Al Hilal Bank PJSC

Pillar 3 Report

31 March 2023

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1. Key Prudential Regulatory Metrics (at consolidated group level)

There has been a decline of AED 241Mn in total risk weighted assets (RWA) over the last quarter owing to decline in Sukuk portfolio and Operational Risk.

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	31/03/2023	31/12/2022	30/09/2022	30/06/2022	31/03/2022
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,453,601	1,441,043	1,539,511	1,576,867	1,621,395
Tier 1	1,453,601	1,441,043	1,539,511	1,576,867	1,621,395
Total capital	1,552,175	1,542,336	1,639,686	1,678,792	1,721,392
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	8,863,222	9,104,225	9,022,753	9,097,344	8,909,426
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	16.40%	15.83%	17.06%	17.33%	18.20%
Tier 1 ratio (%)	16.40%	15.83%	17.06%	17.33%	18.20%
Total capital ratio (%)	17.51%	16.94%	18.17%	18.45%	19.32%
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 minimum capital requirements (%)	7.01%	6.44%	7.67%	7.95%	8.82%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	12,709,092	13,268,735	13,663,772	13,982,557	13,829,619
Basel III leverage ratio (%)	11.44%	10.86%	11.27%	11.28%	11.72%
ELAR					
Total HQLA	1,467,096	1,521,856	1,911,774	2,020,535	1,926,088
Total liabilities	10,476,018	10,905,721	11,412,142	11,576,767	11,474,738
Eligible Liquid Assets Ratio (ELAR) (%)	14.00%	13.95%	16.75%	17.45%	16.79%
ASRR					
Total available stable funding	8,502,526	9,514,192	10,011,864	10,091,579	10,195,460
Total Advances	7,714,800	7,798,762	7,569,286	7,662,412	7,849,179
Advances to Stable Resources Ratio (%)	90.74%	81.97%	75.60%	75.93%	76.99%

2. Overview of risk weighted assets (OV1)

Counterparty Credit Risk Capital: In Q1'23, the capital requirement for Counterparty Credit Risk under the Standardised Approach has decreased compared to Q4'22 due to the decrease in Mark to Market (MTM) of the Profit Rate Swaps (PRS) and decrease in notional amount on account of maturity of some PRS. Net MTM has decreased from AED 36.78Mn in Q4'22 to AED 29.63Mn in Q1'23. No material change in Credit Value Adjustment (CVA) RWA.

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 51.64Mn in Q4'22 to AED 49.26Mn in Q1'23. 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 102.86Mn AED in Q4'22 to 113.50Mn AED in Q1'23. The change is due to increase in net FX open position.

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	RWA				Minimum capital requirements
	31/03/2023	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2023**
Credit risk (excluding counterparty credit risk)*	7,872,963	8,088,055	7,998,328	8,144,279	1,023,485
Of which: standardised approach (SA)	7,872,963	8,088,055	7,998,328	8,144,279	1,023,485
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)	12,989	15,385	15,663	9,674	1,364
Of which: standardised approach for counterparty credit risk	12,989	15,385	15,663	9,674	1,364
Credit valuation adjustment (CVA)	30,918	30,746	34,415	27,763	3,246
Equity investments in funds - look-through approach	49,263	51,643	61,571	-	5,173
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	113,508	102,868	97,247	100,100	11,918
Of which: standardised approach (SA)	113,508	102,868	97,247	100,100	11,918
Operational risk	783,581	815,528	815,528	815,528	82,276
Total	**8,863,222**	**9,104,225**	**9,022,753**	**9,097,344**	**1,127,462**

3. 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.

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

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Summary comparison of accounting assets vs leverage ratio exposure	**31/03/2023**	**31/12/2022**	**30/09/2022**	**30/06/2022**
Total consolidated assets as per published financial statements*	12,726,941	13,273,411	13,549,449	13,894,771
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	56,966	67,124	68,663	43,546
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)	72,796	66,758	59,429	60,963
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments*	(147,611)	(138,558)	(13,770)	(16,723)
Leverage ratio exposure measure	12,709,092	13,268,735	13,663,772	13,982,557

*Intangible Assets

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.

3.2 Leverage ratio common disclosure (LR2)

The total derivatives exposure in the leverage ratio has decreased due to decrease in MTM of Profit Rate Swaps (PRS). Net MTM has decreased from AED 36.78Mn in Q4'22 to AED 29.63Mn Q1'23 which is attributed primarily to the decrease in notional from AED 1.06Bn in Q4'22 to AED 0.84Bn in Q1'23 on account of maturity of swaps. Total derivative exposure is 1.4 times sum total of replacement cost and add-on amount for PFE (Potential future exposure). Add-on amount is calculated based on SA-CCR methodology which is adopted from Q2'22.

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	31/03/2023	31/12/2022	30/09/2022	30/06/2022
On-balance sheet exposures				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	12,726,941	13,273,411	13,549,449	13,894,771
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)**	(147,611)	(138,558)	(13,770)	(16,723)
Total on-balance sheet exposures (excluding derivatives and SFTs)	12,579,330	13,134,853	13,535,679	13,878,048
Derivative exposures				
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	41,492	51,500	51,779	18,399
Add-on amounts for PFE associated with *all* derivatives transactions*	15,473	15,624	16,884	25,147
(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	56,966	67,124	68,663	43,546

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	476,853	413,598	455,098	462,409
(Adjustments for conversion to credit equivalent amounts)	(404,057)	(346,841)	(395,668)	(401,446)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				
Off-balance sheet items	72,796	66,758	59,429	60,963
Capital and total exposures				
Tier 1 capital	1,453,601	1,441,043	1,539,511	1,576,867
Total exposures	12,709,092	13,268,735	13,663,772	13,982,557
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)	11.44%	10.86%	11.27%	11.28%
CBUAE minimum leverage ratio requirement	3%	3%	3%	3%
Applicable leverage buffers	8.44%	7.86%	8.27%	8.28%

** With 1.4 multiplier*

*** Intangible Assets*

4. 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. At 31 March 2023, the Bank's ASRR was 90.74%. The ELAR 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 at 31 March 2023, this ratio stood at 14% (calculated on 90 days' average basis).

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 low 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 predominantly consist of assets that qualify as Level 1 in the Eligible Liquid Assets Ratio (ELAR) framework, including cash, central bank reserves and government bonds.

4.1 Eligible Liquid Assets Ratio (ELAR)

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High Quality Liquid Assets	**Nominal amount**	**Eligible Liquid Asset**
Physical cash in hand at the bank + balances with the CBUAE	1,096,306	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	1,096,306	1,096,306
UAE local governments publicly traded debt securities	1,079,074	
UAE Public sector publicly traded debt securities		
Sub Total	1,079,074	337,325
Foreign Sovereign debt instruments or instruments issued by their respective central banks	33,465	33,465
Total	**2,208,845**	**1,467,096**
Total liabilities		10,476,018
Eligible Liquid Assets Ratio (ELAR)		**14.00%**

4.2 Advances to Stable Resources Ratio (ASRR)

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Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,681,352
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	33,448
Interbank Placements	-
Total Advances	7,714,800
Calculation of Net Stable Resources	
Total capital + general provisions	1,724,711
Deduct:	
Goodwill and other intangible assets	147,612
Fixed Assets	403,306
Funds allocated to branches abroad	-
Unquoted Investments	2,320
Investment in subsidiaries, associates and affiliates	51,391
Total deduction	604,629
Net Free Capital Funds	1,120,082
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	808,060
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	-
Customer Deposits	6,574,384
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
Total other Stable Resources	7,382,444
Total Stable Resources	8,502,526
Advances To Stable Resources Ratio (ASRR)	90.74