بنك ظفار

BankDhofar

BANK DHOFAR SAOG

Basel II Pillar 3 Disclosures

As at December 31, 2015

بنك ظفار
BankDhofar

TABLE OF CONTENTS

DOCUMENT OVERVIEW…….

REPORTING ENTITY……

FINANCIAL RISK MANAGEMENT……

Risk management framework……..

Credit Risk……..
Liquidity risk……..
Market risk……..

CAPITAL MANAGEMENT……

Regulatory Capital Position……..

بنك ظفار
BankDhofar

1. Legal status and principal activities

BankDhofar 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 40 million from the core paid up capital of the shareholders, as at 31st December 2015. The Bank has a primary listing of its ordinary shares in the Muscat Securities Market ("MSM") and its Additional Tier 1 Perpetual Capital Bond in Irish Stock Exchange ("ISE"). Bank's 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 to, 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, operational and other major risks. The direct reporting of Risk Management Division to the RMC and permanent membership in all the Bank's risk committees are among the factors which reflect the independence of the Risk Management Division's 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 it's various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending all risk policies to the full Board for approval . 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 to, is credit risk. To manage the level of credit risk, the Bank deals with credit worthy counter-parties.

Board Credit Committee is the credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management The Management Credit Committee ("MCC") is the management level decision making body which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making an informed 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 networth as stipulated by Central Bank of Oman (CBO) and where a higher limit is required for projects of national importance, prior CBO approval is obtained. Individual country limits using internal rating model 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 Asset Liability Management (ALM) Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Bank has a comprehensive liquidity contingency plan which ensures that the Bank is in a position to meet all maturing liabilities as well as to fund asset growth and business operations even in times of stress. The liquidity management 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 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, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available in the Bank's book as at the reporting date.

Bank has also adopted Basel III liquidity standards, where liquidity position is also monitored through two ratios, viz., Liquidity Coverage Ratio and Net Stability Funding Ratio. The shorter term liquidity coverage ratio requires Bank to hold enough liquid assets (such as government bonds) which can, if needed, be converted easily into cash in private markets to survive a 30 day stress scenario. The net stable funding ratio aims to ensure that Bank hold a minimum amount of stable funding based on the liquidity characteristics of its assets and activities over a one year horizon. The aim is to reduce maturity mismatches between the assets and liabilities of the balance sheet and thereby reduce funding risk.

Treasury department of the Bank controls and manages the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division continuously monitors the liquidity position of the Bank and provide input to the treasury department to manage the liquidity gaps.

c) Interest rate (Financing 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 optimizing 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 re-pricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the Asset Liability Committee (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 2015 is 14.70% (2014: 14.05%).

Capital structure	**2015**	2014
	RO'000	RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**154,473**	134,324
Legal reserve	**40,214**	35,537
Share premium	**40,018**	40,018
Special reserve	**18,488**	18,488
Subordinated loan reserve	**62,025**	41,250
Retained earnings	**6,866**	28,882
Proposed bonus shares	**15,447**	20,149
CET1 Capital	**337,531**	318,648
CET 1 regulatory adjustments:		
Deferred tax Assets	**(62)**	-
Goodwill	**(1,986)**	(2,383)
Negative investment revaluation reserve	**(804)**	(1,634)
Total CET 1 capital	**334,679**	314,631
Additional Tier I capital (AT1)	**115,500**	-
Total Tier 1 Capital (T1=CET1+AT1)	**450,179**	314,631
TIER II CAPITAL		
Investment revaluation reserve	**444**	620
General provision	**38,201**	32,788
Subordinated loan	**33,100**	62,625
Total Tier II capital	**71,745**	96,033
Total eligible capital	**521,924**	410,664
Risk weighted assets		
Banking book	**3,239,902**	2,674,461
Trading book	**111,079**	70,357
Operational risk	**198,703**	178,817
Total	**3,549,684**	2,923,635
Total Tier 1 Capital (T1=CET1+AT1)	**450,179**	314,631
Tier II capital	**71,745**	96,033
Tier III capital	**-**	-
Total regulatory capital	**521,924**	410,664
Common Equity Tier 1 (CET1) ratio	**9.43%**	10.76%
Tier I Capital ratio	**12.68%**	10.76%
Total Capital ratio	**14.70%**	14.05%