

BASEL III- PILLAR 3 - REPORTING AS OF 30 SEPTEMBER 2022

Capital Adequacy and Risk Management

**NBB, UAE
BRANCH**

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1 About the bank

National Bank of Bahrain BSC - United Arab Emirates branches (the “Bank” or the “Branch”) is registered as a Foreign Branch and is regulated by the Central Bank of the United Arab Emirates (“CBUAE”) and is engaged in commercial banking activities as a branch of National Bank of Bahrain BSC (the “Head Office”), a public shareholding company incorporated in the Kingdom of Bahrain. The registered addresses of each of the United Arab Emirates branches are as follows:

- Dubai Branch: P.O. Box 120009, Building 3, Emaar Square, Dubai, UAE.
- Abu Dhabi Branch: P.O. Box 46080, Landmark Tower, Corniche, Abu Dhabi.

2 Introduction

1. This report provides Pillar 3 disclosures for National Bank of Bahrain United Arab Emirates branches. The disclosures consist of both quantitative and qualitative information in compliance with the requirements of Central Bank of UAE (CBUAE). The Basel Committee on Banking Supervision (BCBS) Basel 3-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 1 risk types and/or to cover other risks. Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage, liquidity and remuneration.
2. The report is prepared as per the enhanced Pillar 3 Disclosure requirements guidelines issued by CBUAE in November 2020 and are effective from the year ended 31 December 2021. The enhanced Pillar 3 disclosures focus on regulatory measures required under Pillar 1 of the Basel framework for measuring credit, market and operational risks and their associated resulting risk-weighted assets (RWA) and capital requirements. In some instances, Pillar 3 also requires supplementary information to be disclosed to improve the understanding of underlying risks.
3. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements as below.

Min. Capital requirements	Ratios
Minimum common equity tier 1 ratio	7.0%
Minimum tier 1 capital ratio	8.5%
Minimum capital adequacy ratio	10.5%
Capital conservation buffer	2.5%

Mandated Capital including buffers is 13% of Total RWA.

4. 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.
5. Following are the changes in the revised standards, which have been adopted either prior to or during 2021:
 - The 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, Securitization, Counterparty Credit Risk, Leverage Ratio
6. 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.
7. 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 Bank.

8. The revised Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by the Bank and provide a consistent and understandable disclosure framework that enhances transparency and improves comparability and consistency.
9. In compliance with the CBUAE Basel III standards and guidelines, these disclosures include qualitative and quantitative information on the Bank's risk management objectives and policies, risk assessment processes, capital management and capital adequacy.
10. The management has appropriately reviewed the Pillar 3 Disclosures as of 30 September 2022.

3 Overview of risk management and RWA

3.1 KM1: Key metrics (at branch level)

		AED 000's			
		a	b	c	d
		T	T-1	T-2	T-3
	Available capital (amounts)	Sep-22	Jun-22	Mar-22	Dec-21
1	Common Equity Tier 1 (CET1)	747,956	747,251	319,995	321,249
1a	Fully loaded ECL accounting model	747,956	747,251	319,995	321,249
2	Tier 1	747,956	747,251	319,995	321,249
2a	Fully loaded ECL accounting model Tier 1	747,956	747,251	319,995	321,249
3	Total capital	755,394	750,798	322,670	325,043
3a	Fully loaded ECL accounting model total capital	755,394	750,798	322,670	325,043
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	945,348	467,959	320,896	421,141
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	79.11%	159.68%	99.72%	76.28%
5a	Fully loaded ECL accounting model CET1 (%)	79.11%	159.68%	99.72%	76.28%
6	Tier 1 ratio (%)	79.11%	159.68%	99.72%	76.28%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	79.11%	159.68%	99.72%	76.28%
7	Total capital ratio (%)	79.90%	160.44%	100.55%	77.18%
7a	Fully loaded ECL accounting model total capital ratio (%)	79.90%	160.44%	100.55%	77.18%
	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 (%)	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital	69.40%	149.94%	90.05%	66.68%

BASEL III – PILLAR 3 DISCLOSURES

For the quarter ended 30 September 2022



Leverage Ratio					
13	Total leverage ratio measure	1,014,590	1,130,326	633,253	695,823
14	Leverage ratio (%) (row 2/row 13)	73.72%	66.11%	50.53%	46.17%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2/row 13)	73.72%	66.11%	50.53%	46.17%
14b	Leverage ratio (%) (excluding the impact of any	73.72%	66.11%	50.53%	46.17%
Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA
Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA
ELAR					
21	Total HQLA	175,663	756,585	309,559	207,456
22	Total liabilities	104,281	237,885	223,341	160,512
23	Eligible Liquid Assets Ratio (ELAR) (%)	168%	318%	139%	129%
ASRR					
24	Total available stable funding	818,500	933,003	518,585	433,946
25	Total Advances	419,309	180,705	194,180	237,442
26	Advances to Stable Resources Ratio (%)	51%	27%	38%	55%

3.2. OV1: Overview of RWA

		AED 000's		
		a	b	c
		RWA		Minimum capital requirements
		Sep-22	Jun-22	T
1	Credit risk (excluding counterparty credit risk)	595,077	283,730	62,483
2	Of which: standardised approach (SA)	595,077	283,730	62,483
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)			
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-

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14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach			
18	Of which: securitisation external ratings-based approach	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	321,459	155,327	33,753
21	Of which: standardised approach (SA)	321,459	155,327	33,753
22	Of which: internal models' approach (IMA)			
23	Operational risk	28,902	28,902	3,035
24	Amounts below thresholds for deduction (subject to 250%			
25	Floor adjustment			
26	Total (1+6+10+11+12+13+14+15+16+20+23)	945,438	467,959	99,271

4. Leverage ratio

4.1 LR2: Leverage ratio common disclosure template

		AED 000's	
		a	b
		Sep-22	Jun-22
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	854,357	978,483
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	-	-
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	854,357	978,483
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-

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9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	-
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	Total derivative exposures (sum of rows 8 to 12)	-	-
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	320,441	297,350
20	(Adjustments for conversion to credit equivalent amounts)	(160,208)	(145,507)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	Off-balance sheet items (sum of rows 19 to 21)	160,233	151,843
Capital and total exposures			
23	Tier 1 capital	747,956	747,251
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,014,590	1,130,326
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	74%	66%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	74%	66%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	Applicable leverage buffers	71%	63%

5 Liquidity

5.1 Liquidity Coverage Ratio (LCR)

Template LIQ1 is not applicable.

5.2 ELAR: Eligible Liquid Assets Ratio

AED 000's

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	142,726	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	142,726	142,726
1.3	UAE local governments publicly traded debt securities	-	
1.4	UAE Public sector publicly traded debt securities	-	
	Subtotal (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	102,285	32,937
1.6	Total	245,011	175,663
2	Total liabilities		104,281
3	Eligible Liquid Assets Ratio (ELAR)		1.68

5.3 ASRR: Advances to Stables Resource Ratio

AED 000's

		Items	Amount
1		Computation of Advances	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	376,781
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	42,528
	1.4	Interbank Placements with remaining life of more than 3 months	-
	1.5	Total Advances	419,309
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	756,803
		Deduct:	
	2.1.1	Goodwill and other intangible assets	-
	2.1.2	Fixed Assets	3,913
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-

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	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	Total deduction	3,913
	2.2	Net Free Capital Funds	752,890
	2.3	Other stable resources:	
	2.3.1	Funds from the head office	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	-
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	-
	2.3.5	Customer Deposits	65,610
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	Total other stable resources	65,610
	2.4	Total Stable Resources (2.2+2.3.7)	818,500
3		Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	51.23