



بنك ظفار  
BankDhofar

**BANK DHOFAR SAOG**

**Basel II Pillar 3 Disclosures**

**As at December 31, 2016**

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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 55 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market (“MSM”) and its principal place of business is the Head Office, Capital 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 Risk Management Committee (“RMC”) of the Board. 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 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 Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

### a) Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Board Credit Committee is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee (“MCC”) is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place 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/group 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 external leading rating agencies 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. Retail lending is strictly in accordance with the CBO guidelines

## **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.

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 off 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 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 Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

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) 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 Risk Management Committee of the Board.

### 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 2016 is 14.41% (2015: 14.70%).

<b>Capital structure</b>	<b>2016</b>	<b>2015</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>Common Equity Tier (CET) I/ TIER I CAPITAL</b>		
Paid up capital	189,920	154,473
Legal reserve	45,176	40,214
Share premium	59,618	40,018
Special reserve	18,488	18,488
Subordinated loan reserve	31,550	62,025
Retained earnings	32,406	6,866
Proposed bonus shares	14,244	15,447
<b>CET I/Tier I Capital</b>	<b>391,402</b>	<b>337,531</b>
Additional Tier I regulatory adjustments:		
Deferred tax Assets	(62)	(62)
Goodwill	(1,589)	(1,986)
Negative investment revaluation reserve	(196)	(804)
<b>Total CET 1 capital</b>	<b>389,555</b>	<b>334,679</b>
Additional Tier I capital ( AT1)	115,500	115,500
<b>Total Tier 1 Capital (T1=CET1+AT1)</b>	<b>505,055</b>	<b>450,179</b>
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	682	444
General provision	42,109	38,201
Subordinated loan	22,325	33,100
<b>Total Tier II capital</b>	<b>65,116</b>	<b>71,745</b>
<b>Total eligible capital</b>	<b>570,171</b>	<b>521,924</b>
<b>Risk weighted assets</b>		
Banking book	3,674,545	3,239,902
Trading book	56,817	111,079
Operational risk	224,316	198,703
<b>Total</b>	<b>3,955,678</b>	<b>3,549,684</b>
Total Tier 1 Capital (T1=CET1+AT1)	505,055	450,179
Tier II capital	65,116	71,745
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>570,171</b>	<b>521,924</b>
<b>Common Equity Tier 1 ratio</b>	<b>9.85%</b>	<b>9.43%</b>
<b>Tier I capital ratio</b>	<b>12.77%</b>	<b>12.68%</b>
<b>Total capital ratio</b>	<b>14.41%</b>	<b>14.70%</b>