

BASEL III- PILLAR 3 REPORTING Q3-2023

Capital Adequacy and Risk Management

NBB, UAE

Table of Contents

1	About the Bank	2
2	Introduction	2
3	Overview of Risk Management and RWA	4
3.1	Template KM1 : Key metrics (at Branch level)	4
3.2	Template OV1: Overview of RWA	5
4	Leverage ratio	6
4.1	Template LR2: Leverage ratio common disclosure template	6
5	Liquidity Risk Management	8
5.1	Liquidity Coverage Ratio (LCR)	9
5.2	Net Stable Funding Ratio (NSFR)	9
5.3	Eligible Liquid Assets Ratio	9
5.4	Advances to Stables Resource Ratio	9

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”). The bank 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 branches in the UAE 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. The Bank assesses its Capital Adequacy based on the updated Basel III regulations published by the CBUAE notice no. CBUAE/BSN/2022/5280 in December 2022. The Basel Committee on Banking Supervision (BCBS) Basel 3 capital adequacy framework consists of three pillars:

- Pillar 1 - Measuring minimum capital requirements for Credit, Market, and Operational Risks.
- Pillar 2 – Supervisory Review process and ICAAP (Internal Capital Adequacy Assessment Process).
- Pillar 3 – Market Disclosures.

2. During 2011, Basel Committee on Banking Supervision (BCBS) officially announced the final set of revised regulatory capital rules known as “Basel III”, which are being phased in globally. Subsequent to Basel III consultation paper issued by CBUAE in 2016, the CBUAE published the "Regulations re Capital Adequacy" (the "Basel III Regulations"), which were effective from 1st Feb 2017. The Basel III Regulations are supported by the accompanying standards entitled "Standards for Capital Adequacy of Banks in the UAE" which were updated by the UAE Central Bank in December 2022 by virtue of Notice No. CBUAE/BSN/2022/5280 (the "Accompanying Standards"). The accompanying Standards elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements.

The regulatory thresholds put in by CBUAE for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital. In addition to the minimum capital requirement, CBUAE has mandated additional capital buffers (Capital Conservation Buffer and Countercyclical).

Min. Capital requirements	Thresholds
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.)

3. CBUAE requires the Pillar 2 - Supervisory Review Process to focus on 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.
4. 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.
5. 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.
6. This report provides Pillar 3 disclosures for the Branch. The disclosures consist of both quantitative and qualitative information as per regulations and standards set by requirements of Central Bank of UAE (CBUAE).
The 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. 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.
7. The management has appropriately reviewed the Pillar 3 Disclosures as of Q3/2023.

3. Overview of Risk Management and RWA

3.1 Template KM1 : Key metrics (at Branch level)

		AED 000'S			
		a	b	c	d
		T	T-1	T-2	T-3
	Available capital (amounts)	Sep-23	Jun-23	Mar-23	Dec-22
1	Common Equity Tier 1 (CET1)	753,290	753,290	753,330	753,330
1a	Fully loaded ECL accounting model*	753,290	753,290	753,330	753,330
2	Tier 1	753,290	753,290	753,330	753,330
2a	Fully loaded ECL accounting model Tier 1	753,290	753,290	753,330	753,330
3	Total capital	765,244	764,869	764,500	760,963
3a	Fully loaded ECL accounting model total capital	765,244	764,869	764,500	760,963
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	1,074,390	1,042,670	1,099,445	781,161
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	70.11%	72.25%	68.52%	96.44%
5a	Fully loaded ECL accounting model CET1 (%)	70.11%	72.25%	68.52%	96.44%
6	Tier 1 ratio (%)	70.11%	72.25%	68.52%	96.44%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	70.11%	72.25%	68.52%	96.44%
7	Total capital ratio (%)	71.23%	73.36%	69.54%	97.41%
7a	Fully loaded ECL accounting model total capital ratio (%)	71.23%	73.36%	69.54%	97.41%
	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 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	60.73%	62.86%	59.04%	86.91%
	Leverage Ratio				
13	Total leverage ratio measure	1,654,897	1,859,596	1,508,383	1,256,910
14	Leverage ratio (%) (row 2/row 13)	45.52%	40.51%	49.94%	59.92%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	45.52%	40.51%	49.94%	59.92%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	45.52%	40.51%	49.94%	59.92%

BASEL III – PILLAR 3 DISCLOSURES, NBB UAE BRANCH

For the quarter ended September 30, 2023



	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	196,044	414,412	73,859	58,207
22	Total liabilities	729,379	917,647	589,400	353,941
23	Eligible Liquid Assets Ratio (ELAR) (%)	27%	45%	13%	16%
	ASRR				
24	Total available stable funding	1,349,872	1,158,128	1,170,577	991,462
25	Total Advances	1,202,821	1,396,994	1,123,158	931,199
26	Advances to Stable Resources Ratio (%)	89%	83%	96%	94%

* "Fully Loaded" means bank'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".

3.2 Template OV1: Overview of RWA

		AED 000's		
		a	b	c
		RWA		Minimum capital requirements
		Sep-23	Jun-23	T
1	Credit risk (excluding counterparty credit risk)	956,343	926,312	100,416
2	Of which: standardised approach (SA)	956,343	926,312	100,416
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	-	-	-

BASEL III – PILLAR 3 DISCLOSURES, NBB UAE BRANCH

For the quarter ended September 30, 2023



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 (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	87,559	85,870	9,194
21	Of which: standardised approach (SA)	87,559	85,870	9,194
22	Of which: internal models' approach (IMA)			
23	Operational risk	30,488	30,488	3,201
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	Total (1+6+10+11+12+13+14+15+16+20+23)	1,074,390	1,042,670	112,811

*The minimum capital requirements applied is 10.5%

4 Leverage ratio

4.1 Template LR2: Leverage ratio common disclosure template

	AED 000's	a	b
		Sep-23	Jun-23
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,484,398	1,693,683
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)	(195)	(195)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	1,484,203	1,693,488

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)	-	-
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	335,190	326,183
20	(Adjustments for conversion to credit equivalent amounts)	(164,496)	(160,271)
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)	170,694	165,913
Capital and total exposures			
23	Tier 1 capital	753,290	753,290
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,654,897	1,859,401
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	46%	41%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	46%	41%
26	CBUAE minimum leverage ratio requirement	3%	3%
27	Applicable leverage buffers	43%	38%

5 Liquidity Risk Management

- Liquidity risk is the risk that a bank will be unable to meet its obligations, including financing commitments as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including an over reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.
- Group Asset and Liability Committee (“**GALCO**”) has the responsibility of implementing the Asset and Liability Management framework of the National Bank of Bahrain. A core part of this framework relates to the management of liquidity and the planning of contingency funding across the Bank's operating network.
- NBB has Group-wide Liquidity Risk Management Framework (“**LRMF**”) which sets and governs the Liquidity Risk Management Practices at the bank and sets out the detailed Liquidity Risk Management, Measurement, and Monitoring Program for the Bank and its international branches. In instances where there are domestic regulatory requirements and/or practices, the branches comply with those domestic requirements and practices as defined in the “Liquidity Risk Management Guidelines of Overseas Branches”.
- Liquidity Management Framework has the following objectives:
 - Ensure compliance with the Bank's Risk Appetite.
 - Ensure compliance with the Basel Committee on Banking Supervision (BCBS) guidelines and Central Bank regulations at the Head Office and Overseas Branches.
 - Provide adequate planning for balance sheet growth through:
 - Liquidity Stress Testing and Contingency Funding Plans.
 - Funds Transfer Pricing.
 - Manage Structural Stability by:
 - Promoting diversification of funding sources.
 - Ensuring the viability of the Recovery and Resolution Plan
- The LRMF establishes key principles for liquidity management in the normal course of business as well as outline the approach to stress testing and scenario analysis, and contingency funding plans. The Treasury and ALM unit of the Bank is the owner of Liquidity Risk and is responsible for active day-to-day management of liquidity. The Liquidity and Market Risk Unit and the Financial Planning and Controls Division are responsible for monitoring and reporting of the liquidity metrics including the Liquidity Buffers.

5.1 Liquidity Coverage Ratio (LCR)

Template LIQ1 is not applicable for UAE Branches.

5.2 Net Stable Funding Ratio (NSFR)

Template LIQ2 is not applicable for UAE Branches.

5.3 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	196,044	
1.2	UAE Federal Government Bonds and Sukuks	-	
	Sub Total (1.1 to 1.2)	196,044	196,044
1.3	UAE local governments publicly traded debt securities	-	
1.4	UAE Public sector publicly traded debt securities	-	
	Subtotal (1.3 to 1.4)	-	-
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	
1.6	Total	196,044	196,044
2	Total liabilities		729,379
3	Eligible Liquid Assets Ratio (ELAR)		27%

(As per CBUAE regulation, min ELAR of 10% to be maintained at all times)

5.4 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)	1,160,284
	1.2	Lending to non-banking financial institutions	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	42,537
	1.4	Interbank Placements	-
	1.5	Total Advances	1,202,821
2		Calculation of Net Stable Resources	
	2.1	Total capital + general provisions	796,610
		Deduct:	-
	2.1.1	Goodwill and other intangible assets	-

BASEL III – PILLAR 3 DISCLOSURES, NBB UAE BRANCH

For the quarter ended September 30, 2023



	2.1.2	Fixed Assets	17,192
	2.1.3	Funds allocated to branches abroad	-
	2.1.5	Unquoted Investments	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-
	2.1.7	Total deduction	17,192
	2.2	Net Free Capital Funds	779,418
	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	154,938
	2.3.3	Refinancing of Housing Loans	-
	2.3.4	Borrowing from non-Banking Financial Institutions	-
	2.3.5	Customer Deposits	415,516
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-
	2.3.7	Total other stable resources	570,454
	2.4	Total Stable Resources (2.2+2.3.7)	1,349,872
3		ADVANCES TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	89%