الإمارات الإسلامي
EMIRATES ISLAMIC

BASEL III – PILLAR 3 DISCLOSURES

FOR THE QUARTER ENDED 31 MARCH 2022

Contents

Introduction

The Central Bank of the UAE ("CBUAE") supervises Emirates Islamic Bank P.J.S.C. ("EI" or 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, after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework is structured around three 'pillars': Pillar 1 minimum capital requirements, Pillar 2 supervisory review process complimented 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 periods till the end of the reporting period:

- 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

In addition, Credit Value Adjustment (CVA) for Pillar 1 and 3 will be effective from 30 June 2022.

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar I 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 quarter ended 31 March 2022 comprise limited qualitative and quantitative disclosures in line with CBUAE standards and guidance.

Verification

The Pillar 3 Disclosures for the quarter ended 31 March 2022 have been reviewed by the Group's internal auditors.

Implementation of Basel III standards and guidelines

The Group is compliant with Standardized Approach for Credit, Market and Operational Risk (Pillar 1) as applicable as of 31 March 2022.

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

Group Structure

The Bank was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3 October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10 March 2004, a resolution was passed to transform the Bank’s activities to be in full compliance with the Sharia rules and principles. The entire process was completed on 9 October 2004 (the “Transformation Date”) when the Bank obtained the UAE Central Bank and other UAE authorities’ approvals.

The Bank is a subsidiary of Emirates NBD Bank PJSC, Dubai (the “Group Holding Company”). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai (the “Ultimate Parent Company”), a company in which the Government of Dubai is the major shareholder. The Bank is listed in the Dubai Financial Market (TICKER: “EIB”). The Bank’s website is www.emiratesislamic.ae. The Pillar 3 disclosures comprise of the Emirates Islamic Bank PJSC and its subsidiaries (together referred to as “the Group

Key metrics for the Group (KM1)

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

	Available capital (amounts)	**31 March 2022 AED 000**	**31 December 2021 AED 000**
1	Common Equity Tier 1 (CET1)	8,678,676	8,489,170
1a	Fully loaded ECL accounting model[1]	8,665,627	8,489,170
2	Tier 1	8,678,676	8,489,170
2a	Fully loaded ECL accounting model Tier 1	8,665,627	8,489,170
3	Total capital	9,243,063	9,010,133
3a	Fully loaded ECL accounting model total capital	9,230,014	9,010,133
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	49,130,295	45,659,026
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	17.66%	18.59%
5a	Fully loaded ECL accounting model CET1 (%)	17.64%	18.59%
6	Tier 1 ratio (%)	17.66%	18.59%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	17.64%	18.59%
7	Total capital ratio (%)	18.81%	19.73%
7a	Fully loaded ECL accounting model total capital ratio (%)	18.79%	19.73%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (2.5% from 2019) (%)[2]	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%
10	Bank D-SIB additional requirements (%)[2]	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.31%	9.23%
	Leverage Ratio		
13	Total leverage ratio measure	74,423,679	69,054,873
14	Leverage Ratio (%) (row 2/row 13)	11.66%	12.29%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2a/row 13)	11.64%	12.29%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	11.66%	12.29%
	Liquidity Coverage Ratio		
	ELAR		
15	Total HQLA	11,937,172	10,859,499
16	Total Liabilities	61,561,810	56,611,477
17	Eligible Liquid Assets Ratio (ELAR) (%)	19.39%	19.18%
	ASRR		
18	Total Available Stable Funding	57,149,796	53,377,092
19	Total Advances	49,144,129	45,610,451
20	Advances to Stable Resources Ratio (%)	85.99%	85.45%

[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] *As per the Targeted Economic Support Scheme (TESS) introduced by CBUAE during pandemic, banks in UAE are allowed to utilize 60% of CCB and 100% of D-SIB without supervisory consequences up to 30 June 2022*

Key metrics for the Group (KM1) (Continued)

Significant change in each metrics compare with previous quarter has been explained below:

CET1 capital increased by AED 0.19 billion compared to previous quarter, mainly driven by profits for the period of AED 0.35 billion which is offset by decrease in comprehensive income by AED 0.17 billion.

Total Risk weighted assets (RWA) increased by AED 3.5 billion during the quarter. Refer OV1 disclosure for further details on RWAs.

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

Overview of Risk Management and Risk Weighted Assets ("RWAs") (OV1)

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

		a	b	c
				Minimum capital requirements
		31 March 2022 AED 000	31 December 2021 AED 000	31 March 2022 AED 000
1	Credit risk (excluding counterparty credit risk)	44,440,314	41,298,396	5,777,241
2	Of which: standardized approach (SA)	44,440,314	41,298,396	5,777,241
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)	674,409	341,154	87,673
7	Of which: standardized approach for counterparty credit risk	674,409	341,154	87,673
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	-	-	-
14	Equity investments in funds - fallback approach	36,275	37,525	4,716
15	Settlement risk	-	-	-
16	Securitization exposures in the banking book	-	-	-
17	Of which: securitization internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitization external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitization standardized approach (SEC-SA)	-	-	-
20	Market risk	59,305	61,961	7,710
21	Of which: standardized approach (SA)	59,305	61,961	7,710
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	3,919,991	3,919,991	509,599
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)**	**49,130,294**	**45,659,027**	**6,386,939**

The regulatory minimum capital requirement is calculated at 13.0% of the RWA including CBUAE assigned capital buffers.

Credit risk weighted assets (CRWAs) increased by 3.5 billion due to overall volume growth in due from banks, investment securities and financing receivables.

LEVERAGE RATIO

Summary Comparison of Accounting Assets V/s Leverage Ratio Exposure (LR1)

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

		31 March 2022 AED 000	31 December 2021 AED 000
1	Total consolidated assets as per published financial statements	70,065,697	64,904,405
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for securitized 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 recognized 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	572,835	450,825
9	Adjustment for securities financing transactions (i.e., repos and similar secured financing)	-	-
10	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	4,435,975	4,486,843
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments[1]	(650,828)	(787,200)
13	**Leverage ratio exposure measure**	**74,423,679**	**69,054,873**

[1]*This includes Assets deducted from CET1 capital, customer acceptances (considered as off-balance sheet).*

LEVERAGE RATIO (Continued)

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.

		31 March 2022 AED 000	31 December 2021 AED 000
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	69,954,559	64,786,027
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 recognized 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)**	**69,954,559**	**64,786,027**
	Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	111,138	118,378
9	Add-on amounts for PFE associated with *all* derivatives transactions	377,414	288,194
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) *1.4**	**683,973**	**569,201**
	Securities financing transactions		
14	Gross SFT *assets* (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	6,787,011	6,872,308
20	(Adjustments for conversion to credit equivalent amounts)	(3,001,864)	(3,172,663)
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)**	**3,785,147**	**3,699,645**
	Capital and total exposures		
23	**Tier 1 capital**	**8,678,676**	**8,489,170**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**74,423,679**	**69,054,873**
	Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**11.66%**	**12.29%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.66%	12.29%
26	CBUAE minimum leverage ratio requirement	3.50%	3.50%
27	**Applicable leverage buffers**	**8.16%**	**8.79%**

Liquidity

Eligible Liquid Assets Ratio (ELAR)
The ELAR is calculated based on Central Bank of UAE regulations which is included in the following table.

		Nominal Amount 31 March 2022 AED 000	Eligible Liquid Asset 31 March 2022 AED 000	Nominal Amount 31 December 2021 AED 000	Eligible Liquid Asset 31 December 2021 AED 000
1	**High Quality Liquid Assets**				
1.1	Physical cash in hand at the bank + balances with the CBUAE	11,822,429		10,744,666	
1.2	UAE Federal Government Bonds and Sukuks	-		-	
	Sub Total (1.1 to 1.2)	11,822,429	11,822,429	10,744,666	10,744,666
1.3	UAE Local Governments publicly traded sukuk securities	114,743		114,833	
1.4	UAE Public Sector publicly traded sukuk securities	-		-	
	Sub Total (1.3 to 1.4)	114,743	114,743	114,833	114,833
1.5	Foreign Sovereign sukuk instruments or instruments issued by their respective central banks	-	-	-	-
1.6	**Total**	**11,937,172**	**11,937,172**	**10,859,498**	**10,859,499**
2	Total liabilities	-	61,561,810	-	56,611,477
3	**Eligible Liquid Assets Ratio (ELAR)**	-	**19.39%**	-	**19.18%**

The Group maintained ELAR of 19.39% over the reporting period, which is in excess of the regulatory minimum of 10%. The ELAR is influenced by the amount of eligible liquid assets over the total liabilities.

The Eligible Liquid Assets over the reporting period was AED 11.9 billion which mainly comprised of cash and reserves with Central Bank of UAE

The Total Liabilities over the reporting period was AED 61.6 billion.

Advance to Stable Resources Ratio (ASRR)

The ASRR computed based on Central Bank of UAE regulations is included in the following table.

			31 March 2022 AED 000	31 December 2021 AED 000
1		**Computation of Advances**		
	1.1	Net Financing (gross financing - specific and collective provisions + profit in suspense)	46,038,016	43,283,198
	1.2	Financing to non-banking financial institutions	619,598	576,009
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	978,480	1,136,825
	1.4	Interbank Placements	1,508,035	614,419
	1.5	**Total Advances**	**49,144,129**	**45,610,451**
2		**Calculation of Net Stable Resources**		
	2.1	Total capital + general provisions	9,550,965	9,415,234
		Deduct:		
	2.1.1	Goodwill and other intangible assets	-	-
	2.1.2	Fixed Assets	319,825	334,019
	2.1.3	Funds allocated to branches abroad	-	-
	2.1.5	Unquoted Investments	146,068	150,582
	2.1.6	Investment in subsidiaries, associates and affiliates	30,000	30,000
	2.1.7	**Total deduction**	**495,893**	**514,601**
	2.2	**Net Free Capital Funds**	**9,055,072**	**8,900,633**
	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 Home financing	-	-
	2.3.4	Deposits from non-Banking Financial Institutions	961,202	835,385
	2.3.5	Customer Deposits	43,461,022	39,968,574
	2.3.6	Sukuk payable maturing after 6 months from reporting date	3,672,500	3,672,500
	2.3.7	**Total other stable resources**	**48,094,724**	**44,476,459**
	2.4	**Total Stable Resources (2.2+2.3.7)**	**57,149,796**	**53,377,092**
3		**Advances to Stable Resources Ratio (1.5/ 2.4*100)**	**85.99%**	**85.45%**

The Group maintained ASRR of 85.99% in Q1 2022, which is below the regulatory limit of 100%.

Acronyms

ASF	Available stable funding
AT1	Additional Tier 1
ASRR	Advances to Stable Resources Ratio
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlements
CBUAE	Central Bank UAE
CCF	Credit Conversion Factor
CCL	Commercial Companies Law
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical capital buffer
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Bank
EAD	Exposure at default
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
ELAR	Eligible Liquid Asset Ratio
GCRO	Group Chief Risk Officer
HQLA	High Quality Liquid Asset
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
PRR	Profit Rate Risk
MR	Market Risk
PFE	Potential Future Exposure
RSF	Required Stable Funding
RWAs	Risk-Weighted Assets
SA	Standardized Approach
SFT	Securities Financing Transactions
SME	Small and Medium-sized Enterprise
SPE	Special Purpose Entity
T1	Tier 1 capital
T2	Tier 2 capital
TESS	Target Economic Support Scheme

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/CRD 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.

Eligible Liquid Assets Ratio (ELAR)

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.

Advances to Stables Resource Ratio (ASRR)

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

Securities Financing Transactions (SFT)

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

Standardized 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.