

# Al Hilal Bank PJSC

## Pillar 3 Report

31 March 2024

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## 1. Key Metrics for the Group (KM1)

The decrease of AED 572Mn in total risk weighted assets (RWA) over the last quarter mainly due to decrease in other assets AED 330Mn, claims on retails AED 177Mn, claims on corporates AED 162Mn and other positive movements across portfolio.

In AED'000	31-Mar-24	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23
<b>Available capital (amounts)</b>					
Common Equity Tier 1 (CET1)	1,365,922	1,410,714	1,354,482	1,437,447	1,453,601
Tier 1	1,365,922	1,410,714	1,354,482	1,437,447	1,453,601
Total capital	1,460,934	1,512,467	1,457,182	1,536,745	1,552,175
<b>Risk-weighted assets (amounts)</b>					
Total risk-weighted assets (RWA)	8,560,823	9,132,546	9,203,172	8,932,018	8,863,222
<b>Risk-based capital ratios as a percentage of RWA</b>					
Common Equity Tier 1 ratio (%)	15.96%	15.45%	14.72%	16.09%	16.40%
Tier 1 ratio (%)	15.96%	15.45%	14.72%	16.09%	16.40%
Total capital ratio (%)	17.07%	16.56%	15.83%	17.20%	17.51%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
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%
requirements (%)	6.57%	6.06%	5.33%	6.70%	7.01%
<b>Basel III Leverage Ratio</b>					
Total Basel III leverage ratio measure	13,503,849	13,519,812	13,373,595	12,915,944	12,709,092
Basel III leverage ratio (%)	10.12%	10.43%	10.13%	11.13%	11.44%
<b>ELAR</b>					
Total HQLA	2,135,394	1,876,954	1,966,072	1,595,121	1,467,096
Total liabilities	10,712,831	10,828,152	10,830,526	10,454,788	10,476,018
Eligible Liquid Assets Ratio (ELAR) (%)	19.93%	17.33%	18.15%	15.26%	14.00%
<b>ASRR</b>					
Total available stable funding	9,072,875	10,302,110	10,283,864	8,447,708	8,502,526
Total Advances	7,779,715	8,378,142	8,095,612	7,992,624	7,714,800
Advances to Stable Resources Ratio (%)	85.75%	81.32%	78.72%	94.61%	90.74%

## 2. Overview of risk weighted assets (OV1)

OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type.

**Credit Risk:** The decrease of AED 539Mn in credit risk weighted assets (CRWA) over the quarter is primarily driven by CRWA decreases in other assets AED 330Mn, claims on retails AED 177Mn and claims on corporates of AED 162Mn.

**Counterparty Credit Risk Capital (CCR) and Credit Value Adjustment (CVA):** During Q1'2024, the capital requirement for Counterparty Credit Risk under the Standardised Approach has increased marginally compared to Q4'2023 (RWA has increased from 9.6Mn to 9.8Mn) due to the increase in Mark to Market (MTM) of the Profit Rate Swaps (PRS). Net MTM has increased from AED 23.1Mn in Q4'2023 to AED 25.9Mn in Q1'2024. Credit Value Adjustment (CVA) Risk Weighted Assets has decreased marginally due to decrease in maturity of swaps.

**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. Risk Weighted Assets has dropped marginally from AED 47.1Mn in Q4'2023 to AED 43.1Mn in Q1'2024. 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 Risk Weighted Assets from 142.03Mn AED in Q4'2023 to 154.65Mn AED in Q1'2024. This change is due to increase in net FX open position.

	AED'000		
	RWA		Minimum capital requirements
	31-Mar-24	31-Dec-23	31-Mar-24
Credit risk (excluding counterparty credit risk)	7,591,092	8,130,628	986,842
Of which: standardised approach (SA)	7,591,092	8,130,628	986,842
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)	9,815	9,604	1,031
Of which: standardised approach for counterparty credit risk	9,815	9,604	1,031
Credit valuation adjustment (CVA)	19,256	19,545	2,022
Equity investments in funds - look-through approach	43,129	47,153	4,529
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	154,653	142,034	16,239
Of which: standardised approach (SA)	154,653	142,034	16,239
Operational risk	742,878	783,581	78,002
<b>Total</b>	<b>8,560,823</b>	<b>9,132,546</b>	<b>1,088,664</b>

### 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.

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

	AED'000			
Summary comparison of accounting assets vs leverage ratio exposure	31-Mar-24	31-Dec-23	30-Sep-23	30-Jun-23
Total consolidated assets as per published financial statements	13,534,499	13,570,744	13,394,082	12,931,307
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	45,613	43,048	65,572	62,721
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)	121,150	82,262	88,525	78,581
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments	(197,412)	(176,241)	(174,584)	(156,666)
<b>Leverage ratio exposure measure</b>	<b>13,503,849</b>	<b>13,519,812</b>	<b>13,373,595</b>	<b>12,915,944</b>

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 (Basel Committee on Banking Supervision) 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 Securities Financing Transactions (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.

b) Leverage ratio common disclosure (LR2)

In the leverage ratio, total derivatives exposures marginally increased from AED 43.05Mn in Q4'23 to AED 45.61Mn in Q1'24 which is due to increase in net MTM of Profit Rate Swaps (PRS). Net MTM of PRS has increased from AED 23.1Mn in Q4'23 to AED 25.9Mn Q1'24. Total derivative exposure is 1.4 times of total of replacement cost and add-on amount for Potential future exposure (PFE). Add-on amount is calculated based on SA-CCR methodology, which is adopted from Q2 2022.

	31-Mar-24	31-Dec-23	30-Sep-23	AED'000 30-Jun-23
<b>On-balance sheet exposures</b>				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	13,534,499	13,570,744	13,394,082	12,931,307
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)	(197,412)	(176,241)	(174,584)	(156,666)
<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>13,337,087</b>	<b>13,394,503</b>	<b>13,219,498</b>	<b>12,774,641</b>
<b>Derivative exposures</b>				
Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	36,360	32,360	53,662	49,505
Add-on amounts for PFE associated with <i>all</i> derivatives transactions* (Exempted CCP leg of client-cleared trade exposures)	9,253	10,687	11,909	13,217
Adjusted effective notional amount of written credit derivatives	-	-	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
<b>Total derivative exposures</b>	<b>45,613</b>	<b>43,048</b>	<b>65,572</b>	<b>62,721</b>
<b>Securities financing transactions</b>				
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	-	-	-	-
<b>Total securities financing transaction exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>				
Off-balance sheet exposure at gross notional amount	608,206	501,075	567,919	480,669
(Adjustments for conversion to credit equivalent amounts)	(487,056)	(418,812)	(479,394)	(402,088)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-	-	-
<b>Off-balance sheet items</b>	<b>121,150</b>	<b>82,262</b>	<b>88,525</b>	<b>78,581</b>
<b>Capital and total exposures</b>				
<b>Tier 1 capital</b>	<b>1,365,922</b>	<b>1,410,714</b>	<b>1,354,482</b>	<b>1,437,447</b>
<b>Total exposures</b>	<b>13,503,849</b>	<b>13,519,812</b>	<b>13,373,595</b>	<b>12,915,944</b>
<b>Leverage ratio</b>				
<b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>				
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	10.12%	10.43%	10.13%	11.13%
CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%	3.00%
<b>Applicable leverage buffers</b>	<b>7.12%</b>	<b>7.43%</b>	<b>7.13%</b>	<b>8.13%</b>

\* With 1.4 multiplier

#### 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. As on 31 March 2024, the Bank’s ASRR reported as at 85.75%.

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 at 31 March 2024, this ratio stood at 19.93%.

##### a) High-quality liquid assets (HQLA)

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. The Bank’s 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.

##### b) Eligible Liquid Assets Ratio (ELAR)

	Nominal amount	AED'000
<b>High Quality Liquid Assets</b>		<b>Eligible Liquid Asset</b>
Physical cash in hand at the bank + balances with the CBUAE	1,621,084	
UAE Federal Government Bonds and Sukuks	-	
<b>Sub Total</b>	<b>1,621,084</b>	<b>1,621,084</b>
UAE local governments publicly traded debt securities	731,783	
UAE Public sector publicly traded debt securities	-	
<b>Sub Total</b>	<b>731,783</b>	<b>477,863</b>
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,447	36,446.94
<b>Total</b>	<b>2,389,314</b>	<b>2,135,394</b>
Total liabilities		10,712,831
<b>Eligible Liquid Assets Ratio (ELAR)</b>		<b>19.93%</b>



## 5. Advances to Stable Resources Ratio (ASRR)

	AED'000
<b>Computation of Advances</b>	<b>Amount</b>
Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,754,962
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	24,753
Interbank Placements	-
<b>Total Advances</b>	<b>7,779,715</b>
<b>Calculation of Net Stable Resources</b>	
Total capital + general provisions	1,684,401
<b>Deduct:</b>	
Goodwill and other intangible assets	197,412
Fixed Assets	34,001
Funds allocated to branches abroad	-
Unquoted Investments	603
Investment in subsidiaries, associates and affiliates	52,687
<b>Total deduction</b>	<b>284,703</b>
<b>Net Free Capital Funds</b>	<b>1,399,698</b>
<b>Other stable resources:</b>	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	257,110
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	48
Customer Deposits	7,416,019
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
<b>Total other Stable Resources</b>	<b>7,673,177</b>
<b>Total Stable Resources</b>	<b>9,072,875</b>
<b>Advances To Stable Resources Ratio (ASRR)</b>	<b>85.75</b>