

EMIRATES NBD BANK PJSC

BASEL III - PILLAR III DISCLOSURES

FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022



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Introduction

The Central Bank of the UAE (CBUAE) supervises Emirates NBD P.J.S.C. (the Bank) and its subsidiaries (together referred to as the “Group”) on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital requirements are computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), after applying the amendments advised by the CBUAE, within national discretion. The Basel framework is structured around three ‘pillars’; Pillar 1 minimum capital requirements, Pillar 2 supervisory review process complemented by Pillar 3 market discipline.

Pillar 3 disclosures

Pillar 3 complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing disclosure requirements which allow market participants to assess specified information on the scope of application of Basel III, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both qualitative and quantitative information and are provided at the consolidated level.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

In November 2020, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk.

Following are the changes in the revised standards which have been adopted over the prior years till 30 September 2022:

- Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar 2 Standard: Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investment in Funds, Securitisation, Standardised approach for Counterparty Credit Risk, Leverage Ratio
- Credit Value Adjustment (CVA).

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank’s Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

The purpose of Pillar 3 - Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the Group. The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Group, and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.

The Group’s Pillar 3 disclosures for the nine months period 30 September 2022 comprise limited qualitative and quantitative disclosures in line with CBUAE standards and guidance.

Verification

The Pillar 3 Disclosures for the nine months period ended 30 September 2022 have been reviewed by the Group's internal auditors.

Implementation of Basel III standards and guidelines

The Group is compliant with Standardised Approach for Credit, Market and Operational Risk (Pillar 1) as applicable as of 30 September 2022.

The Group also assigns capital on other than Pillar 1 risk categories which are part of the Pillar 2 framework.

Group Structure

The Bank was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC (EBI) and National Bank of Dubai PJSC (NBD), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company (PJSC).

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate and institutional banking, retail banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com.

For details of Group's subsidiaries refer to Pillar 3 disclosures for year ended 31 December 2021 available on the Bank's website.

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Key Metrics for The Group (KM1)

Key prudential regulatory metrics have been included in the following table:

	30 September 2022 AED 000	30 June 2022 AED 000	31 March 2022 AED 000	31 December 2021 AED 000
Available capital (amounts) ²				
1 Common Equity Tier 1 (CET1)	76,034,442	71,681,260	68,505,436	67,463,976
1a Fully loaded ECL accounting model ¹	73,211,027	69,650,413	66,682,594	64,994,509
2 Tier 1	85,163,094	80,809,912	77,634,089	76,592,628
2a Fully loaded ECL accounting model Tier 1	82,339,679	78,779,065	75,811,247	74,123,161
3 Total capital	90,599,399	86,113,160	82,677,555	81,504,429
3a Fully loaded ECL accounting model total capital	87,775,984	84,082,313	80,854,713	79,034,962
Risk-weighted assets (amounts)				
4 Total risk-weighted assets (RWA)	489,852,518	479,210,815	457,949,275	446,381,860
Risk-based capital ratios as a percentage of RWA				
5 Common Equity Tier 1 ratio (%)	15.52%	14.96%	14.96%	15.11%
5a Fully loaded ECL accounting model CET1 (%)	14.95%	14.53%	14.56%	14.56%
6 Tier 1 ratio (%)	17.39%	16.86%	16.95%	17.16%
6a Fully loaded ECL accounting model Tier 1 ratio (%)	16.81%	16.44%	16.55%	16.61%
7 Total capital ratio (%)	18.50%	17.97%	18.05%	18.26%
7a Fully loaded ECL accounting model total capital ratio (%)	17.92%	17.55%	17.66%	17.71%
Additional CET1 buffer requirements as a percentage of RWA				
8 Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%
9 Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%
10 Bank D-SIB additional requirements (%)	1.50%	1.50%	1.50%	1.50%
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	4.00%	4.00%	4.00%	4.00%
12 CET1 available after meeting the bank's minimum capital requirements (%)	8.00%	7.47%	7.55%	7.76%
Leverage Ratio				
13 Total leverage ratio measure	770,468,112	769,925,662	748,153,569	746,832,311
14 Leverage ratio (%) (row 2/row 13)	11.05%	10.50%	10.38%	10.26%
14a Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	10.69%	10.23%	10.13%	9.93%
14b Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	11.05%	10.50%	10.38%	10.26%
Liquidity Coverage Ratio				
15 Total HQLA	135,747,539	140,623,385	138,722,024	138,634,283
16 Total net cash outflow	83,887,571	86,232,295	85,784,704	83,347,234
17 LCR ratio (%)	161.82%	163.08%	161.71%	166.33%
Net Stable Funding Ratio				
18 Total available stable funding	480,886,723	471,290,197	470,122,758	463,127,079
19 Total required stable funding	393,909,338	387,224,893	388,411,483	381,872,177
20 NSFR ratio (%)	122.08%	121.71%	121.04%	121.28%

Key Metrics for the Group (KM1) (Continued)

¹“Fully Loaded” means Group’s regulatory capital compared with a situation where the transitional arrangement had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 “Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements”.

Pursuant to the above regulation, CBUAE issued a regulation for a ‘Prudential Filter’ that permits Banks to add back increase in IFRS 9 provisions (stage 1 and stage 2) to the regulatory capital over a transition period of 5 years, on a proportionate basis. The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 provision as of 31 December 2019 and the IFRS 9 provision as at the respective reporting date. The proportion of the increase in IFRS 9 provisions that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will be phased out over a 5-year transition period (100%, 100%, 75%, 50%, 25% for the years 2020 to 2024 respectively).

² Impacts of implementing IAS 29 - Hyperinflation accounting in Financial Statements are excluded from regulatory ratios calculations.

CET1 capital increased by AED 4.4 billion compared to the prior quarter. Pre hyperinflation profit for the quarter ended 30 September 2022 of AED 4.2 billion coupled with increase in prudential filter by AED 0.8 billion was offset by net adverse impact on Currency translation and other reserves of AED 0.6 billion.

Refer overview (OV1) disclosure for further details on Risk Weighted Assets (RWAs).

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Overview of Risk Weighted Assets (RWAs) (OV1)

The following table provides an overview of total RWAs forming the denominator of the risk-based capital requirements.

	30 September 2022 AED 000	30 June 2022 AED 000	31 December 2021 AED 000	Minimum capital requirements 30 September 2022 AED 000
1 Credit risk (excluding counterparty credit risk)	414,596,526	403,608,391	380,513,816	60,116,496
2 Of which: standardised approach (SA)	414,596,526	403,608,391	380,513,816	60,116,496
3 Counterparty credit risk (CCR)	10,125,464	11,363,811	11,335,237	1,468,192
4 Of which: standardised approach for counterparty credit risk	10,125,464	11,363,811	11,335,237	1,468,192
5 Credit valuation adjustment (CVA)	9,151,719	8,286,936	-	1,326,999
6 Equity investments in funds - look-through approach	-	-	-	-
7 Equity investments in funds - mandate-based approach	-	-	-	-
8 Equity investments in funds - fall-back approach	1,030,643	1,000,698	1,095,047	149,443
9 Settlement risk	-	-	-	-
10 Securitisation exposures in the banking book	-	-	-	-
11 Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-	-
12 Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
13 Market risk	12,455,710	12,458,523	10,945,304	1,806,078
14 Of which: standardised approach (SA)	12,455,710	12,458,523	10,945,304	1,806,078
15 Operational risk	42,492,456	42,492,456	42,492,456	6,161,406
16 Total (1+3+5+8+13+15)	489,852,518	479,210,815	446,381,860	71,028,614

The regulatory minimum capital requirement is calculated at 14.5% of the RWA including CBUAE assigned capital buffers.

Credit risk weighted assets (CRWAs) increased by AED 10.6 billion quarter on quarter due to increase in exposures to banks, sovereigns and other lendings.

Market risk weighted assets (MRWA) increased due to hike in interest rate risk exposures and increase in trading portfolio positions.

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Leverage Ratio

Summary Comparison of Accounting Assets Versus Leverage Ratio Exposure (LR1)

The following table reconciles the total assets in the published financial statements to the leverage ratio exposure measure.

	30 September 2022 AED 000	30 June 2022 AED 000	31 December 2021 AED 000
1 Total consolidated assets as per published financial statements	720,523,057	710,639,611	687,436,618
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	542,403	152,129	(543,515)
3 Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-	-
4 Adjustments for temporary exemption of central bank reserves (if applicable)	-	-	-
5 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-
6 Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-	-	-
7 Adjustments for eligible cash pooling transactions	-	-	-
8 Adjustments for derivative financial instruments	(3,441,975)	5,010,691	7,801,732
9 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-	(4,624,954)
10 Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	69,276,594	72,793,217	74,281,499
11 Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-	-
12 Other adjustments ¹	(16,431,967)	(18,669,986)	(17,519,069)
13 Leverage ratio exposure measure	770,468,112	769,925,662	746,832,311

¹This includes Assets deducted from CET1 capital, customer acceptances (considered as off-balance sheet) and Impact of IAS 29 Hyperinflation accounting excluded.

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Leverage Ratio Common Disclosure Template (LR2)

The table below provides a breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements, and buffers as of period end.

	30 September 2022 AED 000	30 June 2022 AED 000	31 December 2021 AED 000
On-balance sheet exposures			
1	683,220,087	675,053,692	660,265,702
2	-	-	-
3	-	-	-
4	-	-	-
5	-	-	-
6	(6,039,162)	(6,076,672)	(6,175,547)
7	677,180,925	668,977,020	654,090,155
Derivative exposures			
8	5,465,627	3,720,352	4,183,473
9	5,745,824	9,712,046	9,002,711
10	-	-	-
11	-	-	-
12	-	-	-
13	15,696,031	18,805,357	18,460,657
Securities financing transactions			
14	8,314,562	9,350,069	4,624,954
15	-	-	(4,624,954)
16	-	-	-
17	-	-	-
18	8,314,562	9,350,069	-
Other off-balance sheet exposures			
19	180,987,165	180,316,200	192,194,594
20	(111,710,571)	(107,522,984)	(117,913,095)
21	-	-	-
22	69,276,594	72,793,216	74,281,499
Capital and total exposures			
23	85,163,094	80,809,912	76,592,628
24	770,468,112	769,925,662	746,832,311
Leverage ratio			
25	11.05%	10.50%	10.26%
25a	11.05%	10.50%	10.26%
26	3.50%	3.50%	3.50%
27	7.55%	7.00%	6.76%

Liquidity Coverage Ratio (LCR) (LIQ1)

The LCR calculated based on CBUAE regulations is included in the following table. The LCR disclosure below is a simple average of the month end Group LCR observations over the quarter.

	30 September 2022	30 September 2022	31 December 2021	31 December 2021
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	AED 000	AED 000	AED 000	AED 000
1 Total HQLA	NA	135,747,539	NA	138,634,283
2 Retail deposits and deposits from small business customers, of which:				
3 Stable deposits	5,396,270	269,814	6,482,588	324,129
4 Less stable deposits	242,763,411	22,160,858	219,153,867	20,013,045
5 Unsecured wholesale funding, of which:				
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	44,830,447	11,207,612	31,121,887	7,780,472
7 Non-operational deposits (all counterparties)	124,452,340	57,707,525	122,658,797	55,615,589
8 Unsecured debt	-	-	-	-
9 Secured wholesale funding	-	59,587	-	145,506
10 Additional requirements, of which:				
11 Outflows related to derivative exposures and other collateral requirements	4,956,352	4,956,352	4,710,557	4,710,557
12 Outflows related to loss of funding of debt products	-	-	-	-
13 Credit and liquidity facilities	106,707,703	8,145,677	97,921,508	7,348,259
14 Other contractual funding obligations	6,557,463	6,557,463	7,443,595	7,443,595
15 Other contingent funding obligations	76,708,611	9,500,436	77,531,561	9,644,586
16 Total Cash Outflows	612,372,597	120,565,324	366,834,002	113,025,738
17 Secured lending (e.g., reverse repo)	1,429,216	813,809	1,762,516	1,379,927
18 Inflows from fully performing exposures	42,711,357	35,022,606	34,432,713	27,010,206
19 Other cash inflows	841,337	841,337	1,288,370	1,288,370
20 Total Cash Inflows	44,981,910	36,677,753	37,483,599	29,678,503
		Total adjusted value		Total adjusted value
21 Total HQLA		135,747,539		138,634,283
22 Total net cash outflows		83,887,571		83,347,234
23 Liquidity coverage ratio (%)		161.82%		166.33%

Liquidity Coverage Ratio (LCR) (LIQ1) (Continued)

The Group maintained LCR of 161.82% on an average during third quarter of the reporting year and 152.15% as of 30 September 2022 reporting period which is in excess of the regulatory minimum of 100%. The LCR is influenced by the amount, profile of the funding base and the deployment of funding into customer lending or HQLA investments. The deployment alternatives are assessed on an ongoing basis and adjusted as per the market opportunities, while maintaining a prudent LCR surplus.

The HQLA over the reporting period was AED 135.7 billion and 91% of this comprised of HQLA Level 1 assets, which represents balances held with Central Bank and other high quality sovereign securities. HQLA Level 2A and 2B assets comprised the remaining 9% of the total HQLA. The HQLA presented excludes excess liquidity held at subsidiaries that is deemed not transferable within the Group.

The retail deposits are prescribed a lower run-off factor and comprise 19% of the total cash outflow, whereas wholesale funding is prescribed a higher run-off and comprise 57% of the total cash outflows.

The Group manages liquidity at currency level and cross currency funding is utilized appropriately to manage the currency gaps. The Group measures LCR for major currencies and meets the local currency LCR as per the applicable local prudential requirements.

Acronyms

ASF	Available stable funding	NSFR	Net Stable Funding Ratio
AT1	Additional Tier 1	PFE	Potential Future Exposure
BCBS	Basel Committee on Banking Supervision	MR	Market Risk
BIS	Bank for International Settlements	RSF	Required stable funding
CBUAE	Central Bank of UAE	RWAs	Risk-Weighted Assets
CCF	Credit Conversion Factor	SA	Standardised Approach
CCP	Central Counterparty	SFT	Securities Financing Transactions
CCR	Counterparty Credit Risk	SME	Small and Medium - Sized Enterprise
CCyB	Countercyclical capital buffer	SPE	Special Purpose Entity
CET1	Common Equity Tier 1	T1	Tier 1 capital
CRM	Credit Risk Mitigation	T2	Tier 2 capital
CRO	Chief Risk Officer	TC	Total capital
CVA	Credit Valuation Adjustment		
D-SIB	Domestic Systemically Important Bank		
EAD	Exposure at default		
ECAI	External Credit Assessment Institutions		
ECL	Expected Credit loss		
GCRO	Group Chief Risk Officer		
HQLA	High Quality Liquid Asset		
IFRS	International Financial Reporting Standards		
ICAAP	Internal Capital Adequacy Assessment Process		
IRR	Interest Rate Risk		
LCR	Liquidity Coverage Ratio		

Glossary

Capital conservation buffer

A capital buffer prescribed by BCBS and CBUAE under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should the bank's CET1 capital fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Countercyclical capital buffer (CCyB)

The countercyclical capital buffer is part of a set of macroprudential instruments, designed to help counter pro-cyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets.

Counterparty credit risk (CCR)

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

Credit Conversion Factor (CCF)

As prescribed by CBUAE, an estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default.

Credit risk adjustment (CRA)

This includes impairment allowances or provisions balances, and changes in ECL.

Credit risk mitigation (CRM)

Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

Domestic systemically important banks (D-SIB)

Domestic systemically important banks are deemed systemically relevant for the domestic financial system in which they operate. The CBUAE and the BCBS have developed a framework for identifying and dealing with D-SIBs. The Central Bank of the UAE annually assesses national banks at their consolidated group level and foreign banks at their UAE branch level; to designate banks whose failure could escalate to systemic risk for the UAE banking sector and eventually impact the economy.

Internal Capital Adequacy Assessment Process (ICAAP)

A requirement under Pillar 2 of the Basel framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks.

Leverage ratio

A ratio introduced under Basel III that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

Liquidity Coverage Ratio (LCR)

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

Glossary (Continued)

Net stable funding ratio (NSFR)

The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

Securities Financing Transactions (SFT)

Securities Financing Transactions are secured (i.e. collateralised) transactions that involve the temporary exchange of cash against securities, or securities against other securities, e.g. stock lending or stock borrowing or the lending or borrowing of other financial instruments, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.

Standardised Approach (SA)

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk-weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.