



بنك ظفار
BankDhofar

BANK DHOFAR SAOG

Basel II Pillar 3 Disclosures

As at December 31, 2022

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1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the “Bank”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank’s Islamic Banking Window, “Maisarah Islamic Banking services” has an allocated capital of RO 70 million (2021: RO 70 million) from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Stock Exchange (“MSX”), and the Bank’s Additional Tier I Perpetual Bonds are listed on the Muscat Stock Exchange (“MSX”). The Bank’s principal place of business is its Head Office located at Central Business District (“CBD”), Muscat, Sultanate of Oman.

2. Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The Risk Management Division of the Bank is an independent and dedicated unit reporting directly to the Board Risk Committee (“BRC”). The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank’s committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Board Risk Committee is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. BRC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

A Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. The Bank has an independent credit risk management function which identifies, assesses and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. The Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Management Credit Committee (“MCC”) is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

The Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance, prior CBO approval is obtained. Individual country limits using internal ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board Risk Committee. Retail lending is strictly in accordance with the CBO.

B Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

The Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed of in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach the Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and the Bank strictly adheres to the CBO set limit of 15%, 20% and 25% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, the Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

The treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.



C. Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

➤ **Currency risk**

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. Rial Omani is effectively pegged to US Dollar. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

➤ **Interest rate risk**

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Board Risk Committee.

➤ **Investment Price risk**

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However, the Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on equity investment portfolio, the value of the portfolio may decrease by RO 0.338 million (2021: decrease by RO 0.098 million).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 1.827 million (2021: decrease / increase by RO 2.007 million).

3. Capital risk management – Regulatory Capital Position

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2022 is 17.61% (2021: 17.74 %).



	31-Dec-22 RO'000	31-Dec-21 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	299,635	299,635
Legal reserve	67,955	64,538
Share premium	95,656	95,656
Special reserve	16,988	16,988
Subordinated bonds and loan reserve	-	28,000
Retained earnings	57,111	22,930
CET I/Tier I Capital	537,345	527,747
Additional Tier I regulatory adjustments:		
Deferred tax assets	(6,127)	(3,420)
Special revaluation reserve investment IFRS 9	-	-
Negative investment revaluation reserve	(6,615)	(5,627)
Total CET 1 capital	524,603	518,700
Additional Tier I capital (AT1)	155,500	155,500
Total Tier 1 Capital (T1=CET1+AT1)	680,103	674,200
TIER II CAPITAL		
Investment revaluation reserve	1,006	649
General provision	34,226	39,108
Subordinated loan	-	-
Total Tier II capital	35,232	39,757
Total eligible capital	715,335	713,957
Risk weighted assets		
Banking book	3,744,350	3,719,641
Trading book	70,428	64,345
Operational risk	248,375	240,038
Total	4,063,153	4,024,024
Total Tier 1 Capital (T1=CET1+AT1)	680,103	674,200
Tier II capital	35,232	39,757
Total regulatory capital	715,335	713,957
Common Equity Tier 1 ratio	12.91%	12.89%
Tier I capital ratio	16.74%	16.75%
Total capital ratio	17.61%	17.74%