NATIONAL BANK OF OMAN (SAOG)

UAE Branches

PILLAR 3 REPORT- March 2023

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Overview

The following information is compiled in terms of the requirements of the Central Bank of the U.A.E. Banks are obliged to report certain qualitative and quantitative information with regards to their risk profile and capital adequacy on a regular basis to the public, which incorporates the revised Basel III Pillar 3 requirements on market discipline.

Reporting framework

The information disclosed in this report is based on the definitions, calculation methodologies and measurements as defined by the Amended Regulations. All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless otherwise noted.

References to fixed format templates as required under the revised Pillar 3 disclosure requirements are made throughout this document and highlighted in the relevant sections.

Period of reporting

This report is in respect of the quarter ended 31 Mar 2023, including comparative information (where applicable).

Activities

National Bank of Oman SAOG (the “Bank” or the “Head Office”) was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in the United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the “Branches”) under a commercial bank license granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Abu Dhabi Branch started its operation in 1976. Dubai Branch started its operation in December 2013.

The principal activities of the Branches are granting of loans, advances and the provision of other commercial banking services.

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of the Head Office and other branches of the Head Office outside United Arab Emirates.

Overview of Risk Management & RWAs
Capital Adequacy (KM1)

The ultimate objectives of capital management are three fold:

- Ensure stability of the bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily)
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBUAE.

The capital management policy of the bank aims to ensure that on a risk adjusted return on capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every quarter. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

A set of triggers are followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. The assessment under ICAAP is carried out and submitted to the Central Bank of UAE in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2017, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analyzed into two tiers:

CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.

Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

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. The minimum capital adequacy requirements as set out by the Central Bank are as follows:

Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs). Minimum tier 1 ratio of 8.5% of RWAs.

Total capital adequacy ratio of 10.5% of RWAs.

Capital conservation buffer – 2.5% of RWAs.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branches' management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a quarterly basis.

The UAE Central Bank issued Basel III capital regulation vide its notice no. CBUAE/BSD/N/2020/66 dated January 07, 2020 which was partially effective as at December 31, 2019 (as per the regulation, only Pillar II is applicable in December 2019 and the rest will be applicable from June 2020.

During the years ended 31 December 2022, 2021 and 2020, the Branches have complied in full with all its externally imposed capital requirements.

		Mar-23	Dec-22	Sep-22	Jun-22	Mar-22
		AED '000	AED '000	AED '000	AED '000	AED '000
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	230,374	230,323	221,653	219,961	218,075
1a	Fully loaded ECL accounting model					
2	Tier 1	230,374	230,323	221,653	219,961	218,075
2a	Fully loaded ECL accounting model Tier 1					
3	Total capital	238,102	238,513	229,869	228,721	228,692
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	678,086	709,631	710,714	754,231	902,857
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	33.97%	32.46%	31.19%	29.16%	24.15%
5a	Fully loaded ECL accounting model CET1 (%)					
6	Tier 1 ratio (%)	33.97%	32.46%	31.19%	29.16%	24.15%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	35.11%	33.61%	32.34%	30.33%	25.33%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)					
9	Countercyclical buffer requirement (%)					
10	Bank D-SIB additional requirements (%)					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)					
12	CET1 available after meeting the bank's minimum capital requirements (%)	24.61%	23.11%	21.84%	19.83%	14.83%
	Leverage Ratio					
13	Total leverage ratio measure	1,755,788	1,860,138	1,605,180	1,644,933	1,936,736
14	Leverage ratio (%) (row 2/row 13)	13%	12%	14%	13%	11%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)					
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	0%	0%	0%	0%	0%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	240,342	448,589	386,358	285,986	365,584
22	Total liabilities	1,067,853	1,190,471	947,108	934,922	1,314,487
23	Eligible Liquid Assets Ratio (ELAR) (%)	23%	38%	41%	31%	28%
	ASRR					
24	Total available stable funding	1,077,929	1,213,611	928,132	961,493	1,234,242
25	Total Advances	703,704	608,848	478,015	497,585	561,244
26	Advances to Stable Resources Ratio (%)	65.28%	50.17%	51.50%	51.75%	45.47%

The Bank's UAE operations, uses CBUAE prescribed UAE specific alternative approaches (i.e., ELAR and ASRR as reported in BRF 8 & 7 templates of CBUAE respectively) and accordingly, the Bank is not under LCR/ NSFR regime currently.

Overview of RWA (OV1)

Following metrics and RWA is calculated based on latest applicable CBUAE Capital Adequacy regulations for Banks operating in the UAE.

		Mar-23	Dec-22	at 10.5%
		AED' 000	AED' 000	AED' 000
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)	618,243	655,229	64,916
2	Of which: standardised approach (SA)	618,243	655,229	64,916
3	[redacted]			
4	[redacted]			
5	[redacted]			
6	Counterparty credit risk (CCR)			
7	Of which: standardised approach for counterparty credit risk			
8	[redacted]			
9	[redacted]			
10	[redacted]			
11	[redacted]			
12	Equity investments in funds - look-through approach			
13	Equity investments in funds - mandate-based approach			
14	Equity investments in funds - fall-back approach			
15	Settlement risk			
16	Securitisation exposures in the banking book			
17	[redacted]			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	180	944	19
21	Of which: standardised approach (SA)	180	944	19
22	[redacted]			
23	Operational risk	59,663	53,458	6,265
24	[redacted]			
25	[redacted]			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**678,086**	**709,631**	71,199

Composition of Capital CC1

		Mar-23
		AED' 000
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	390,375
2	Retained earnings	(193,367)
3	Accumulated other comprehensive income (and other reserves)	56,669
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	
5	Common share capital issued by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory deductions**	**253,677**
	Common Equity Tier 1 capital regulatory adjustments	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	22,492
24	**Total regulatory adjustments to Common Equity Tier 1**	22,492
25	**Common Equity Tier 1 capital (CET1)**	230,374
	Additional Tier 1 capital: instruments	
	Additional Tier 1 capital: regulatory adjustments	
39	**Tier 1 capital (T1= CET1 + AT1)**	**230,374**
	Tier 2 capital: instruments and provisions	
44	Provisions	7,728
45	**Tier 2 capital before regulatory adjustments**	7,728
	Tier 2 capital: regulatory adjustments	
51	**Tier 2 capital (T2)**	7,728
52	**Total regulatory capital (TC = T1 + T2)**	238,102
53	**Total risk-weighted assets**	678,086
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	33.97%
55	**Tier 1 (as a percentage of risk-weighted assets)**	0.00%
56	**Total capital (as a percentage of risk-weighted assets)**	35.11%
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	24.61%
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.00%
63	Tier 1 minimum ratio	8.50%
64	Total capital minimum ratio	10.50%
	Amounts below the thresholds for deduction (before risk weighting)	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	22,492
	Applicable caps on the inclusion of provisions in Tier 2	
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	14,821
70	Cap on inclusion of provisions in Tier 2 under standardised approach	7,728
[redacted]		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
73	*Current cap on CET1 instruments subject to phase-out arrangements*	
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	
75	*Current cap on AT1 instruments subject to phase-out arrangements*	
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	
77	*Current cap on T2 instruments subject to phase-out arrangements*	
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	

Composition of Capital CC2
Leverage Ratio (LR2)

Dec 2022 AED' 000	a Balance sheet as in published financial statements As at period-end	b Under regulatory scope of consolidation As at period-end
Assets		
Cash and balances at central banks	448,589	448,589
Items in the course of collection from other banks	215,883	215,883
Trading portfolio assets	117,478	117,478
Financial assets designated at fair value		
Derivative financial instruments		
Loans and advances to banks		
Loans and advances to customers	566,261	566,261
Reverse repurchase agreements and other similar secured lending		
Available for sale financial investments (Includes FVOCI)	0	0
Current and deferred tax assets	47,779	47,779
Prepayments, accrued income and other assets	38,980	38,980
Investments in associates and joint ventures		
Goodwill and other intangible assets		
Of which: goodwill		
Of which: intangibles (excluding MSRs)		
Of which: MSRs		
Property, plant and equipment	10,652	10,652
Total assets	1,445,622	1,445,622
Liabilities		
Deposits from banks		
Items in the course of collection due to other banks	66,668	66,668
Customer accounts	1,070,897	1,070,897
Repurchase agreements and other similar secured borrowing		
Trading portfolio liabilities		
Financial liabilities designated at fair value		
Derivative financial instruments		
Debt securities in issue		
Accruals, deferred income and other liabilities	54,360	54,360
Current and deferred tax liabilities		
Of which: DTLs related to goodwill		
Of which: DTLs related to intangible assets (excluding MSRs)		
Of which: DTLs related to MSRs		
Subordinated liabilities		
Provisions		
Retirement benefit liabilities		
Total liabilities	1,191,925	1,191,925
Shareholders' equity		
Paid-in share capital	390,375	390,375
Of which: amount eligible for CET1	390,375	390,375
Of which: amount eligible for AT1		
Retained earnings (incl Statury Reserves)	-163,978	-163,978
Accumulated other comprehensive income		
Placement from Head Office	27,300	27,300
Total shareholders' equity	253,697	253,697

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. The summarized position of leverage ratio is provided below:

		Mar 23 AED' 000	Dec 22 AED' 000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,583,577	1,744,968
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)**	1,583,577	1,744,968
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		
9	Add-on amounts for PFE associated with *all* 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 *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	377,169	352,694
20	(Adjustments for conversion to credit equivalent amounts)	(204,958)	(237,523)
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)**	172,211	115,170
Capital and total exposures			
23	**Tier 1 capital**	230,374	230,323
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	1,755,788	1,860,138
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	13%	12%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		
26	CBUAE minimum leverage ratio requirement		
27	**Applicable leverage buffers**		

Liquidity

Eligible Liquid Assets Ratio (ELAR)

The following table presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

			Mar 23
			AED' 000
1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	240,342	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	240,342	240,342
1.3	UAE local governments publicly traded debt securities		
1.4	UAE Public sector publicly traded debt securities		
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	**240,342**	**240,342**
2	Total liabilities		1,067,853
3	**Eligible Liquid Assets Ratio (ELAR)**		**0.23**

Advances to Stables Resource Ratio (ASRR)

The following table presents the breakdown of the Bank's Advances to Stable Resources Ratio (ASRR), as per the CBUAE Liquidity Regulations

		Items	Mar 23
1		**Computation of Advances**	**AED' 000**
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	641,770
	1.2	Lending to non-banking financial institutions	45,314
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-29,293
	1.4	Interbank Placements	45,913
	1.5	**Total Advances**	703,704
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	273,392
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	10,313
	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**	10,313
	2.2	**Net Free Capital Funds**	263,079
	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	99,262
	2.3.5	Customer Deposits	715,588
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	**Total other stable resources**	814,850
	2.4	**Total Stable Resources (2.2+2.3.7)**	1,077,929
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	65.28

Credit Quality of Assets (CR1)

Mar 23		a	b	c	d	e	f
AED' 000		Gross carrying values of			Of which ECL accounting provisions for credit losses on SA exposures		
		Defaulted exposures	Non-defaulted exposures	Allowances/Impairments	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Net values (a+b-c)
1	Loans	319,539	681,799	327,073	315,253	11,820	674,265
2	Debt securities		117,954	2,623		2,623	115,331
3	Off-balance sheet exposures		377,169	377		377	376,791
4	**Total**	**319,539**	**1,176,921**	**330,074**	**315,253**	**14,821**	**1,166,387**

Standardized Approach - Credit Risk Exposures & CRM Impact (CR4)

Mar 23 (AED'000)		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	527,183		527,183		108,173	20.5%
2	Public Sector Entities						
3	Multilateral development banks						
4	Banks	162,382		162,382		46,948	28.9%
5	Securities firms						
6	Corporates	458,439	377,169	458,439	172,211	331,507	72.3%
7	Regulatory retail portfolios	3,433		3,433		3,433	100.0%
8	Secured by residential property						
9	Secured by commercial real estate						
10	Equity Investment in Funds (EIF)						
11	Past-due loans	319,539		4,286		4,286	1.3%
12	Higher-risk categories						
13	Other assets	112,601		112,601		123,896	110.0%
14	**Total**	**1,583,577**	**377,169**	**1,268,323**	**172,211**	**618,243**	39.0%

The Branches has in place group standards, regulations of the U.A.E. Central Bank and policies and procedures dedicated to monitor and manage risk from such activities.

The Bank on an overall basis has adopted ICAAP as a strategic management tool in evaluating all its material risks inherent in its business portfolio and ensuring that appropriate capital buffers and risk mitigating actions are established for the management of these risks.

Standardized Approach - Exposures by Asset Classes & Risk Weights (CR5)

	Mar 23 (AED'000)	a	b	c	d	e	f	g	h	i
	Risk weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	419,010					108,173			527,183
2	Public Sector Entities									-
3	Multilateral development banks									-
4	Banks		114,141		48,240					162,382
5	Securities firms									-
6	Corporates						458,439			458,439
7	Regulatory retail portfolios						3,433			3,433
8	Secured by residential property									-
9	Secured by commercial real estate									-
10	Equity Investment in Funds (EIF)									-
11	Past-due loans						319,539			319,539
12	Higher-risk categories									-
13	Other assets	26,635					60,679		25,287	112,601
14	Total	445,645	114,141	-	48,240	-	950,263	-	25,287	1,583,577

Market risk under the standardised approach (SA)

		Mar 23 (AED'000)
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	180
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	[redacted]	
8	Securitisation	
9	**Total**	**180**