Al Hilal Bank PJSC

Pillar 3 Report

30 September 2024

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1. Key Metrics for the Group (KM1)

The total risk-weighted assets (RWA) increased by AED 20.5 million over the last quarter, primarily attributed to a rise in market risk. Total leverage ratio exposure measure decreased by AED 582Mn mainly from Investment securities and balance with Central Bank.

The net difference of AED 294 million in High-Quality Liquid Assets (HQLA) is primarily driven by the maturity of Sukuk, which accounted for AED 328 million. Additionally, the change in liabilities between Q3 2024 and Q2 2024 shows a net overall decrease of AED 848 million, primarily due to a reduction in bank borrowings from ADCB by AED 880 million

In AED'000	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23
Available capital (amounts)				
Common Equity Tier 1 (CET1)	1,296,490	1,311,202	1,365,922	1,410,714
Tier 1	1,296,490	1,311,202	1,365,922	1,410,714
Total capital	1,383,127	1,397,839	1,460,934	1,512,467
Risk-weighted assets (amounts)				
Total risk-weighted assets (RWA)	7,889,226	7,868,682	8,560,823	9,132,546
Risk-based capital ratios as a percentage of RWA				
Common Equity Tier 1 ratio (%)	16.43%	16.66%	15.96%	15.45%
Tier 1 ratio (%)	16.43%	16.66%	15.96%	15.45%
Total capital ratio (%)	17.53%	17.76%	17.07%	16.56%
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%
Countercyclical buffer requirement (%)	0%	0%	0%	0%
Bank D-SIB additional requirements (%)	0%	0%	0%	0%
Total of bank CET1 specific buffer requirements (%)	2.50%	2.50%	2.50%	2.50%
CET1 available after meeting the bank's min capital requirements (%)	7.03%	7.26%	6.57%	6.06%
Basel III Leverage Ratio				
Total Basel III leverage ratio measure	11,967,202	12,549,581	13,503,849	13,519,812
Basel III leverage ratio (%)	10.83%	10.45%	10.12%	10.43%
ELAR				
Total HQLA	2,650,149	2,944,359	2,135,394	1,876,954
Total liabilities	9,885,140	10,733,330	10,712,831	10,828,152
Eligible Liquid Assets Ratio (ELAR) (%)	26.81%	27.43%	19.93%	17.33%
ASRR				
Total available stable funding	8,641,980	8,473,339	9,072,875	10,302,110
Total Advances	7,400,889	7,458,341	7,779,715	8,378,142
Advances to Stable Resources Ratio (%)	85.64%	88.02%	85.75%	81.32%

2. Overview of risk weighted assets (OV1)

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

Counterparty Credit Risk Capital: In Q3'24, the capital requirement for Counterparty Credit Risk under the Standardised Approach has dropped to zero due to maturity of profit rates swap instruments. Net MTM has decreased from AED 1.21Mn in Q2'24 to AED 0 in Q3'24. CCR RWA has decreased from AED 0.69Mn in Q2'24 to AED 0 in Q3'24. Credit Value Adjustment (CVA) RWA also dropped from AED 0.069Mn to AED 0.

Equity Investment in Funds (EIF): The risk-weighted assets (RWA) for Equity Investment in Funds (EIF) have been determined using the Look Through Approach (LTA) for two funds: the Global Sukuk Fund and the GCC Equity Fund. RWA rose from AED 53.47 million in Q2 2024 to AED 55.55 million in Q3 2024. This increase is primarily due to a higher percentage holding in the Global Sukuk Fund.

Market Risk Capital: In Q3 2024, market risk consists of foreign exchange risk and equity risk. The risk-weighted assets (RWA) increased from AED 194.83 million in Q2 2024 to AED 215.35 million in Q3 2024. This change is attributed to an increase in the net foreign exchange open position, leading to heightened foreign exchange risk.

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	RWA		Minimum capital requirements
	30-Sep-24	30-Jun-24	30-Sep-24
Credit risk (excluding counterparty credit risk)	6,875,440	6,876,728	893,807
Of which: standardised approach (SA)	6,875,440	6,876,728	893,807
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	-
Of which: standardised approach for counterparty credit risk	-	694	-
Credit valuation adjustment (CVA)	-	69	-
Equity investments in funds - look-through approach	55,555	53,475	5,833
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	215,354	194,837	22,612
Of which: standardised approach (SA)	215,354	194,837	22,612
Operational risk	742,878	742,878	78,002
Total	**7,889,226**	**7,868,682**	**1,000,255**

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)

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Summary comparison of accounting assets vs leverage ratio exposure	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23
Total consolidated assets as per published financial statements	12,046,603	12,619,085	13,534,499	13,570,744
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
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)	107,362	122,483	121,150	82,262
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-	-
Other adjustments	(186,763)	(193,813)	(197,412)	(176,241)
Leverage ratio exposure measure	**11,967,202**	**12,549,581**	**13,503,849**	**13,519,812**

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)

Leverage Ratio: In the leverage ratio, total derivative exposure has dropped to zero due to maturity of Sukuk and maturity of Profit Rate Swap attached to it. This has resulted in reduction of Net MTM and associated add-ons from AED 1.21Mn and AED 0.090Mn in Q2'24 to 0 in Q3'24. Total leverage ratio exposure measure decreased by AED 582Mn mainly from Investment securities and balance with Central Bank.

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On-balance sheet exposures	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	12,046,603	12,619,085	13,534,499	13,570,744
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)	(186,763)	(193,813)	(197,412)	(176,241)
Total on-balance sheet exposures (excluding derivatives and SFTs)	11,859,840	12,425,272	13,337,087	13,394,503
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
Add-on amounts for PFE associated with *all* derivatives transactions*	-	126	9,253	10,687
(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
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	619,753	650,898	608,206	501,075
(Adjustments for conversion to credit equivalent amounts)	(512,391)	(528,415)	(487,056)	(418,812)
(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)				
Off-balance sheet items	107,362	122,483	121,150	82,262
Capital and total exposures				
Tier 1 capital	1,296,490	1,311,202	1,365,922	1,410,714
Total exposures	11,967,202	12,549,581	13,503,849	13,519,812
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)	10.83%	10.45%	10.12%	10.43%
CBUAE minimum leverage ratio requirement	3.00%	3.00%	3.00%	3.00%
Applicable leverage buffers	7.83%	7.45%	7.12%	7.43%

* 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 30 September 2024, the Bank’s ASRR reported as at 85.64%.

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 30 September, this ratio stood at 26.82%.

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)

The eligible liquid assets ratio (ELAR) is calculated in accordance with the UAE Central Bank’s definition of liquid assets, divided by total liabilities. Eligible liquid assets, as defined by the Central Bank, include cash and cash equivalents such as reserves, central bank certificates of deposit, federal government securities, and issuances from local governments, as well as non-commercial and foreign sovereign public sector entities, subject to certain limits. As of 30th September, the CBUAE reported cash, reserves, and ICDs totalling AED 2.22 billion, along with UAE local government publicly traded debt securities amounting to AED 386.4 million and foreign sovereign debt instruments of AED 36.7 million. As of 30th September, the ELAR ratio stood at 26.81%.

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High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
Physical cash in hand at the bank + balances with the CBUAE	2,226,910	
UAE Federal Government Bonds and Sukuks	-	
Sub Total	2,226,910	2,226,910
UAE local governments publicly traded debt securities	386,480	
UAE Public sector publicly traded debt securities	-	
Sub Total	386,480	386,480
Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,760	36,759.61
Total	**2,650,149**	**2,650,149**
Total liabilities		9,885,140
Eligible Liquid Assets Ratio (ELAR)		**26.81%**

5. 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)	7,377,136
Lending to non-banking financial institutions	-
Net Financial Guarantees & Stand-by LC (issued - received)	23,753
Interbank Placements	-
Total Advances	**7,400,889**
Calculation of Net Stable Resources	
Total capital + general provisions	1,598,507
Deduct:	
Goodwill and other intangible assets	186,763
Fixed Assets	56,252
Funds allocated to branches abroad	-
Unquoted Investments	603
Investment in subsidiaries, associates and affiliates	54,149
Total deduction	**297,767**
Net Free Capital Funds	**1,300,740**
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	37
Customer Deposits	7,341,202
Capital market funding/ term borrowings maturing after 6 months from reporting date	-
Total other Stable Resources	**7,341,240**
Total Stable Resources	**8,641,980**
Advances To Stable Resources Ratio (ASRR)	**85.64**