Al Hilal Bank PJSC

Pillar 3 Report

30 June 2024

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1. Introduction and basis of preparation

1.1 Scope of Basel III Pillar 3 disclosures

The Basel Committee on Banking Supervision (BCBS) Basel III capital adequacy framework consists of three pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and to cover other risks, like liquidity, concentration, reputational, Profit rate risk etc. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.

This report provides Pillar 3 disclosures for Al Hilal Bank PJSC and its subsidiaries (together referred to as “AHB” or the “Bank”) for the period ended 30 June 2024.

1.2 Significant capital adequacy, liquidity and funding related disclosure requirements

Capital adequacy, liquidity, funding and remuneration related disclosures in the Pillar 3 report have been prepared in accordance with Central Bank of UAE Standards and Guidance re Capital Adequacy in the UAE (Notice CBUAE/BSD/N/2020/4980 dated November 2020 updated via Notice CBUAE/BSD/2022/5280 dated December 2022) and Explanatory Notes on Pillar 3 Disclosure requirements, the underlying BCBS guidance “Revised Pillar 3 disclosure requirements” issued in January 2015, the “Frequently asked questions on the revised Pillar 3 disclosure requirements” issued in August 2016, the “Pillar 3 disclosure requirements – consolidated and enhanced framework” issued in March 2017 and the subsequent “Technical Amendment – Pillar 3 disclosure requirements regulatory treatment of accounting provisions” issued in August 2018, BCBS “Pillar 3 disclosure requirements updated framework” Dec 2018, and CBUAE Explanatory notes updated dated 9th May 2022.

2. Overview of Basel III requirements:

The Bank complies with the latest Basel III standards and guidance notes which have been implemented in the UAE through notice reference, Notice CBUAE/BSD/N/2020/4980 dated November 2020 updated via Notice CBUAE/BSD/2022/5280 dated December 2022.

Basel requirements are structured around three ‘pillars’ which are outlined below:

Pillar I - Deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, market risk and operational risk. Other risks are not considered fully quantifiable at this stage.

Pillar II - Allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar I risk types and/or to cover other risks like liquidity, concentration, reputational, etc. A bank’s own internal models and assessments support this process. It also provides a framework for dealing with all the other risks a bank may encounter such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk, legal risk, etc. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (ICAAP).

Pillar III - Covers external communication of risk and capital information by banks as specified in the Basel rules. The aim of Pillar III is to provide a consistent and comprehensive disclosure framework by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes, capital adequacy, liquidity and funding position and leverage of the institution. It must be consistent with how the senior management including the board assess and manage the risks of the institution.

Basel III also provides for different approaches to calculate credit risk capital requirements:

Standardised approach — Under this approach, the assets (including off-balance-sheet post-CCF) are classified into asset types defined by Basel guidelines to enable better risk sensitivity. The risk weights used to assess capital requirements against credit exposures are provided by the regulator(s) and is consistent across the industry.

Internal ratings-based approach (IRB) — Under this approach, the risk weights are derived from the Bank's internal models. The IRB approach is further sub-divided into two alternative applications Foundation and Advanced:

Foundation IRB (FIRB) — Under this approach, the banks are allowed to develop their own models to estimate the PD (probability of default) for individual borrowers or groups of borrowers and use supervisory values for LGD (loss given default) and EAD (exposure at default) estimates. Banks can use this approach subject to approval from their local regulators.

Advanced IRB (AIRB) — Under this approach, the banks are allowed to develop their own models to quantify PD, LGD and EAD required to estimate capital for credit risk. Banks can use this approach subject to approval from their local regulators.

2.1 AHB's approach to Pillar I

Credit risk: Standardised approach is used by the Bank in calculating its capital requirements for credit risk. This approach allows the Bank to determine the risk weight by the asset class and the criteria applicable to the counterparty as per the regulatory guidance. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: The Bank uses the standardised approach for calculating regulatory market risk capital requirements.

Operational risk: The Bank uses the standardised approach for computing capital requirements for operational risk.

2.2 Minimum capital requirement

To achieve broader macro –prudential goal of protecting the banking sector from the periods of excess aggregate credit growth in addition to the capital conservation buffer (CCB) requirement, banks are required to maintain the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCB requirement is set to 2.5% of risk weighted assets. The countercyclical buffer varies between zero and 2.5% of total risk weighted assets. The buffer that will apply to each bank will reflect the geographic composition of its portfolio of credit exposures.

Further, to reduce risks related to the failure of domestic systemically relevant institutions, the Central Bank of the UAE has introduced domestic systematically important banks (D-SIB) buffer. AHB is non-D-SIB and is not required to maintain a D-SIB buffer of 0.5%.

2.3 Leverage and liquidity ratios

In addition, Basel III prescribes a 3% minimum leverage ratio and two liquidity ratios viz; Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR are not mandatory for AHB. AHB complies with Central Bank of the UAE's Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR) regulatory framework.

In May 2015, the Central Bank of the UAE published "Regulations relating to Liquidity at Banks" circular number 33/2015 which is in effect till date. The regulations require banks to maintain ELAR of 10% at minimum and ASRR of 100% at maximum.

As at 30th June 2024, AHB's ELAR stands at 27.43% (calculated on 90 days' average basis) which is well above the minimum requirement of 10%, ASRR stands at 88.02% which is well below the maximum requirement of 100% and Leverage ratio stands at 10.45% which is again well above the minimum requirement of 3%.

2.4 Standards for Standalone Capital Adequacy Ratio

In November 2020, the Central Bank of UAE issued draft standards and guidance on standalone capital adequacy requirements following industry consultation. The Central Bank of UAE requires banks subject to standalone CAR to apply prudential requirements at the legal entity level on a solo basis. The bank's legal entity standalone capital adequacy ratio requirements measure the capital adequacy of a bank based on its standalone capital strength and risk profile by focusing solely on the standalone assets and liabilities.

Further, the Central Bank of UAE has mandated reporting standalone capital adequacy ratio on a quarterly basis effective from 31 December 2023. The Bank meet the capital adequacy requirements on a standalone basis.

2.5 Revised Standards for Pillar – III disclosures

Basel III standards and guidance notes which have been implemented in the UAE through notice reference CBUAE/BSD/N/2020/4980 dated 12 November 2020 updated via Notice CBUAE/BSD/2022/5280 dated 30 December 2022. These standards and guidance notes supersede the existing Pillar 3 disclosure requirements issued in 2009. These revised requirements are an integral part of the Basel framework, and they complement other disclosure requirements issued separately by Central Bank. Pillar 3 Disclosure requirements apply to all banks in the UAE at consolidated level for local banks and all branches of foreign banks.

2.6 Impact on AHB

The UAE Central Bank has set a minimum capital adequacy ratio (CAR) of 13% and CET 1 ratio of 9.5% (including CCB buffers). As of 30th June 2024, AHB met the minimum requirements with a CAR of 17.76% and CET1 ratio of 16.66%.

2.7 Basis of consolidation

These Pillar III disclosures are in line with the consolidated financial statements which comprises of the Bank and its subsidiaries as set out in (Note 32 in the Annual Financial Statements) (together referred to as the "Group"). The Group is primarily involved in Islamic retail and treasury related activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiary located in Kazakhstan.

In accordance with paragraph 825 of International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee, general disclosures of credit risk provided in this report have a wide range of information about overall credit exposure and may not be necessarily based on information prepared for regulatory purposes.

2.8 Verification

The Pillar III disclosures for the period ended 30th June 2024 have been appropriately verified internally by Finance, Risk and has been reviewed by the Group Internal Audit.

2.9 Ownership

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC ("ADCB") and the erstwhile Board of Directors of Union National Bank PJSC ("UNB") approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e. combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retained ADCB's legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond ("bond") to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. This bond was converted into 117,647,058 ADCB shares. Post-acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 1 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank's rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets.

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

3.1 Key Metrics for the Group (KM1)

There has been a decrease of AED 692Mn in total risk weighted assets (RWA) over the last quarter mainly due to decrease in investment securities and Regulatory retail portfolio of AED 575 Mn.

In AED'000	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-23	30-Jun-23
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,311,202	1,365,922	1,410,714	1,354,482	1,437,447
Tier 1	1,311,202	1,365,922	1,410,714	1,354,482	1,437,447
Total capital	1,397,839	1,460,934	1,512,467	1,457,182	1,536,745
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	7,868,682	8,560,823	9,132,546	9,203,172	8,932,018
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	16.66%	15.96%	15.45%	14.72%	16.09%
Tier 1 ratio (%)	16.66%	15.96%	15.45%	14.72%	16.09%
Total capital ratio (%)	17.76%	17.07%	16.56%	15.83%	17.20%
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 (%)	7.26%	6.57%	6.06%	5.33%	6.70%
Basel III Leverage Ratio					
Total Basel III leverage ratio measure	12,549,581	13,503,849	13,519,812	13,373,595	12,915,944
Basel III leverage ratio (%)	10.45%	10.12%	10.43%	10.13%	11.13%
ELAR					
Total HQLA	2,944,359	2,135,394	1,876,954	1,966,072	1,595,121
Total liabilities	10,733,330	10,712,831	10,828,152	10,830,526	10,454,788
Eligible Liquid Assets Ratio (ELAR) (%)	27.43%	19.93%	17.33%	18.15%	15.26%
ASRR					
Total available stable funding	8,473,339	9,072,875	10,302,110	10,283,864	8,447,708
Total Advances	7,458,341	7,779,715	8,378,142	8,095,612	7,992,624
Advances to Stable Resources Ratio (%)	88.02%	85.75%	81.32%	78.72%	94.61%

3.2 Capital Management

The Bank's capital management aims to guarantee solvency and maximise profitability, while complying with regulatory requirements and internal objectives. It is a key strategic tool for decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes. Our active capital management applies strategies on efficient capital allocation to business lines. Our capital allocation model aims to ensure our capital allocation is right for the risks inherent in our operations and risk appetite to optimise value creation for our group and business units.

The ratios of this report are calculated by applying the Central Bank of UAE capital standards and guidelines as mentioned in section 2 of this report.

At half year-end, the CET1 ratio was 16.66% with 726 bps available for CET1 buffer requirement while CAR was 17.76% which is 476 bps above the regulatory minimum. The leverage ratio stood at 10.45% against a regulatory minimum of 3%.

3.3 Capital Resources (CC1)

All capital instruments included in the capital base meet the requirements set out in the Central Bank of UAE capital standards and guidelines.

	AED'000
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	4,850,000
Retained earnings	(3,220,872)
Accumulated other comprehensive income (and other reserves)	(110,513)
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
Common share capital issued by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory deductions	**1,518,614**
Common Equity Tier 1 capital regulatory adjustments	
Prudent valuation adjustments	-
Goodwill (net of related tax liability)	-
Other intangibles including mortgage servicing rights (net of related tax liability)	(193,813)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
Cash flow hedge reserve	-
Securitisation gain on sale	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined benefit pension fund net assets	-
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
Amount exceeding 15% threshold	-
Of which: significant investments in the common stock of financials	-
Of which: deferred tax assets arising from temporary differences	-
CBUAE specific regulatory adjustments	(13,600)
Total regulatory adjustments to Common Equity Tier 1	(207,412)
Common Equity Tier 1 capital (CET1)	1,311,202
Additional Tier 1 capital: regulatory adjustments	
Investments in own additional Tier 1 instruments	-
Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
consolidation	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1= CET1 + AT1)	1,311,202

Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase-out from Tier 2	-
Tier 2 instruments issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Provisions	86,637
Tier 2 capital before regulatory adjustments	86,637
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	-
Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
CBUAE specific regulatory adjustments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	86,637
Total regulatory capital (TC = T1 + T2)	1,397,839
Total risk-weighted assets	7,868,682
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	16.66%
Tier 1 (as a percentage of risk-weighted assets)	16.66%
Total capital (as a percentage of risk-weighted assets)	17.76%
Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.50%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	-
Of which: higher loss absorbency requirement (e.g. DSIB)	-
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	7.26%
The CBUAE Minimum Capital Requirement	
Common Equity Tier 1 minimum ratio	7.0%
Tier 1 minimum ratio	8.5%
Total capital minimum ratio	10.5%
Amounts below the thresholds for deduction (before risk weighting)	
Significant investments in common stock of financial entities	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	124,781
Cap on inclusion of provisions in Tier 2 under standardised approach	86,637
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
Current cap on CET1 instruments subject to phase-out arrangements	-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on AT1 instruments subject to phase-out arrangements	-
Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
Current cap on T2 instruments subject to phase-out arrangements	-
Amount excluded from T2 due to cap (excess after redemptions and maturities)	-

3.4 Reconciliation of regulatory capital to balance sheet (CC2)

The following table shows the reconciliation between balance sheet prepared for published financial statements with that prepared for regulatory reporting. The amount shown under the regulatory scope of consolidation is not a RWA measure; it is based on an accounting measure and cannot be directly reconciled to other disclosures in this report which are prepared applying Basel III rules. The variance of AED 167Mn between financial statement and regulatory scope of consolidation is due to netting of provision and profit in suspense (PIS).

AED'000

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	30-Jun-24	30-Jun-24
Assets		
Cash and balances at central bank	2,799,482	2,799,482
Deposits & balances due from banks	46,247	46,247
Receivable from Islamic financing, activities	5,870,935	6,010,166
Ijara	1,437,047	1,472,121
Investment Properties	65,508	65,508
Investment Securities	1,931,950	1,931,950
Intangible Assets	183,138	183,138
Property And Equipment, Net	53,205	53,205
Islamic Derivative Financial Instruments Asset	1,213	1,213
Investment in Associate	51,742	51,742
Other Assets	179,832	172,979
Total assets	**12,620,298**	**12,787,751**
Liabilities		
Deposits from Customers	8,219,125	8,219,125
Wakala Deposits from banks	2,450,379	2,450,379
Items in the course of collection due to other banks	-	-
Sukuk Liability	79,831	79,831
Islamic Derivative Financial Instruments Liabilities	25	25
Other Liabilities	350,349	519,416
Total liabilities	**11,099,710**	**11,268,777**
Shareholders' equity		
Paid-in share capital	4,850,000	4,850,000
Tier 1 Sukuk	-	-
Reserves	178,896	178,896
Retained Earnings	(3,154,167)	(3,154,167)
Net Profit for the Year	(66,705)	(66,705)
Cumulative Change in Fair Values	(287,435)	(289,051)
Minority Interest	-	-
Total shareholders' equity	**1,520,588**	**1,518,973**

3.5 Main features of regulatory capital instruments (CCA)

AED'000

	Quantitative / qualitative information
Issuer	Al Hilal Bank PJSC
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
Governing law(s) of the instrument	NA
Amount recognised in regulatory capital (In millions, as of most recent reporting date)	4,850
Nominal amount of instrument	1
Issue price	1
Redemption price	NA
Accounting classification	CET1
Original date of issuance	NA
Perpetual or dated	NA
Coupons / dividends	NA
If yes, specify non-compliant features	NA

3.6 Countercyclical capital buffer (CCyB)

The Bank's countercyclical capital buffer (CCyB) requirement is determined by applying various country specific CCyB rates to the Bank's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted average basis. The Group's current CCyB requirement is 0 bps:

AED'000

Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
Australia	1.00%	55.71	27.86	0%	0.3
Germany	0.75%	2,291.6	458.3	0%	3.4
Sweden	2.00%	158.0	31.6	0%	0.6
United Kingdom	2.00%	5,585.8	2,436.5	0%	48.7
Total		**8,091.1**	**2,954.3**	**0%**	**53.1**

4. Risk Management and Risk Weighted Assets

4.1 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 generally 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.

4.2 RWA development in Q2'2024

The OV1 table provides an overview of our RWA and the related minimum capital requirements by risk type. Over the quarter, total RWA decreased from AED 8.56Bn to AED 7.86 Bn.

Counterparty Credit Risk Capital: In Q2'24, the capital requirement for Counterparty Credit Risk under the Standardised Approach has decreased compared to Q1'24 due to unwind of hedges (profit rate swaps) on the sale of investment securities. Net MTM has decreased from AED 25.97Mn in Q1'24 to AED 1.21Mn in Q2'24. CCR RWA has decreased from AED 9.81Mn in Q1'24 to AED 0.69Mn in Q2'24. Credit Value Adjustment (CVA) RWA also dropped from AED 19.25Mn to AED 0.069Mn.

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 increased from AED 43.12Mn in Q1'24 to AED 53.47Mn in Q2'24. The increase is attributed to the increase in AHB's percentage holding in the Global Sukuk Fund**.**

Market Risk Capital – In Q2'24 Market Risk comprises of Foreign Exchange risk and Equity Risk. There has been an increase in RWA from 154.65Mn AED in Q1'24 to 194.83Mn AED in Q2'24. The change is due to increase in net FX open position and inclusion of a (Mandatory Convertible Security) as a trading equity position.

4.3 Overview of risk weighted assets (OV1)

AED'000

	RWA		Minimum capital requirements
	30-Jun-24	30-Mar-24	30-Jun-24
Credit risk (excluding counterparty credit risk)	6,876,728	7,591,092	893,975
Of which: standardised approach (SA)	6,876,728	7,591,092	893,975
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)	694	9,815	73
Of which: standardised approach for counterparty credit risk	694	9,815	73
Credit valuation adjustment (CVA)	69	19,256	7
Equity investments in funds - look-through approach	53,475	43,129	5,615
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	194,837	154,653	20,458
Of which: standardised approach (SA)	194,837	154,653	20,458
Operational risk	742,878	742,878	78,002
Total	**7,868,682**	**8,560,823**	**998,130**

5. 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.

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

AED'000

Summary comparison of accounting assets vs leverage ratio exposure	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-23
Total consolidated assets as per published financial statements	12,619,085	13,534,499	13,570,744	13,394,082
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	1,825	45,613	43,048	65,572
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)	122,483	121,150	82,262	88,525
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments	(193,813)	(197,412)	(176,241)	(174,584)
Leverage ratio exposure measure	**12,549,581**	**13,503,849**	**13,519,812**	**13,373,595**

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.

5.2 Leverage ratio common disclosure (LR2)

In the leverage ratio, total derivative exposure has decreased due to sukuk sale and unwinding of PRS attached to it. This has resulted in reduction of Net MTM from AED 25.97Mn in Q1'24 to AED 1.21Mn Q2'24

AED'000

	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-23
On-balance sheet exposures				
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	12,619,085	13,534,499	13,570,744	13,394,082
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)	(193,813)	(197,412)	(176,241)	(174,584)
Total on-balance sheet exposures (excluding derivatives and SFTs)	12,425,272	13,337,087	13,394,503	13,219,498
Derivative exposures				
Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)*	1,699	36,360	32,360	53,662
Add-on amounts for PFE associated with *all* derivatives transactions*	126	9,253	10,687	11,909
(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	1,825	45,613	43,048	65,572

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	650,898	608,206	501,075	567,919
(Adjustments for conversion to credit equivalent amounts)	(528,415)	(487,056)	(418,812)	(479,394)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				
Off-balance sheet items	122,483	121,150	82,262	88,525
Capital and total exposures				
Tier 1 capital	1,311,202	1,365,922	1,410,714	1,354,482
Total exposures	12,549,581	13,503,849	13,519,812	13,373,595
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)	10.45%	10.12%	10.43%	10.13%
CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%	3.00%
Applicable leverage buffers	7.45%	7.12%	7.43%	7.13%

* With 1.4 multiplier per CBUAE prescribed methodology

6. 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 June 2024, the Bank's ASRR was 88.02%.

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 June 2024, this ratio stood at 27.43%.

6.1 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 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.

6.2 Eligible Liquid Assets Ratio (ELAR)

AED'000

High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	2,306,248	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	2,306,248	2,306,248
UAE local governments publicly traded debt securities	662,965	
UAE Public sector publicly traded debt securities	-	
Sub Total	662,965	601,194
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,759	36,758.78
Total	**3,005,972**	**2,944,201**
Total liabilities		10,733,330
Eligible Liquid Assets Ratio (ELAR)		**27.43%**

6.3 Advances to Stable Resources Ratio (ASRR)

AED'000

Computation of Advances	Amount
Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,433,588
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	24,753
Interbank Placements	-
Total Advances	**7,458,341**
Calculation of Net Stable Resources	
Total capital + general provisions	1,629,251
Deduct:	
Goodwill and other intangible assets	193,813
Fixed Assets	42,529
Funds allocated to branches abroad	-
Unquoted Investments	603
Investment in subsidiaries, associates and affiliates	51,742
Total deduction	**288,687**
Net Free Capital Funds	**1,340,564**
Other stable resources:	
Funds from the head office	-
Interbank deposits with remaining life of more than 6 months	-
Refinancing of Housing Loans	-
Borrowing from non-Banking Financial Institutions	42
Customer Deposits	7,132,733
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
Total other Stable Resources	**7,132,775**
Total Stable Resources	**8,473,339**
Advances To Stable Resources Ratio (ASRR)	**88.02**

7. Credit Risk Management

7.1 Credit quality of assets (CR1)

AED'000

	Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values
	Defaulted exposures	Non-defaulted exposures		*Allocated in regulatory category of Specific*	Allocated in regulatory category of General	
Loans	126,538	7,355,749	167,308	43,084	124,224	7,314,979
Debt securities	-	1,821,598	556		556	1,821,042
Off-balance sheet exposures**	-	652,723	-			652,723
Total	**126,538**	**9,830,070**	**167,864**	**43,084**	**124,780**	**9,788,744**

Default Definition: - AHB follows the CBUAE guidelines as mentioned in their circular 28/2010 for the classifications of assets. AHB has a well-defined approved policies and procedures for loan classifications.

For retail loans, a default is considered when the obligor is past due more than 90 days on any credit obligations or that obligor is unlikely to pay its credit obligations. For Sukuk and money market instruments sub-standard, doubtful or loss flagging considered as default. For non-retail 90 days past due criteria considers as default.

7.2 Changes in stock of defaulted loans and debt securities (CR2)

	AED'000
Defaulted loans and debt securities at the end of the previous reporting period	134,637
Loans and debt securities deafulted from last reporting period	35,006
Returned to non-default status	(3,324)
Amounts written off	(38,491)
Other changes	(1,290)
Defaulted loans and debt securities at the end of the reporting period	**126,538**

7.3 Credit risk mitigation techniques – overview (CR3)

AED'000

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	7,388,353	93,934	7,606	-	-	-	-
Debt securities	1,821,598	-	-	-	-		
Total	**9,209,952**	**93,934**	**7,606**	-	-	-	-
Of which defaulted	126,538	-	-	-	-	-	-

7.4 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

AED'000

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	3,467,154	-	3,467,154	-	300,843	4%
Public Sector Entities	164,205	-	164,205	-	100,314	1%
Multilateral development banks	37,040	-	37,040	-	-	0%
Banks	311,596	1,825	311,596	1,825	115,486	2%
Securities firms	-	-	-	-	-	0%
Corporates	1,262,242	500,482	1,262,242	71,464	1,208,364	18%
Regulatory retail portfolios	5,216,117	150,416	5,216,117	-	4,173,356	61%
Secured by residential property	1,333,084	-	1,333,084	-	508,602	7%
Secured by commercial real estate	57,308	-	57,308	-	57,308	1%
Equity Investment in Funds (EIF)		-	-	-	-	0%
Past-due loans	126,538	-	83,454	-	84,800	1%
Higher-risk categories	-	-	-	-	-	0%
Other assets	812,466	-	812,466	-	328,349	5%
Total	**12,787,751**	**652,723**	**12,744,667**	**73,289**	**6,877,422**	**100%**

7.5 Standardised approach - exposures by asset classes and risk weights (CR5)

AED'000

Risk weight* / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	2,817,965	-	79,171	-	570,018	-	-	-	-	3,467,154
Public Sector Entities	-	-	-	-	127,782	-	36,423	-	-	164,205
Multilateral development banks	37,040	-	-	-	-	-	-	-	-	37,040
Banks	-	-	139,200	-	173,150	-	1,071	-	-	313,421
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	7,606	-	-	-	235,473	-	1,090,628	-	-	1,333,706
Regulatory retail portfolios	-	-	-	-	-	4,171,045	1,045,073	-	-	5,216,117
Secured by residential property	-	-	-	1,262,985	-	14,170	55,929	-	-	1,333,084
Secured by commercial real estate	-	-	-	-	-	-	57,308	-	-	57,308
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	80,761	2,693	-	83,454
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	484,117	-	-	-	-	-	328,349	-	-	812,466
Total	**3,346,728**	-	**218,371**	**1,262,985**	**1,106,422**	**4,185,215**	**2,695,542**	**2,693**	-	**12,817,955**

7.6 Credit risk measurement and mitigation policies

Strategic objectives set by the Board are the foundation for setting the credit risk management for the Bank.

The key components of the Bank's credit risk management policy are as follows:

- Credits are granted because of insight into the customer's circumstances and based on specific assessments that provide a context for such credit including a combination of qualitative and quantitative criteria.

- The exposure should match the customer's creditworthiness, wealth components and the client should be able to substantiate his repayment ability.

- The Bank assumes risks within the limits of applicable legislation and other rules, including the rules regarding good business practice for financial enterprises.

The applicable regulatory requirements form the basis of setting credit risk limits in addition to the strategic objectives set by the Board.

Receivables and Ijaras to customers, investment in Sukuks and derivatives are the main sources of credit risk for the Bank. The Bank's risk management policies and processes are designed to identify, analyse and measure risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data review.

Receivable and Ijara

- Real estate collateral — The Bank accepts real estate collateral (residential, commercial and mixed use) to back income-producing real estate as the repayment source for the facility. In all cases, real estate collaterals are subject to regular re-evaluation by Bank-approved values and mortgage registration with the appropriate regulatory authorities. In financing new facilities, the Bank has a policy to obtain valuations from an independent valuator ensure conservatism in determining finance to Value (FTV) ratio.

- Guarantees from highly rated banks and government entities — In addition to collaterals, the Bank regularly accepts guarantees from banks and government entities and transfers the risk of the exposure to the better- rated entities. Most of our guarantees are executed using the Bank's standard legal documentation to ensure they are unconditional guarantees to qualify as credit risk mitigants.

Eligible collaterals

As per the standardised approach the following CRMs are considered eligible for capital calculation purposes:

Netting — Applicable only with legally enforceable netting agreements in place. However, to use this mitigant, the ability to systematically calculate net exposure must be demonstrated.

Collateral — Either the simple or comprehensive approaches may be applied. AHB uses the comprehensive approach. For AHB, collateral primarily includes share and cash collaterals.

8. Market Risk

8.1 Market Risk Weighted Assets

Capital is allocated in respect of market risk under the frameworks set out in the Standards and Guidance issued by the Central Bank of UAE in Dec 2022. This standards/guidance articulate specific requirements for the calculation of the market risk capital requirement for banks in the UAE. It is based closely on requirements of the framework for capital adequacy developed by the Basel Committee on Banking Supervision (BCBS), specifically as articulated in Basel II: International Convergence of Capital Measurement and Capital Standards, June 2006, and subsequent revisions and clarifications thereto.

Market Risk Weighted Assets under standardised approach.

	RWA
General interest rate risk	0
Equity risk	14754
Commodity risk	
Foreign exchange risk	180,083
Credit spread risk - non-securitisations	
Credit spread risk - securitisations (non-correlation trading portfolio)	
Credit spread risk - securitisation (correlation trading portfolio)	
Default risk - non-securitisations	
Default risk - securitisations (non-correlation trading portfolio)	
Default risk - securitisations (correlation trading portfolio)	
Residual risk add-on	
Total	**194,837**

Market Risk comprises of Foreign Exchange risk and Equity Risk. There has been an increase in RWA from 154.65Mn AED in Q1'24 to 194.83Mn AED in Q2'24. The change is due to increase in net FX open position and inclusion of Drake & Skull MCS (Mandatory Convertible Securities) as a trading equity position. This inclusion of Drake & Skull in traded equity position has happened in Jun'24 which is due to the restructuring of the company and partial recovery of our written-off investment in the form of equity.

9. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the Group's exposure in a foreign exchange, profit rate, commodity, equity or credit derivative defaults prior to the maturity date of the contract and that the Group at the time has a claim on the counterparty. AHB has very limited exposure to derivative instruments. The derivative instruments are limited to Profit Rate Swaps which are used for hedging purposes, there is no derivative exposure in the trading book. Further, there is no derivatives exposure to CCPs.

9.1 Analysis of CCR exposure by approach (CCR1)

CCR RWA has decreased from AED 9.81Mn in Q1'24 to AED 0.69Mn in Q2'24 due to unwind of hedges (profit rate swaps) on the back of Sukuk sale. Due to the unwinding of hedges (Profit Rate Swaps), Exposure at Default (EAD) has dropped from AED 45.61Mn in Q1'24 to AED 1.82Mn in Q2'24, thus resulting in reduction of RWA.

AED'000

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	1,213	90	-	1.4	1,825	694
Internal Model Method (for derivatives and SFTs)						-
Simple Approach for credit risk mitigation (for SFTs)						-
Comprehensive Approach for credit risk mitigation (for SFTs)						-
VaR for SFTs						-
Total						694

9.2 Credit valuation Adjustment (CVA) capital Charge (CCR2)

CVA RWA has decreased from AED 19.25Mn in Q1'24 to AED 0.69Mn in Q2'24 due to unwind of hedges (profit rate swaps) on the back of Sukuk sale.

AED'000

	EAD post-CRM	RWA
All portfolios subject to the Standardised CVA capital charge	1,825	694
All portfolios subject to the Simple alternative CVA capital charge	-	-
Total subject to the CVA capital charge	**1,825**	**694**

9.3 Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

Counterparty Credit Risk exposures by regulatory portfolio and risk weights has been provided in this template. There are only banks as counterparty and their risk weights are determined based on the ratings. There has been a decrease in EAD (exposure at default) compared to the last reported period which is mainly due to decrease in replacement cost and PFE.

AED'000

Risk Weight Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-		-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-		-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-		-	-	-	-	-	-	-
Banks	-		729	1,096	-	-	-	-	1,825
Securities firms	-		-	-	-	-	-	-	-
Corporates	-		-	-	-	-	-	-	-
Regulatory retail portfolios	-		-	-	-	-	-	-	-
Other assets	-		-	-	-	-	-	-	-
Total	-	-	**729**	**1,096**	-	-	-	-	**1,825**

9.4 Composition of collateral for CCR exposure (CCR5)

AHB have not posted or received any collateral for CCR exposure.

9.5 Credit derivative exposure (CCR6)

AHB have not posted or received any credit derivative exposure.

9.6 Exposure to central counterparties (CCR8)

AHB have not posted or received any exposure to central counterparties.