NATIONAL BANK OF OMAN (SAOG)

UAE Branches

PILLAR 3 REPORT- December 2022

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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 year ended 31 Dec 2022, 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.

		Dec-22	Sep-22	Jun-22	Mar-22	Dec-21
		AED '000	AED '000	AED '000	AED '000	AED '000
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	230,323	221,653	219,961	218,075	219,927
1a	Fully loaded ECL accounting model					
2	Tier 1	230,323	221,653	219,961	218,075	219,927
2a	Fully loaded ECL accounting model Tier 1					
3	Total capital	238,513	229,869	228,721	228,692	230,304
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	709,631	710,714	754,231	902,857	888,499
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	32.46%	31.19%	29.16%	24.15%	24.75%
5a	Fully loaded ECL accounting model CET1 (%)					
6	Tier 1 ratio (%)	32.46%	31.19%	29.16%	24.15%	24.75%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	33.61%	32.34%	30.33%	25.33%	25.92%
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 (%)	23.11%	21.84%	19.83%	14.83%	15.42%
	Leverage Ratio					
13	Total leverage ratio measure	1,860,138	1,605,180	1,644,933	1,936,736	1,707,619
14	Leverage ratio (%) (row 2/row 13)	12%	14%	13%	11%	13%
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	448,589	386,358	285,986	365,584	584,887
22	Total liabilities	1,190,471	947,108	934,922	1,314,487	1,265,389
23	Eligible Liquid Assets Ratio (ELAR) (%)	38%	41%	31%	28%	46%
	ASRR					
24	Total available stable funding	1,213,611	928,132	961,493	1,234,242	1,249,631
25	Total Advances	608,848	478,015	497,585	561,244	610,240
26	Advances to Stable Resources Ratio (%)	50.17%	51.50%	51.75%	45.47%	48.83%

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.

	Dec-22	Sep-22	at 10.5%
	AED' 000	AED' 000	AED' 000
	RWA		Minimum capital requirements
	T	T-1	T
Credit risk (excluding counterparty credit risk)	655,229	657,245	68,799
Of which: standardised approach (SA)	655,229	657,245	68,799
[redacted]			
Counterparty credit risk (CCR)			
Of which: standardised approach for counterparty credit risk			
[redacted]			
Equity investments in funds - look-through approach			
Equity investments in funds - mandate-based approach			
Equity investments in funds - fall-back approach			
Settlement risk			
Securitisation exposures in the banking book			
[redacted]			
Of which: securitisation external ratings-based approach (SEC-ERBA)			
Of which: securitisation standardised approach (SEC-SA)			
Market risk	944	11	99
Of which: standardised approach (SA)	944	11	99
[redacted]			
Operational risk	53,458	53,458	5,613
[redacted]			
Total (1+6+10+11+12+13+14+15+16+20+23)	**709,631**	**710,714**	74,511

Composition of Capital CC1

		Dec-22	b
		AED' 000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	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	Same as (h) from CC2 template
2	Retained earnings	(193,893)	
3	Accumulated other comprehensive income (and other reserves)	29,923	
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**	**253,697**	
	Common Equity Tier 1 capital regulatory adjustments		
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	47,779	
24	**Total regulatory adjustments to Common Equity Tier 1**	47,779	
25	**Common Equity Tier 1 capital (CET1)**	230,323	
	Additional Tier 1 capital: instruments		
	Additional Tier 1 capital: regulatory adjustments		
39	**Tier 1 capital (T1= CET1 + AT1)**	**230,323**	
	Tier 2 capital: instruments and provisions		
44	Provisions	8,190	
45	**Tier 2 capital before regulatory adjustments**	8,190	
	Tier 2 capital: regulatory adjustments		
51	**Tier 2 capital (T2)**	8,190	
52	**Total regulatory capital (TC = T1 + T2)**	238,513	
53	**Total risk-weighted assets**	709,631	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	32.46%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	0.00%	
56	**Total capital (as a percentage of risk-weighted assets)**	33.61%	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	23.11%	
	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)	22,498	
	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)	13,429	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	8,190	
[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

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

Leverage Ratio (LR2)

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:

		Dec 22 AED' 000	Sep 22 AED' 000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,744,968	1,519,479
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)**	1,744,968	1,519,479
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	352,694	299,162
20	(Adjustments for conversion to credit equivalent amounts)	(237,523)	(213,461)
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)**	115,170	85,702
Capital and total exposures			
23	**Tier 1 capital**	230,323	218,075
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	1,860,138	1,605,180
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	12%	14%
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.

			Dec22
			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	448,589	
1.2	UAE Federal Government Bonds and Sukuks		
	Sub Total (1.1 to 1.2)	448,589	448,589
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**	**448,589**	**448,589**
2	Total liabilities		1,190,471
3	**Eligible Liquid Assets Ratio (ELAR)**		**0.38**

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	Dec-22
1		**Computation of Advances**	**AED' 000**
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	533,234
	1.2	Lending to non-banking financial institutions	44,762
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-15,061
	1.4	Interbank Placements	45,913
	1.5	**Total Advances**	608,848
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	267,114
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	10,651
	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**	10,651
	2.2	**Net Free Capital Funds**	256,463
	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	86,338
	2.3.5	Customer Deposits	870,810
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	**Total other stable resources**	957,148
	2.4	**Total Stable Resources (2.2+2.3.7)**	1,213,611
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	50.17

Credit Quality of Assets (CR1)

Dec-22		a	b	c	d	e	f
AED' 000		Gross carrying values of		Allowances/Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	340,747	559,112	332,970	322,697	10,274	566,889
2	Debt securities		117,856	2,774		2,774	115,082
3	Off-balance sheet exposures		352,694	378		378	352,315
4	**Total**	**340,747**	**1,029,662**	**336,123**	**322,697**	**13,426**	**1,034,286**

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

9		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	805,272		805,272		172,951	21.5%
2	Public Sector Entities						
3	Multilateral development banks						
4	Banks	215,928		215,928		43,186	20.0%
5	Securities firms						
6	Corporates	315,315	352,694	315,315	115,170	341,301	108.2%
7	Regulatory retail portfolios	1,582		1,582		1,582	100.0%
8	Secured by residential property						
9	Secured by commercial real estate						
10	Equity Investment in Funds (EIF)						
11	Past-due loans	340,747		18,050		18,050	5.3%
12	Higher-risk categories						
13	Other assets	66,124		66,124		78,160	118.2%
14	**Total**	**1,744,968**	**352,694**	**1,422,271**	**115,170**	**655,229**	37.5%

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)

	Dec 22 (AED'000)	a	b	c	d	e	f	g	h	i
	Asset classes / **Risk weight**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereigns and their central banks	632,321					172,951			805,272
2	Public Sector Entities									-
3	Multilateral development banks									-
4	Banks		215,928							215,928
5	Securities firms									-
6	Corporates						315,315			315,315
7	Regulatory retail portfolios						1,582			1,582
8	Secured by residential property									-
9	Secured by commercial real estate									-
10	Equity Investment in Funds (EIF)									-
11	Past-due loans						340,747			340,747
12	Higher-risk categories									-
13	Other assets	25,886					14,957		25,281	66,124
14	**Total**	658,207	215,928	-	-	-	845,552	-	25,281	1,744,968

Market risk under the standardised approach (SA)

		Dec 22 (AED'000)
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	944
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	[redacted]	
8	Securitisation	
9	**Total**	**944**