-based approach	-	-	-
Equity investments in funds - fall-back approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in the banking book	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA), Including internal assessment approach	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-
Market risk	126,050	122,964	13,235
Of which: standardised approach (SA)	126,050	122,964	13,235
Operational risk	783,581	783,581	82,276
Total	**9,203,172**	**8,932,018**	**1,171,366**

2. Leverage Ratio

The Basel III leverage ratio is calculated by dividing the period-end tier 1 capital by the period-end leverage ratio denominator (LRD), as summarized in the table below.

2.1 Summary comparison of accounting assets versus leverage ratio exposure measure (LR1)

The LRD consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are adjusted for a number of items, including replacement value and eligible cash variation margin netting, the current exposure method add-on, and net notional amounts for written credit derivatives.

The table on the next page shows the difference between total IFRS assets per IFRS consolidation scope and the BCBS total on- balance sheet exposures. Those exposures are the starting point for calculating the BCBS LRD, as shown in the LR2 table in this section. The difference is due to the application of the regulatory scope of consolidation for the purpose of the BCBS calculation. In addition, carrying amounts for derivative financial instruments and (SFTs) are deducted from IFRS total assets. They are measured differently under BCBS leverage ratio rules and are therefore added back in separate exposure line items in the LR2 table.

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Summary comparison of accounting assets vs leverage ratio exposure	**30-Sep-23**	**30-Jun-23**	**31-Mar-23**	**31-Dec-22**
Total consolidated assets as per published financial statements	13,394,082	12,931,307	12,726,941	13,273,411
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-	-
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	65,572	62,721	56,966	67,124
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)	88,525	78,581	72,796	66,758
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments	(174,584)	(156,666)	(147,611)	(138,558)
Leverage ratio exposure measure	**13,373,595**	**12,915,944**	**12,709,092**	**13,268,735**

2.2 Leverage ratio common disclosure (LR2)

In the leverage ratio, total derivative exposure has increased due to increase in MTM of Profit Rate Swaps (PRS). Net MTM has increased from AED 35.36Mn in Q2'23 to AED 38.33Mn in Q3'23. Notional of the derivative exposure has remained same between Q2'23 and Q3'23.

AED'000

	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22
On-balance sheet exposures				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,394,082	12,931,307	12,726,941	13,273,411
Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-	-	-
(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-	-	-
(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-	-	-
(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-	-	-
(Asset amounts deducted in determining Tier 1 capital)	(174,584)	(156,666)	(147,611)	(138,558)
Total on-balance sheet exposures (excluding derivatives and SFTs)	13,219,498	12,774,641	12,579,330	13,134,853
Derivative exposures				
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	53,662	49,505	41,492	51,500
Add-on amounts for PFE associated with *all* derivatives transactions*	11,909	13,217	15,473	15,624
(Exempted CCP leg of client-cleared trade exposures)	-	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
Total derivative exposures	65,572	62,721	56,966	67,124
Securities financing transactions				

Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
CCR exposure for SFT assets	-	-	-	-
Agent transaction exposures	-	-	-	-
Total securities financing transaction exposures	-	-	-	-
Other off-balance sheet exposures				
Off-balance sheet exposure at gross notional amount	567,919	480,669	476,853	413,598
(Adjustments for conversion to credit equivalent amounts)	(479,394)	(402,088)	(404,057)	(346,841)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				-
Off-balance sheet items	88,525	78,581	72,796	66,758
Capital and total exposures				
Tier 1 capital	1,354,482	1,437,447	1,453,601	1,441,043
Total exposures	13,373,595	12,915,944	12,709,092	13,268,735
Leverage ratio				
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)				
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.13%	11.13%	11.44%	10.86%
CBUAE minimum leverage ratio requirement	3%	3%	3%	3%
Applicable leverage buffers	7.13%	8.13%	8.44%	7.86%

* With 1.4 multiplier

3. Funding and liquidity risk

Funding and Liquidity risk involves the inability of the Bank to fund increase in assets, manage unplanned changes in funding sources and to meet obligations when required. Liquidity risk primarily arises due to the maturity mismatch associated with assets and liabilities of the Bank.

The key measures used by the Group for managing liquidity risk are regulatory driven ratios which are Advance to stable ratio ("ASRR"), and Eligible Liquid Asset Ratio (ELAR). ASRR takes into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. As on 30th September 2023, the Bank's ASRR was 78.72%.

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As on 30th September 2023, this ratio stood at 18.15%.

3.1 High-quality liquid assets

HQLA must be easily and immediately convertible into cash at little or no loss of value, especially during a period of stress. HQLA are assets that are of minimal risk and are unencumbered. Other characteristics of HQLA are ease and certainty of valuation, low correlation with risky assets, listing of the assets on a developed and recognized exchange, existence of an active and sizeable market for the assets and low volatility. Our HQLA consist of assets that qualify as Level 1 in the Eligible Liquid Assets Ratio (ELAR) framework, including cash, central bank reserves and government bonds.

3.2 Eligible Liquid Assets Ratio (ELAR)

ELAR increased from 15.26% (June 2023) to 18.15% (Sept 2023) due to increase in eligible liquid assets mainly in Physical cash in hand at the bank & balances with CBUAE by AED 289 Mn.

AED'000

High Quality Liquid Assets	**Nominal amount**	**Eligible Liquid Asset**
Physical cash in hand at the bank + balances with the CBUAE	1,480,757	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	1,480,757	1,480,757
UAE local governments publicly traded debt securities	725,436	
UAE Public sector publicly traded debt securities	-	
Sub Total	725,436	448,585
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,730	36,730.00
Total	**2,242,923**	**1,966,072**
Total liabilities		10,830,526
Eligible Liquid Assets Ratio (ELAR)		**18.15%**

3.3 Advances to Stable Resources Ratio (ASRR)

ASRR ratio 78.72% (Sept 2023) was lower than 94.61% (June 2023) due to overall increase in the Interbank deposit with remaining life of more than 6 months by 1.54 bn, which forms part of total stable resources.

AED'000

Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	8,067,754
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	27,858
Interbank Placements	-
Total Advances	**8,095,612**
Calculation of Net Stable Resources	
Total capital + general provisions	1,649,471
Deduct:	
Goodwill and other intangible assets	174,584
Fixed Assets	380,354
Funds allocated to branches abroad	-
Unquoted Investments	602
Investment in subsidiaries, associates and affiliates	50,274
Total deduction	**605,814**
Net Free Capital Funds	**1,043,657**
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	2,349,770
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	822
Customer Deposits	6,889,615
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
Total other Stable Resources	**9,240,207**
Total Stable Resources	**10,283,864**
Advances To Stable Resources Ratio (ASRR)	**78.72**