بنك ظفار
BankDhofar

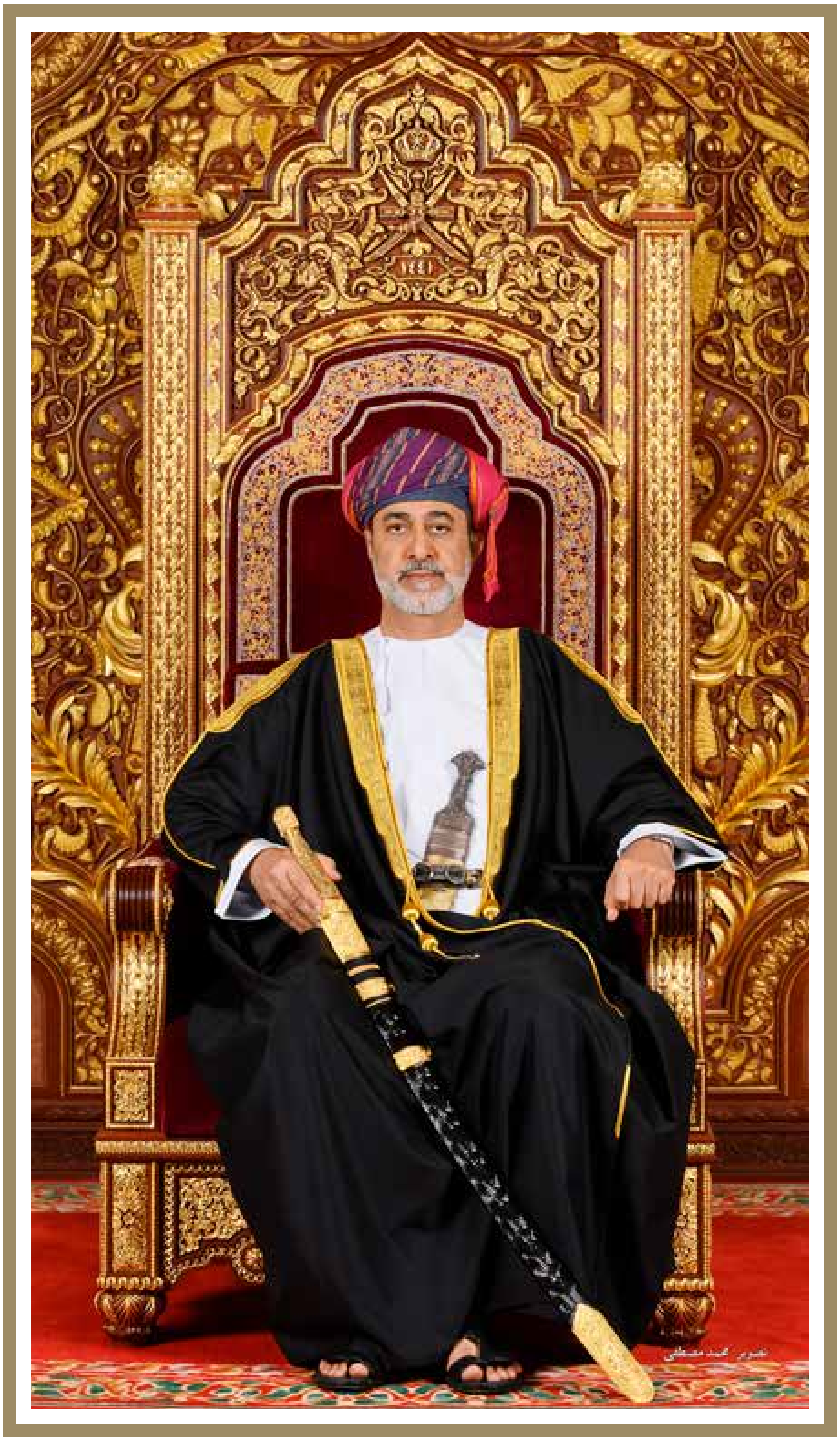
ANNUAL REPORT | 2019

Together towards BankDhofar experience!

بنك ظفار

BankDhofar

the best bank for you



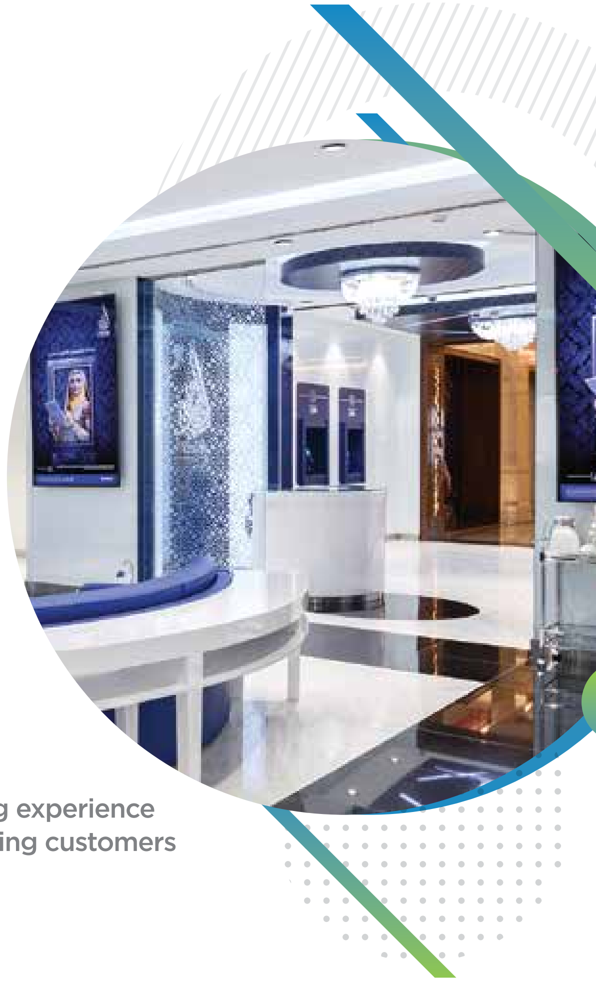
His Majesty

Sultan Haitham Bin Tariq Al Said

TABLE OF **CONTENTS**

Throughout our “Together 2020” journey, we were keen to be the best bank in customer experience, through providing innovative products and services, and creative solutions through our customer touch-points.

Unparalled experience with traditional
Omani culture of hospitality



Personalized and unique banking experience
for Al Riadah Priority Banking customers

Corporate Centre provides tailored
services, products, and financial
solutions for corporate customers

Banking services
for your family

The best Mobile
Banking App

The first bank in the
Sultanate to provide
Drive Thru Banking
Services

Presence of
BankDhofar brand

A wide range of services available 24/7 through BankDhofar Internet Banking

THE **BOARD OF DIRECTORS' REPORT** FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2019

Dear Shareholders,

At the outset, on behalf of the Board of Directors of Bank Dhofar, we would like to express our sincerest congratulations and best wishes to His Majesty Sultan Haitham Bin Tariq of good health, happiness and success and leading the Omani people towards further progress and prosperity.

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2019.

Financial overview in year 2019

In the midst of current challenging economic and financial situation driven by volatile oil prices and rising interest rates in the local market, the bank reported a net profit of OMR 30.24 million (USD 78.55 million) for the year-to-date (YTD) 31st December 2019 compared to RO 50.28 million (USD 130.60 million) achieved during similar period of last year, a year-on-year decline of 39.86%. This decline is resulting from increase in net provisions by OMR 15.74 million (USD 40.88 million) from classification of certain large exposures (reflecting the current economic environment). Bank's Islamic Banking Window, Maisarah Islamic Banking Services reports strong Profits before tax growth of 17.36% reaching RO 6.98 million (USD 18.13 million) in 2019 compared to RO 5.94 million (USD 15.43 million) in 2018. Total assets of the Bank reached RO 4.33 billion (USD 11.25 billion) in December 2019 as compared to RO 4.21 billion (USD 10.94 billion) at end of 2018, 2.85% increase. The Net Loans, Advances and Financing to customers reached RO 3.06 billion (USD 7.95 billion) at December 2019, compared to RO 3.16 billion (USD 8.21 billion) at the end of 2018, 3.16% decline year-on-year, continuing the cautious approach on increasing the loan and financing book and focusing on credit quality. Customer deposits, including Islamic deposits increased by 0.68% from RO 2.92 billion (USD 7.58 billion) at the end of 2018 to reach RO 2.94 billion (USD 7.64 billion) at the end of 2019.

The Net Interest Income and income from Islamic Financing activities earned were RO 94.83 million (USD 246.31 million) for the year 2019 as compared to RO 97.43 million (USD 253.06 million) during 2018, a decrease of 2.67%. However, Non-funded income increased by 2.03% year-on-year reaching RO 35.13 million (USD 91.25 million) in 2019 as against RO 34.43 million (USD 89.43 million) for 2018. The total operating income is RO 129.96 million (USD 337.56 million) for the year 2019 as compared to RO 131.85 million (USD 342.47 million) for the year 2018, year-on-year decrease of 1.43%.

Total Operating Expenses increased to RO 71.47 million (USD 185.64 million) for the year 2019 as compared to RO 65.46 million (USD 170.03 million) for the year 2018, 9.18%. This resulted in increase of the cost to income ratio to 55% in 2019 from 50% in 2018.

Net provisions (Expected Credit Loss 'ECL') increased by OMR 15.74 million (USD 40.88 million) from RO 6.65 million reported in 2018 to RO 22.39 million for the year 2019, this includes classification of certain large exposures (reflecting the current economic environment), as stated above. Correspondingly, gross NPL (Non-performing loans) increased to 4.67% as at 31st December 2019 from 3.68% as at 31st December 2018. Net NPL, net of interest reserve is 3.91% at 31 December 2019 vs. 1.99% at 31 December 2018; Net NPL, net of interest reserve and ECL provision is 2.14% as at 31 December 2019 compared to 0.74% at 31 December 2018. NPL is based on funded non-performing exposure over total funded exposure.

Maisarah- Islamic Banking Services

Bank's Islamic Banking Window, Maisarah Islamic Banking Services has achieved a remarkable growth in profitability during 2019. For the year 2019, Maisarah Islamic Banking Services posted a profit before tax of RO 6.97 million (USD 18.10 million) compared to RO 5.94 million (USD 15.43 million) earned in 2018, reflecting strong 17.34%, year-on-year growth.

Maisarah key financial metrics showed significant growth compared to the previous year. The gross income from Financing, Placement and Investment increased by 11.66% to RO 26.24 million (USD 68.16 million) in 2019 from RO 23.50 million (USD 61.04 million) reported in 2018. The net financing income (after cost of funds) increased by 8.47%, to RO 12.42 million (USD 32.26 million) for 2019 as compared to RO 11.45 million (USD 29.74 million) reported in 2018. Non-Funded income increased significantly by 41.67% to RO 2.38 million (USD 6.18 million) in 2019 from RO 1.68 million (USD 4.36 million) in 2018. Cost to income ratio continue to improve and reduced to 47.92% for 2019 from 50.83% last year. Maisarah net provisions (ECL including bad debts) for 2019 is RO 0.737 million compared to RO 0.516 million for 2018, an increase of 42.83%

Maisarah gross financing portfolio has grown 12.44% to RO 451.44 million (USD 1.17 billion) at 31 December 2019 from RO 401.49 million (USD 1.04 billion) at 31 December 2018. The Sukuk investment portfolio increased by 48.28% from RO 42.15 million (USD 109.48 million) as at 31 December 2018 to RO 62.50 million (USD 162.34 million) as at 31 December 2019.

The total customer deposits of Maisarah increased to RO 405.22 million (USD 1.05 billion), registering a growth of 14.67% compared to OMR 353.39 million (USD 0.92 billion) at 31 December 2018, to support the strong financing growth. Maisharah total assets increased by 14.15% to OMR 584.93 million (USD 1.52 billion) at December 2019 from OMR 512.43 million (USD 1.33 billion) at 31 December 2018.

Funding and Capital Raising initiatives

In continuation of its capital augmentation to strengthen the capital base, the Bank has approved the issue of, subject to Regulatory approval, Tier 1 Capital instrument (Additional Tier 1 perpetual bonds (AT-1)) in an indicative amount of USD 300 Million or equivalent in OMR 115.5 Million for the next five years to be listed Euronext Dublin or in the Muscat Securities Market. Country's debut issuance of AT-1 Bond in the international market in May 2015 is coming up for first call date in May 2020.

Bank's Core Equity Tier-1 (CET-1) Ratio has strengthened and increased from 11.88% at 31 December 2018 to 12.59% as at 31 December 2019; Tier 1 is at 16.40% 31 December 2019 vs. 15.52% last year; total capital adequacy ratio (CAR) is 17.86% at 31 December 2019 vs. 17.33% last year. The Regulatory minimum requirements are a) 9.5% CET-1, 11.5% Tier 1 and 13.5% CAR as at 31 December 2019.

Top Management Changes

As part of Bank's long term strategy, the following senior management changes took place during the year 2019:

In the Annual General Meeting of shareholders held on 27 March 2019 following members are elected to the new Board for a term of three years:

- Sheikh Tariq Salim Al Mashani
- Sheikh Khalid Said Al Wahaibi
- Appointments of banks top team management
- Dr Tariq Taha is appointed as Deputy General Manager and Chief Digital Banking and information officer in July 2019.
- Appointment of Mr. Ali Al-Alawi as Assistant General Manager & Head of Compliance in May 2019.
- Resignation of top team management:

  Resignation of DGM and Chief Risk Officer Mr Jose in August 2019 and currently the Risk management division is headed by Mr Praveen Bokolia as Acting Head of Risk.

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2019.

In compliance with Article (197) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2019 as sitting fees was RO 84,800 and the proposed remuneration & sitting fees is RO 115,200 complying with total cap of RO 200,000.

Distributed & Proposed Dividends

The Board of Directors in their meeting held on 28th January 2020 proposed a total cash dividend of 7% (RO 20.98 million) for the year 2019 (2018: 10%, RO 28 million), made up of a) 3% (amounting to RO 8.99 million) from the Retained Earnings and b) 4% (amounting to RO 11.99 million) from the Special Reserve Account and nil bonus shares issue for year 2019 (2018: 7%). (2018: 196,022,991 shares) of RO 0.100 each, subject to the approval of Central Bank of Oman and shareholders.

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2014	2015	2016	2017	2018
Cash Dividends	5%	15%	13.5%	12%	10%
Bonus Shares	15%	10%	7.5%	8%	7%

Corporate Social Responsibility (CSR) Initiatives

During the year 2019 Bank Dhofar continued to focus on supporting the community contributed RO 19,300 as Bank's support to the citizens to various campaigns including various social programs and other CSR initiatives. In 2018, the board of directors donated OMR 1 Million in Dhofar and Wusta governorates to support the repair and restoration efforts for the damages caused by Cyclone Mekunu that hit southern part of Oman.

Awards and Accolades during 2019

Bank Dhofar won the following rewards during the year 2019 and those awards are testimony to the continued efforts put in by the Bank:

- Best Corporate Advisory - Oman 2019" award by Global Business Awards
- Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2018 (EMEA Finance)
- Best Customer Experience Transformation Strategy Award – by Customer Experience - Middle East Awards 2019
- Customer Delight Awards by MENAA Awards - 2018
- Best CEO in GCC's Banking Industry by Business Worldwide 2018 Global Corporate Excellence Awards
- Corporate & Investment Bank of the Year – Oman by the ABF Corporate & Investment Banking Awards 2019
- Equity Deal of the Year – Oman by the ABF Corporate & Investment Banking Awards 2019
- Best Mobile Banking Application Oman 2019 by Global Banking & Finance Review Awards
- Excellence Award for CSR initiatives and programs by the Arab Organization for Social Responsibility

The Year Ahead (2020)

The Financial Year 2020 Oman budget represents the final year of the Ninth Five-Year Development Plan (2016-2020) and paves the way for the Tenth Five-Year Development Plan (2021-2025) which underpin the Oman Vision 2040 development objectives. The budget sets a prudent and measured tone in both its revenue and expenditure projections with a resultant deficit of OMR 2.5 billion. Revenue is budgeted to increase by 6% to OMR 10.7 billion (cf. FY19 OMR 10.1 billion), with oil & gas revenue representing c.72% (OMR 7.7 billion). The FY20 revenue forecast assumes a precautionary average oil price of $58 per barrel, which was also used as the basis for the FY19 budget, despite the fact that actual realized oil price in FY19 was $65 per barrel. Expenditure is budgeted to increase by 2% to OMR 13.2 billion (cf. FY19 OMR 12.9 billion), with a commitment to complete a number of strategic infrastructure projects to help incentivize economic growth. There is continued focus on the need to enhance the contribution of non-oil revenue, and the budget includes allocations for the five sectors identified by the National Program for Enhancing Economic Diversification (Tanfeedh): manufacturing, logistics, tourism, fisheries and mining. The Government acknowledges that revenues from these sectors depend significantly on private sector investment, and is committed to improving the business environment to facilitate this. In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure and with the aim of bringing improved efficiency and cost savings. GDP grew by 2% in 2019 and is expected to grow by 3% in 2020. Inflation for the period January to November 2019 stood at 2% and is expected to remain low during 2020.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and Chairman, members of Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their efforts and contributions in the year 2019.

The Board of Directors also wishes to thank the Central Bank of Oman the Capital Market Authority for its valuable guidance to the local banking sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili

Chairman

THE BOARD OF DIRECTORS

Name of Director: Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Basis of Membership: Chairman Non-executive
Non-Independent
Shareholder Director

Name of Director:
Mr. Ahmed Said
Mohammed Al Mahrezi

Basis of Membership:
Vice-Chairman Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Mohammed Yousuf
Alawi Al Ibrahim

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Tarik Abdul Hafidh
Salim Al Aujaili

Basis of Membership:
Member Non-executive
Non-Independent
Representative Shareholder Director

No. of other directorships held: 3

Name of Director:
Mr. Zakariya Mubarak
Ismail Al-Zidjali

Basis of Membership:
Member Non-executive
Non-Independent
Non-shareholder Director

No. of other directorships held: 0

Name of Director:
Mr. Hamdan Abdul Hafidh
Al Farsi

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other directorships held: 1

Name of Director:
Mr. Faisal Mohammed
Moosa Al Yousef

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Khalid Said
Salim Al Wahaibi

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 0

Name of Director:
Sheikh Tariq Salim
Mustahil Al Mashani

Basis of Membership:
Member Non-executive
Independent
Representative Shareholder Director

No. of other directorships held: 1

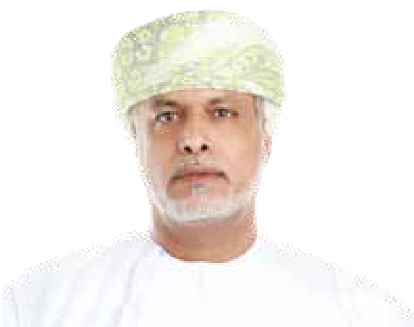
THE EXECUTIVE TEAM

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Ahmed Said Al Ibrahim
General Manager &
Chief Corporate Services Officer

Faisal Hamad Al Wahaibi
General Manager &
Chief Strategic Business Officer

Kamal Hassan Al Murazza
General Manager &
Chief Wholesale Banking Officer



Mohammed Hilal Al Reyami
DGM & Head of Internal Audit

Shankar Krishnan Sharma
Chief Financial Officer

Tariq Saleh Taha
DGM & Chief Digital Banking & Information Officer

Sohail Niazi
Chief Executive
Maisarah Islamic Banking Services

Shaleen Chugh
DGM & Head of Corporate Banking

Nasser Said Al Bahantah
Chief Human Resources Officer

THE EXECUTIVE TEAM

Hussain Ali Al Lawati
Acting DGM - Retail & SME Banking

Osama Fathi Al Mansoor
DGM & Head of Transformation

Duraid Al Jamali
DGM & Head of Legal

Mohammed Iqbal Al Balushi
AGM & Head of Retail Banking Division

Amina Nasser Al Falahi
AGM & Head of Government Relations

Ali Mohamed Al Alawi
AGM & Head of Compliance

Bashir Said Al Subhi
AGM & Head of Treasury &
Financial Institutions

Hani Habib Macki
AGM & Head of Strategy & Planning

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED
31st DECEMBER 2019

Report of factual findings to the shareholders of Bank Dhofar SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Bank Dhofar SAOG ("the Bank") as at and for the year ended 31 December 2019 and application of the corporate governance practices in accordance with amendments to the CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors in complying with the requirement of the Code issued by the CMA.

3. We have performed the following procedures:

   a) We have checked that the Corporate Governance Report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and

   b) We obtained the detailed list of areas of non-compliance identified by the Bank's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.

4. As a result of performing the above procedures, we have no exceptions to report.

5. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.

6. Had we performed additional procedures or had we performed an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

7. Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of Bank Dhofar SAOG taken as a whole.

PricewaterhouseCoopers

9 March 2020
Muscat, Sultanate of Oman

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س.ت ١٢٣٠٨٦٥
C.R. No 1230865
PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Report on Corporate Governance

Part One

1. Corporate Governance Philosophy:

Corporate Governance is an essential element in attaining, enhancing and retaining confidence of the Bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, Board of directors and senior management of the Bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bears the principal responsibility of establishing Corporate Governance as appropriate to the Bank within the broad framework laid down by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the top level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through four sub-committees, viz. the Board Executive Committee, the Board Audit Committee, the Board Risk Management Committee and the Board Nomination & Remuneration Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet all the requirements as laid down in the Code of Corporate Governance. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises of the Senior Members headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, an appropriate balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2. Board of Directors

The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the Bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the guidelines of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.

- Adopting internal regulations and bylaws pertinent to steering and management of the affairs of the Bank.
- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Appointing and evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of office of the current Board expires in March 2022.

Composition and selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate holds not less than 50,000 shares of the Bank's share capital. All members of the Board of Directors are non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the definition of independent director, as defined in the new Code of Corporate Governance issued in July 2015, which states that a director shall be deemed non-independent in the following cases:

(a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.

(d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.

(e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.

(f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.

(g) Being, during the two years preceding candidacy or nomination to the board, an employee of any parties contractually engaged with the company (including external auditors, major suppliers or civil society organizations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs).

(h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.

(i) Holding about 20% of the shares of any of the above mentioned parties during the two years preceding candidacy or nomination to the board.

The nomination of Board members is according to the rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, four are non- Independent and five are Independent within the scope of the definition of independence laid down by the CMA Code of Corporate Governance.

Board Committees

The Board has the following four Board Committees, whose objectives, powers and procedures are governed by the charters of the respective Committees, which are approved by the Board:

1. Board Executive Committee
2. Board Audit Committee
3. Board Risk Management Committee
4. Board Nomination & Remuneration Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Sharia Supervisory Board

Sharia Supervisory Board was formed in the year 2012 for the Islamic Banking operations of the Bank's window, Maisarah Islamic Banking Services (Maisarah).

3. Profiles of Members of Board of Directors

H.E. Eng. Abdul Hafidh Salim Rajab Al Aujaili - Chairman

H.E. Eng. Abdul Hafidh Salim Rajab Al Aujaili is currently the Chairman of Bank Dhofar. He is the Chairman of the Board Executive Committee. He is a promoter shareholder of well-established institutions in Oman such as Bank Dhofar, Dhofar International Development & Investment Holding Co. SAOG, Dhofar Power Company SAOC and Oman Aviation Services Co. (SAOG). He holds Master Degree in Mechanical Engineering.

Mr. Ahmed Said Al Mahrezi- Deputy Chairman

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Vice Chairman, the Chairman of the Board Nomination & Remuneration Committee, a member of the Board Risk Management Committee and a member of the Board Audit Committee. He is a Director of Hotel Management Co. International SAOG. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 26 years. Mr. Ahmed holds a Master of International Commercial Law and a Bachelor of Law.

Mr. Mohammed Yousuf Al Ibrahim - Director

Mr. Mohammed bin Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Board Executive Committee, a member of the Board Risk Management Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience in directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He is a Director of Dhofar University. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili - Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also the Chairman of the Board Risk Management Committee and a member of the Board Nomination & Remuneration Committee. He has extensive experience of public companies' directorship. Other positions held by him include Vice Chairman of Dhofar Int. Development & Investment Holding Co. SAOG, Vice Chairman of Dhofar Insurance Co SAOG and Vice Chairman of Oman Investment & Finance Co SAOG. Mr. Tariq holds a Bachelor of Accountancy & Finance.

Mr. Zakariya Mubarak Al Zadjali - Director

Mr. Zakariya Mubarak Al Zadjali is a member of the Board of Directors. He is a member of the Board Audit Committee. He has over 26 years' experience in financial management, sourcing logistics, supply chain management and vendor development. Presently he holds the position of Budget Controller at the Ministry of Defence. Mr. Zakariya holds a Bachelor of Science in Military Sciences.

Mr. Hamdan Abdul Al Hafidh Farsi - Director

Mr. Hamdan Abdul Al Hafidh Farsi is a member of the Board of Directors. He is also the Chairman of the Board Audit Committee. He currently holds the position of Director of Risk Management at the Public Authority for Social Insurance (PASI). He is a director of National Gas Co SAOG. He has a wealth of experience extending for 24 years in Finance, Internal Audit and Risk Management. Mr. Hamdan Al Farsi holds a bachelor and a Master degree in Accountancy.

Mr. Faisal Mohamed Moosa Al Yousef - Director

Mr. Faisal Mohamed Moosa Al Yousef is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Nomination & Remuneration Committee. He is the Chairman of Muscat Finance Co SAOG and a member of the Board of Directors of Dhofar Int. Development and Investment Holding Co SAOG. He is the Chief Operating Officer of Al Yousef Group. Mr. Mr. Faisal holds a bachelor of Economics and is a fellow of Chartered Certified Accountant, U.K.

Sheikh Khalid Said Salim Al Wahaibi - Director

Sheikh Khalid Said Salim Al Wahaibi is a member of the Board of Directors, a member of the Board Executive Committee and a member of the Board Audit Committee. He is the Chairman of Al Omaniya Financial Services Co SAOG and Vice Chairman of National Gas Co SAOG. He has a wealth of experience extending over 23 years as a Director and Managing Director of Assarain Group of Companies. Sheikh Khalid holds a Bachelor of Business Administration.

Sheikh Tariq Salim Mustahil Al Mashani - Director

Sheikh Tariq Salim Mustahil Al Mashani is a member of the Board of Directors and a member of the Board Executive Committee a. He is a Director of Al Omaniya Financial Services Co SAOG and Director of Dhofar University. a. He has extensive experience in directorship of private companies. His diverse portfolio includes being Shareholder, Chairman and Director of various private companies & establishments. Sheikh Tariq holds a Bachelor of Business Management.

Part Two

1. Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

S. No.	Name of Director	Basis of membership			No. of other directorships held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Non-independent	Shareholder Director	-
2	Mr. Ahmed Said Mohammed Al Mahrezi	Deputy Chairman Non-executive	Non-Independent	Representative of Shareholder Director	1
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	1
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	3
5	Mr. Zakariya Mubarak Al Zadjali	Member Non-executive	Independent	Non-shareholder Director	-
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	Member Non-executive	Independent	Representative of Shareholder Director	1
7	Mr. Faisal Mohammed Moosa Al Yousef	Member Non-executive	Non-independent	Representative of Shareholder Director	2
8	Sheikh Khalid Said Salim Al Wahaibi	Membe Non-executive	Independent	Representative of Shareholder Director	2
9	Sheikh Tariq Salim Mustahil Al Mashani	Member Non-executive	Independent	Representative of Shareholder Director	2

The Board of Directors held 10 meetings during 2019, as follows:

29 January 2019	**17 February 2019**	**25 February 2019**	**26 March 2019**
27 March 2019	**28 April 2019**	**28 July 2019**	**18 September 2019**
29 October 2019		**20 November 2019**	

Details of meetings and remuneration of the Board of Directors of Bank Dhofar (SAOG) are as follows:

S. No.	Name of Director	No. of meetings attended	Directors' benefits (Amount in OMR)	
			Sitting Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	10	10,000	14,964
2	Mr. Ahmed Said Mohammed Al Mahrezi	10	10,000	13,467
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	9	10,000	11,967
4	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	8	10,000	13,467
5	Mr. Zakaria bin Mubarak Al Zadjali	9	9,400	11,967
6	Mr. Hamdan Abdul Al Hafidh Al Farsi	10	10,000	13,467
7	Mr. Faisal Mohammed Moosa Al Yousef	9	9,800	11,967
8	Sheikh Khalid Said Salim Al Wahaibi*	6	7,600	9,147
9	Sheikh Tariq Salim Mustahil Al Mashani*	4	4,400	9,147
10	Sheikh. Hamoud Mustahail Ahmed Al Mashani**	-	-	2,820
11	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi**	4	3,600	2,820
	Total		**84,800**	**115,200**

* Sheikh Khalid Said Salim Al Wahaibi and Sheikh Tariq Salim Mustahil Al Mashani were elected as members of the Board of Directors at the Annual General Meeting on 27 March 2019.

** Sheikh. Hamood Mustahail Ahmed Al Mashani, and Eng. Abdul Sattar Mohammed Abdullah Al Murshidi did not nominate themselves for the Board new term of office at the Annual General Meeting on 27 March 2019.

2. Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking. The Sharia Supervisory Board has held 4 meetings in 2019.

S. No.	Name of SSB Members	Designation	No. of Meetings Attended	Honorarium (Amount in OMR)	
				Fees Paid	Remuneration Proposed
1	Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab	Chairman	4	2,400	9,000
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman	4	2,200	7,500
3	Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	4	2,000	7,000
4	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	4	2,000	7,000
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	4	2,000	7,000

3. Board Executive Committee (BEC)

The BEC comprises five members of the Board of Directors and meets as and when there is a business need. The Board Executive committee (BEC) is entrusted to guide the Bank management on three key strategic areas:

1. Approval of credit proposals - The BEC is responsible for approving certain credit proposals and overseeing the Bank's credit policy framework. The responsibilities of the BEC include reviewing and approving specific transactions up to the Bank's permitted risk limits, in particular those which exceed the authority of the senior management.

2. Strategy, Merger, Information & Transformation - The committee oversees matters pertaining to Strategy, Information Technology (IT), Transformation and Merger/s. Review major projects handled by Enterprise Project Management Office. Review IT Strategy and major decisions relating to IT. Consider matters raised in Management's Information Technology Committee meetings and update the BOD as appropriate. The committee is to review and set the direction on the Bank's potential merger/s on behalf of the Board of Directors of the Bank in compliance with CBO, CMA and MOCI and other regulators guidelines and regulations. To conduct and finalize negotiations in relation to the potential merger on behalf of the Board of Directors of the Bank and also to oversee the steps of the merger to its final potential conclusion.

3. Capital, Funding & Bank Proprietary Book Investments - The Committee is tasked with reviewing and setting the direction on the capital and funding requirements of the Bank to ensure compliance with the CBO and Basel guidelines. It is also responsible for reviewing and setting the direction of the non-capital long-term funding requirements of the Bank, which are typically issued and listed on international or local markets, in addition to overseeing capital requirements. The Committee also oversees the management practices on investment matters. It monitors the Bank's investments and ensures that the Bank complies with its policies and regulatory requirements

The Members of the Board Executive (BEC) Committee are:

S. No.	Name of Director	Designation	No. of Meetings Attended
1	Eng. Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Board Executive Committee	7
2	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	6
3	Mr. Faisal Mohammed Moosa Al Yousef	Member	6
4	Sheikh Khalid Said Salim Al Wahaibi*	Member	3
5	Sheikh Tariq Salim Mustahil Al Mashani*	Member	3
6	Sheikh. Hamoud Mustahail Ahmed Al Mashani**	Member	-
7	Eng. Abdul Sattar Mohd Abdullah Al Murshidi**	Member	3

* Sheikh Khalid Said Salim Al Wahaibi and Sheikh Tariq Salim Mustahil Al Mashani were appointed as members of the Board Executive Committee at the Board Meeting on 27 March 2019.

** Sheikh. Hamood Mustahail Ahmed Al Mashani, and Eng. Abdul Sattar Mohammed Abdullah Al Murshidi did not nominate themselves for the Board new term of office at the Annual General Meeting on 27 March 2019. Hence their membership of the Board Executive committee lasted only till 26 March 2019.

The BEC held 7 meetings in 2019.

4. Board Audit Committee (BAC)

The Board Audit Committee (BAC) was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong internal controls over financial reporting and sound risk management and governance practices.
- To review the adequacy and effectiveness of internal controls in the Bank and to recommend appropriate steps to improve them where required.
- To review the effectiveness of the system for monitoring the Bank's compliance with legal and regulatory provisions, Bank's articles of association, charters, by-laws and internal policies and procedures established by the Board of Directors.
- To review the effectiveness of the internal audit function and approve the risk based internal audit plan as well as the availability of adequate resources and informational access.
- To recommend to the Board of Directors the appointment of the external auditors, their termination and remuneration and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the foregoing and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee (BAC) are:

S. No.	Name of Director	Designation	No. of Meetings Attended
1	Mr. Hamdan Abdul Hafidh Al Farsi	Chairman of the Audit Committee	10
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	9
3	Mr. Zakariya Mubarak Al Zadjali	Member	10
4	Sheikh Khalid Said Salim Al Wahaibi*	Member	7

* Sheikh Khalid Said Salim Al Wahaibi was appointed a member of the Board Audit Committee at the Board Meeting on 27 March 2019.

The (BAC) held 10 meetings in 2019.

5. Board Risk Management Committee (BRMC):

The Board Risk Management Committee (BRMC) was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios and measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- Apprise the Board of Directors on significant issues affecting Risk Management in a timely manner.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Management Committee (BRMC): are:

S. No.	Name of Director	Designation	No. of Meetings Attended
1	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Chairman of the Board Risk Management Committee	9
2	Mr. Ahmed Said Mohammed Al Mahrezi	Member	8
3	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	5
4	Sheikh Tariq Salim Mustahil Al Mashani*	Member	2

* Sheikh Tariq Salim Mustahil Al Mashani was appointed a member of the Board Risk Management Committee at the Board Meeting on 27 March 2019. He resigned from this committee on 18 September 2019.

The (BRMC) held 9 meetings in 2019.

6. Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) is formed by the Board to ensure that the overall human resources developments at Board of Directors and executive management levels are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Nominate qualified persons to assume senior executive management positions for Board of Directors approval.
- Provide succession and development plans for the executive management.
- Develop succession policy/plan for the Board of Directors, at least for the Chairman.
- Prepare detailed job descriptions for the Chairman and Directors.
- Nominate qualified persons to act as interim Directors on the Board in the event of any seat becomes vacant.
- Prepare and review compensation policy of executive management.
- Endorse compensation package (salary, increment, promotion, & bonus) of executive management for Board of Directors approval.

The members of the Board Nomination and Remuneration (BNRC) Committee are: *

S. No.	Name of Director	Designation	No. of Meetings Attended
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board NR Committee	6
2	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	5
3	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	6
4	Mr. Faisal Mohammed Moosa Al Yousef*	Member	4

* Mr. Faisal Mohammed Moosa Al Yousef was appointed a member of the Board Nomination and Remuneration Committee at the Board Meeting on 27 March 2019.

The (BNRC) held 6 meetings in 2019.

7. Board Merger Committee (BMC)

The BMC was formed as a temporary committee for the proposed merger with National Bank of Oman. The Board Merger Committee was tasked only with the negotiation and finalization of the proposed merger with National Bank of Oman, following which this specific-purpose Board Merger Committee was dissolved.

The members of the Board Merger Committee are:

S. No.	Name of Director	Designation	No. of Meetings Attended
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board Merger Committee	2
2	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Member	1
3	Mr. Faisal Mohammed Moosa Al Yousef.	Member	1

The (BMC) held 2 meetings in 2019.

8. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2019 are as follows:

	Proposed Remuneration OMR	Sitting Fees Paid OMR	Total OMR
Chairman of the Board	14,964	10,000	24,964
Board Members	100,236	74,800	175,036
Total	115,200	84,800	200,000

The Bank's top five executives are Chief Executive Officer, Chief Retail Banking Officer, Chief Wholesale Banking Officer, Chief Corporate Services Officer and Chief Human Resources Officer have received the following compensation in 2019:

	Salaries , Performance Bonus & Others (OMR)
Top five Executives	1,739,988

Incentives other than the fixed payments are linked to the performance. Performance is measured against the preset objective for contribution towards achievement of Bank's overall goals. The period of services contract for expatriate executives is two years while the notice period for the top executives is three months.

9. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years. No penalties were imposed in 2017, 2018 &2019.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

10. Communication with Shareholders and Investors

All financial and non-financial information are disseminated in a timely manner. The management provides regular updates to the market on the Bank's performance and new developments, besides detailed disclosures in accordance with regulatory requirements and international standards. The management discussion and Analysis Report form part of the annual report.

As part of enhancing Bank Dhofar's investors' relations image, the Bank has taken the following steps:

1. The Bank has created a separate section under its website "investors' relations" where all the relevant information, links, and documents of investors' interest and relevance are gathered under this section.
2. The Bank has created an email ID: investorsrelations@bankdhofar.com, which is available on Bank Dhofar's website under "investors' relations" section for further communication ensuring attending investors' and other external stakeholders' queries on timely basis. The bank receives various queries from external financial institutions and investors' from time to time.

The Bank publishes its unaudited quarterly and audited annual financial statements and also hosts these and other relevant information on its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly and annual results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders of the Bank. Bank's all official news releases are displayed on the Bank's website.

11. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2019 compared with Muscat Securities Market Financial Sector Index is as follows:

2019	Bank Dhofar Share Price (RO)			MSM financial sector Index
Month	High	Low	Closing	Closing
January	0.166	0.150	0.160	6,697.13
February	0.160	0.135	0.151	6,691.07
March	0.157	0.133	0.143	6,541.28
April	0.140	0.125	0.132	6,337.99
May	0.140	0.130	0.132	6,342.51
June	0.142	0.129	0.142	6,283.35
July	0.140	0.125	0.127	6,110.32
August	0.146	0.127	0.146	6,534.26
September	0.144	0.132	0.136	6,557.59
October	0.136	0.122	0.130	6,489.14
November	0.129	0.124	0.124	6426.84
December	0.124	0.112	0.123	6349.26

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2019:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	24.38 %
2	Eng. Abdul Hafidh Salim Rajab Al Aujaili & his companies	23.45 %
3	Civil Service Pension Fund	10.49 %
4	H.E. Yousuf bin Alawi bin Abdullah & his Companies	9.80 %
5	Public Authority of Social Insurance	8.78 %
6	Qais Omani Establishment LLC	6.98%
7	Ministry of Defense Pension Fund	5.25 %
8	Others	10.87%
	Total	**100.00%**

12. Profile of the Statutory Auditors

Pricewaterhouse Coopers (PwC) is a global network of firms operating in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 5,600 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises seven partners, including one Omani national, and over 180 professionals and support staff. Our experts in assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

The Professional fees paid or payable to auditors for the financial year 2019 is OMR 171,050. This amount represents OMR 100,700 paid or payable for audit services and OMR 70,350 paid for permitted non-audit services. The total audit services fees of OMR 100,700 include an amount of OMR 19,080 paid or payable, as Audit fees and Sharia fees relating to the Bank's Islamic Banking Window, Maisarah Islamic Banking Services.

13. Other Matters

The last Annual General Meeting was held on 27 March 2019. The meeting was conducted as per statutory requirements and attended by the Chairman, Eng. Abdul Hafidh Salim Rajab Al Aujaill and the following members of the Board of Directors: Mr. Ahmed Said Mohammed Al Mahrezi, Mr. Mohammed Yousuf Alawi Al Ibrahim, Mr. Tariq Abdul Hafidh Salim Al Aujaili Mr. Zakariya Mubarak Al Zadjali and Mr. Hamdan Abdul Hafidh Al Farsi & Mr. Faisal Mohammed Moosa Al Yousef.

14. Subordinated Loan (Outstanding and movements during 2019)

1. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. These facilities carries a fixed rate of interest payable half yearly with principal being repaid on maturity.
2. In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.
3. Details regarding subordinated loan reserve are set out in note 18(b) in the Notes of the financial statements.

15. Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000,000. This Tier 1 USD Securities is listed in Irish Stock Exchange (now traded as Euronext Dublin).

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

On 27 December 2018, the Bank issued Perpetual Tier 1 OMR Capital Securities (the "Tier 1 OMR Securities"), amounting to OMR 40,000,000, denominated in OMR. This Tier 1 OMR Securities is listed in Muscat Securities Market.

The Tier 1 OMR Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 OMR Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 OMR Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 USD Securities and/or Tier 1 OMR Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 USD Securities and Tier 1 OMR Securities unless and until it has paid one interest payment in full on the Tier 1 USD Securities and Tier 1 OMR Securities. The Tier 1 USD Securities and Tier 1 OMR Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman Regulations (BM-1114).

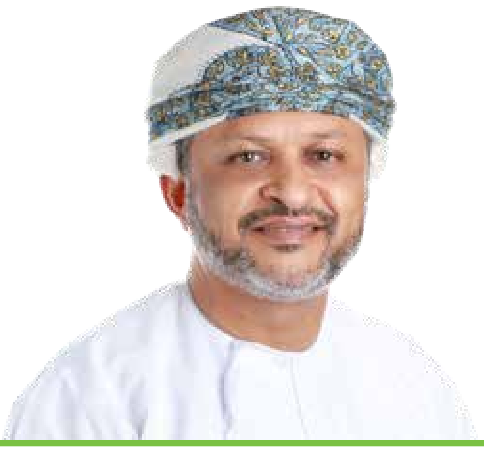
16. Acknowledgment

The Board of Directors confirms the following:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- It has reviewed the efficiency and adequacy of internal control systems of the Bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

Eng. Abdul Hafidh Salim Rajab Al Ojaili
Chairman

Profiles of the Top 5 Executives



Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

With 30 years of progressive experience in all aspects of banking operations and a strong track record of successful and inspirational leadership, Abdul Hakeem Al Ojaili was appointed as the Chief Executive Officer of BankDhofar in April 2017 to lead the bank through a comprehensive restructure and transformation journey towards achieving an ambitious strategic vision to become the Best Bank in the Gulf.

During his tenure, BankDhofar witnessed constant growth of business and reached remarkable milestones across all units and functions, including Corporate Banking, Retail Banking, Operations Management, Information Technology, Core Banking Systems, Corporate Support Services and Human Resources Development.

Abdul Hakeem heads a number of committees within the bank, including Executive Management Committee, Assets & Liability Committee, Management Credit Committee, Management Risk Committee, Information Technology Committee and Investment Management Committee.

Abdul Hakeem holds a Master's Degree in Banking Management from the University of Exeter in the UK and a Bachelor's Degree in Business Administration, Marketing & Management from New England College in the USA. He is also an alumnus of both Harvard and London Business Schools' Executive Education Programs, and he was cross-posted to work on key assignments with a number of international banks.

Ahmed Said Al Ibrahim
General Manager & Chief Corporate Services Officer

Ahmed Al Ibrahim brings in a wealth of experience accumulated throughout over 25 years in the banking and finance industry. Prior to his appointment as BankDhofar's General Manager & Chief Corporate Services Officer, he has been mandated with various key assignments across different functions and business units including Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking.

Ahmed is the head of the Bank's Asset & Liability Committee, Executive Management Committee, Investment Management Committee and he is the Chairman of the Purchase Committee.

Ahmed holds an MBA from the University of Hull in the UK and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He also attended the Executive Leadership Programs at the London Business School and several other programs in Management, Business and Banking.

Faisal Hamad Al Wahaibi
General Manager - Strategic Business Officer

Faisal Al Wahaibi is the General Manager & Chief Strategic Business Officer at BankDhofar.

Faisal has more than 26 years of experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting, Planning, Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales, Marketing, Distribution, Staff Development, telecommunications, Operations, Retail and Accounts. He is a member of the Bank's Asset & Liability Committee, Executive Committee and the Projects Steering Group Committee.

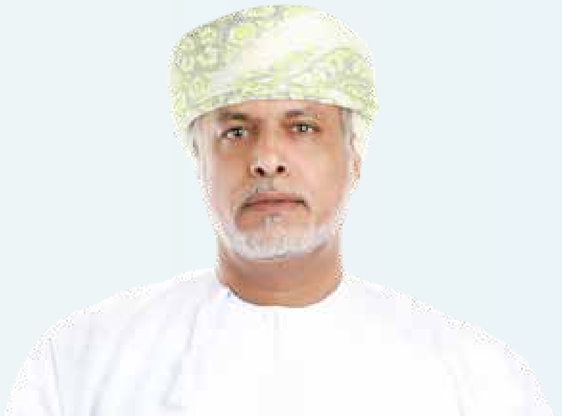
Faisal holds a Bachelor's Degree in Marketing from the University of Missouri, USA. He is also an alumnus of Harvard Business School, having completed the Advanced Management Program 192. He is listed in the list of Leading Practitioners in Financial Services Industry by the Asian Banker Excellence in Retail Financial Services Council and is certified in Risk Management by IIR Middle East.

Kamal Hassan Al Murazza
General Manager & Chief Wholesale Banking Officer

Kamal Al Marazza is an experienced banker with over 19 years of experience in Corporate Banking, Relationship Management, Sales and Marketing, Risk Management and Business Strategy. Prior to joining BankDhofar, he served in a couple of banks and financial institutions across Oman, including HSBC and Bank Sohar.

In addition to his post as the General Manager & Chief Wholesale Banking Officer, Kamal heads the Disciplinary Committee and he is a member of a number of committees within the bank including Assets & Liability Committee, Management HR Committee, Management Credit Committee and Management Risk Committee.

Kamal holds a Bachelor's degree in Marketing from Saint Louis University in USA, and he attended Harvard Advanced Management Program, in addition to several specialized banking programs locally and internationally.



Mohammed Hilal Al Reyami
DGM & Head of Internal Audit

Mohammed Al Reyami is the Deputy General Manager & Head of Internal Audit at BankDhofar. He joined the Internal Audit Department in 2010 and has successfully improved the audit methodology from traditional to a risk-based audit approach, implementing an audit management system for automation of all audit processes and performance reporting.

He is also a member of a number of key committees within the bank where he brings a wealth of over 29 years of experience, nearly 20 years of which was in internal auditing with the Central Bank of Oman, in addition to his membership with the Information Systems Audit & Control Association (ISACA) and the Institute of Internal Auditors (IIA).

Mohammed holds a Master's Degree in Computer Auditing from London Metropolitan University in the UK, a Bachelor's Degree in Accounting Control Systems from University of North Texas in USA, a Diploma in Accounting & Banking from College of Banking & Financial Studies in Oman, and a Professional Diploma in Accounting & Auditing from the Arab Academy for Banking & Financial Studies (AABFS) in Jordan. He is also a certified risk based auditor (CRBA) and he holds an (ICA) Diploma in Governance, Risk & Compliance by the International Compliance Association, and the Leadership Development Program from the University of Virginia, as well as other local and international professional programs.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

FOR THE YEAR ENDED
31st DECEMBER 2019

Economic Scenario and Outlook

The Financial Year 2020 Oman budget represents the final year of the Ninth Five-Year Development Plan (2016-2020) and paves the way for the Tenth Five-Year Development Plan (2021-2025) which underpin the Oman Vision 2040 development objectives. The budget sets a prudent and measured tone in both its revenue and expenditure projections with a resultant deficit of OMR 2.5 billion. Revenue is budgeted to increase by 6% to OMR 10.7 billion (cf. FY19 OMR 10.1 billion), with oil & gas revenue representing c.72% (OMR 7.7 billion). The FY20 revenue forecast assumes a precautionary average oil price of $58 per barrel, which was also used as the basis for the FY19 budget, despite the fact that actual realized oil price in FY19 was $65 per barrel. Expenditure is budgeted to increase by 2% to OMR 13.2 billion (cf. FY19 OMR 12.9 billion), with a commitment to complete a number of strategic infrastructure projects to help incentivize economic growth. There is continued focus on the need to enhance the contribution of non-oil revenue, and the budget includes allocations for the five sectors identified by the National Program for Enhancing Economic Diversification (Tanfeedh): manufacturing, logistics, tourism, fisheries and mining. The Government acknowledges that revenues from these sectors depend significantly on private sector investment and is committed to improving the business environment to facilitate this. In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure and with the aim of bringing improved efficiency and cost savings. GDP grew by 2% in 2019 and is expected to grow by 3% in 2020. Inflation for the period January to November 2019 stood at 2% and is expected to remain low during 2020.

Wholesale Banking Group

BankDhofar provides wide range of customized products & services to its customers. The Bank endeavors to be the most preferred, professional and reliable corporate financing bank in Oman. The Bank's aim is to deliver superior service to customers, through a team of experienced professionals. Wholesale Banking department continued its transformation journey with core values of "Transparency", "Innovation" and "service excellence" in line with Bank's commitment to be the Best Bank in Gulf.

Wholesale Banking Group (WBG) consists of the following departments/units:

(1) Corporate Banking

(2) Business Banking & Payment and Cash Management Services

(3) Corporate Advisory & Investment Banking

(4) Treasury & Financial Institutions

(5) Government Banking

(6) Wholesale Banking -Projects & MIS

Wholesale Banking department always undertake new initiatives with customer centric approach and strive to provide Best in Class Service. Wholesale banking deparment's initiatives on digital transformation and incorporation of new technologies for corporate finance & trade finance solutions intended to offer more products of better quality with excellent user experience.

Corporate Banking Department

Corporate Banking Department plays a vital role in Wholesale banking Group by focusing on specific segments of emerging Corporates and well established businesses. Project finance and syndications department forms part of Corporate banking and has a dedicated team of professionals to arrange, syndicate and participate in various infrastructure and industrial projects like "Power & water projects, Oil & Gas industry, Roads, Petro chemical projects etc.". The corporate customers are serviced through dedicated and experienced relationship teams.

With the growing importance of Small & Medium Enterprises (SME) for a vibrant economy, BankDhofar has formulated strategic initiatives for SME sector. The customers in this segment are serviced by dedicated business relationship managers to provide appropriate financing solutions. Bank is extending services by spreading out its delivery channels and by leveraging the technology in reaching out to SME customers across the country.

BankDhofar's extensive range of wholesale banking products and services helps to manage the liquidity of businesses efficiently.

Business Banking Payments & Cash Management Services Department

Payments & Cash Management Services is part of Business Banking department and provide cash management services designed for the management of incoming and outgoing cash flows. Such services includes "collection of revenue, disbursement of expenses/ payables, tracking as well as investment of surplus funds etc."

Corporate Advisory & Investment Banking Department

Corporate Advisory & Investment banking department offers specialized services of strategic advisory to various industry sectors in the country viz., Oil & Gas, Telecom, Financial Institutions, Steel, Power & Utilities, Textiles and SMEs by providing tailor-made solutions & products. The products on offer includes "corporate and asset level organic and inorganic growth/exit strategies, mergers, acquisitions, distressed debt restructuring advisory, management buy-outs/buy-ins, capital raising, capital structure, private placements, start-ups, joint ventures and business re-engineering". The department also has been providing clients with brokerage related services for dealing in investment securities (both equities & bonds) listed on the Muscat Securities Market (MSM) along with other services like EZ Trade (a service which allows clients to trade MSM securities online).

Treasury & Financial Institutions Department

Treasury & Financial Institutions Department offers specialized services to corporate customers to meet their forex requirements and cross border financial needs. Treasury department is one of the leading market makers in local currency and swaps. The business solutions includes "Hedging solutions, Market research, Money market and Financial Institutions".

The bank's corporate and retail clients have access to the world, through a wide network of leading correspondent banks. The Treasury & Financial Institutions department actively assists the bank's corporate customers in meeting their global trade finance related requirements.

Government Banking Department

Government Banking Department within wholesale banking group offers all banking products and services to Government / Quasi-Government clients through dedicated resources as a separate channel. This ensures providing quick customer service and meeting unique requirements of Government customers & Ministries with varied financial service needs.

Thus, the bank offers a suite of products to meet the various business needs of all the Bank's customers.

Retail Banking Division

The Retail Banking Division (RBD) at BankDhofar continued providing value-added products and services to the customers.

During the year 2019 as part of BankDhofar's "Together 2020" journey the Bank renovated and relocated few branches ensuring that the design is standardized across branches network and aiming to enrich customer experience at the branches. The Bank also introduced extended banking hours in key branches to serve customer in best possible manners beyond normal banking hours. BankDhofar introduced first of its kind "Drive Thru Banking" in Oman at Seeb branch, unique experience for the customers. BankDhofar has wide distribution network across Sultanate of Oman with an aim of making banking services available to all customer segments across the country. The network includes 70 branches and 1 corporate center, 61 conventional banking branches and 10 Maisarah Islamic Banking.

In 2019, Bankdhofar provided a special offering to the employees of targeted organizations. The bank continued providing best customer service in Oman and ensuring quick turnaround time for loans transactions, customers campaign continued to own new home within 5 days at competitive and affordable pricing in housing loan category. In January, the new saving scheme was launched. BankDhofar offered a daily prize; where 1 customer/ per day won OMR 1,000, weekly prizes where 10 customers/ per week got the chance to win OMR 1,000 each, and one lucky customer/ per month got the chance to win OMR 10,000 in the monthly prize, in addition to the grand prize worth OMR 50,000 for one winner. For the special occasion prizes, 5 customers got the chance to win OMR 1,000 each in the Omani Women's Day prize draw, 5 customers got the chance to win OMR 1,000 each in the Renaissance Day prize draw, 10 customers got the chance to win OMR 1,000 each in the Back to School prize draw and one lucky customer got the chance to win OMR 49,000 the National Day prize draw. As for Al Riadah customers, one customer won in each of the monthly draw worth OMR 25,000, quarterly (3 quarters/ 3 winners per year) worth OMR 100,000 and grand prize draw worth OMR 250,000.

BankDhofar launched the saving plans scheme for education and retirement to encourage customers to deposit for their kids' education and their retirement on attractive rates.

BankDhofar continued to offer a diverse selection of insurance packages such as Personal Accident insurance and Motor insurance. The bank functions here as an insurance agency and provides these services to meet customers' needs.

Corporate Services Division

The Corporate Service Division is the backbone of the Bank, and looks into all the operations aspects, which supports the business units. The division ensures the best customer service experience towards the internal and external customers. Under this Divisions, are various other departments who foresees various service excellence in a consistent way.

The departments under Corporate Service are:

- Marketing and Corporate Communications (M&CC)
- Transformation Department
- Digital Banking and Information Department
- Logistics, Procurement and Premises Department
- Operations & Support Services

These Departments have further been divided into units who look into specific functions catering to the Best Customer Service Experience. As stated a short brief has been given about the various departments and units, explaining about their services, achievements and any new units added.

Marketing and Corporate Communications (M&CC)

Marketing and Corporate Communications Department looks into bringing the visibility of BankDhofar brand through events, activities and campaigns.

- With the aim of enhancing the presence of BankDhofar brand, Marketing and Corporate Communication Department conducted a number of campaigns that aimed at brand visibility, including; national celebrations with the public, along with social media campaigns.
- Additionally, M&CC department maintained the strong presence of BankDhofar brand in Muscat International Airport and Salalah Airport through the jet bridges.
- To keep up with the brand visibility, the department oversaw the renovation of branches network to ensure standardized design across all branches of BankDhofar.
- M&CC conducted awareness campaigns for BankDhofar and Maisarah customers. These campaigns aimed at raising the awareness among customers about the state-of-the-art products, services and financial solutions provided by the Bank. The campaigns targeted customers through various touch points including social media and digital channels, and events
- The department conducted comprehensive Savings Account Scheme and Prize Account Scheme campings, through digital and social media channels as well as through organizing various prize draw events. The campaigns aimed at instilling saving habit among different segments of the society.
- A comprehensive Digital Banking Campaign was conducted digitally. The campaign aimed at informing the customers about the cutting edge digital services of BankDhofar.
- M&CC department also looks into the corporate social responsibility events and initiatives, as BankDhofar strives to ensure that its contributions are carefully planned in order to diversify and reach out to the maximum number of people, especially those in need of it to make a meaningful change in the society. In 2019, the Bank provided support to a number of charitable organizations.
- To further extend its social involvement and community outreach, the Mujtamaie volunteer team from BankDhofar visited inpatient children at the Royal Hospital, Sohar Hospital and Sultan Qaboos Hospital Salalah. The team handed over toys and presents for the inpatient children to lift up their spirit.

The department also foresees the overall communication strategy, media relation and internal communication. In order to enhance its internal communication strategy and ensure circulate effective messages to employees, the department continued internal campaigns including "Go Green" with Lean process campaign. Additionally, in order to keep the staff updated with the initiatives the department continued sharing the updates of various achievements and event coverages through Internal Announcement communication and BankDhofar Whatsapp. M&CC continued sharing quarterly updates through BD TV initiative. Marketing and Corporate Communications Department provides required support to other business units.

Financial Inclusion Initiatives

1. BankDhofar

As part of Financial inclusion initiatives, Marketing and Corporate Communications has taken the responsibility to communicate to all individuals and businesses owners various retail products and services that meet their needs and are delivered in responsible and sustainable ways such as; awareness campaigns (segment-wise), sponsorship events, newspapers' press releases and advertisements, social media coverage ...etc.

M&CC has also optimized its spending verses exposure and focused on being visible in big way especially in high traffic areas, main high ways, most visited spots in order to enhance BankDhofar brand visibility and ensure customer recall. The M&CC backed this strategy up with the strategic tie-up with Muscat and Salalah International airports where BankDhofar will have the highest exposure in these two important avenues in addition to selecting the best and highly visible outdoor locations across the sultanate in order to attract population to the bank.

Social Media channels were essential in promoting products and services and different offerings in addition to utilizing corporate communications tools in highlighting BankDhofar's news and updates. The awareness campaigns don't only target existing customer base, but they cover general population to encourage public to join BankDhofar.

In addition to the awareness campaigns related to products & services, the bank has continued supporting community related social top-notch events such as; Muscat Festival, Salalah Tourism Festival, Sports events and supporting SMEs exhibitions in order to make financial products and services accessible and affordable to all individuals and businesses.

BankDhofar has a branch network of 59 branches (designed appropriately to entertain disabled customers) across Oman to cover all demographics for customer banking ease. Key branches have extended hours till 9:00pm to meet customers banking requirements after normal banking hours.

Apart from the current customer segments, the bank has introduced benefits to different segments to attract more customers to the bank.

In order to assure higher consumer engagements and retention, BankDhofar has one of the best mobile banking application which is 24/7 accessible for real time multiple transactions to migrate customer to mobile banking platform.

The Bank is in the process of introducing CRM platform across its branch network to help the Bank focus on customer acquisition and encouraging more customer to bank while offering the best customer experience and better cross-sell to the existing ones.

Finally, the staff are trained regularly on multiple aspects of banking specially on selling skills and products available for each segment to ensure effective customer acquisition.

2. Maisarah Islamic Banking Initiatives

Maisarah constantly works on various awareness campaigns to increase the knowledge of Islamic banking in general and Maisarah in specific, which will help us to get more customers on board as well as working with entities and promoting conferences whereby special focus on Islamic banking is being created in the market.

They are continuing "did you know" posts on social media to increase the awareness on Islamic banking products in the market as well as having intensive mobile banking app campaign to bring in more customers to the mobile banking channel.

Furthermore, they launched the annual Prize Account Scheme and conducts the prize draws in various locations every month thereby increasing the awareness of Maisarah's products to the population. These draws are announced via social media and press releases periodically to assure awareness of the product.

Additionally, various projects are in progress and in different stages such as remittances, POS, Corporate Cards, which will surely bring in more customers to Maisarah.

Maisarah's staff members are continuously trained and encouraged to market and cross-sell its products, thereby increasing the customer base of Maisarah.

Maisarah is in the process of rolling out branches as well as relocating some of the existing branches, open kiosk and commission mobile branch. This will help us to increase the foot print in locations where the Bank do not have presence or further penetrate into the market which will be contributing to reaching out to potential customers.

They are in discussion with Awqaf to help set up a process which is expected to bring in more than 40,000 beneficiaries of zakah to the banking system which includes banking system beneficiaries.

Digital Banking & Information Department

'Digital Banking & Information' Group comprises of

- Information Technology
- Alternate Delivery Channels
- Cards Centre
- e-Payments
- Centre of Innovation and Information
- Information security

The Information Technology at the bank owns the technology strategy, application systems, digital channel systems and infrastructure; delivering services to support the bank's operations, growth and transformation. As part of BankDhofar's transformation journey, the Bank restructured the division in 2019 aligning with the enterprise strategy and in order to spearhead the strategic transformation initiatives for realizing BankDhofar's vision to be the best bank in the gulf. The Bank has organized highly focused departments covering technology transformation, operations and infrastructure.

There have been a number of major technology initiatives in 2019 encompassing the implementation of:

• New business systems,

• Digital transformation programs

• Renewals and enhancements of several critical applications.

The bank continued its technology leadership by pioneering digital transformation and customer experience programs resulting in a number of international and national recognitions and awards in the areas of digital transformation, customer experience design and business process automation.

The bank continued its focus on digital transformation and innovation that helped in further enhancing the services on digital channels as well as introduce latest technologies.

1. BankDhofar became the first bank in Oman and among the first in the region to partner with an international Fintech to offer instant cross border remittances leveraging the blockchain based platform.
2. The bank became the first in the world to offer cardless ATM services to its customers using mobile number, besides being the first bank in Oman to have contactless ATM services for Visa cardholders from Oman and around the world. Contactless acquiring terminals were also rolled out to point of sale merchants through implementation of a new in-house POS system.
3. Some of the other initiatives during the 2019 year included the:
    • Roll-out of advanced Multi-function kiosks (MFK) for self-service,
    • Introduction of new services such as cheque book printing,
    • QR code-based payments and transfer through mobile, based on the CBO's new services launched on the MPclear switch.
4. In addition, the bank implemented an advanced Omni Channel platform to redefine the digital channel experience for customers. During 2019, the bank also undertook the implementation of a new strategic initiatives including:
    • CRM application to support the customer relationship management strategy
    • Oracle Enterprise Resource Planning (ERP) platform to support Finance and Procurement transformation initiatives.

- The implementation of the enhanced business process automation platform iBPS to support the lean operational excellence initiatives
- Rollout of several new modules and automated processes resulting in enhanced customer service, reduced turnaround times and at the same time improving controls and process transparency.
- The Initiation of Core Banking Upgrade
- Regulatory technology was another focus area during 2019 with the implementation of an advanced IFRS 9 system and upgrade of systems for enhanced asset-liability management and funds transfer pricing capabilities.

There are a number of other technology initiatives currently in progress aligned to the transformation goals and vision.

In 2018, the bank set up the centre of innovation to lead identification, qualification and prioritization of new innovative ideas for implementation by leveraging internal ideations, external partnerships as well as crowdsourcing.

Alternative Delivery Channels

Alternative Delivery Channels enable BankDhofar customers to access banking services easily via new, convenient and innovative electronic channels (e-channels) which are available 24/7.

In 2019, Alternative Delivery Channels have successfully enhanced BankDhofar Mobile Banking App to be more user friendly with added features including; cardless ATM services through mobile banking, Fibre net payment for (Awsar) users.

Additionally, the team has upgraded Maisarah Islamic Mobile Banking Services with unique services for customers, new upgrade to the mobile wallet system which provide services to the banked and non-banked customers. Maisarah Mobile Banking App enables customers to conduct a number of services including:

- Tasded bill payment.
- Transfer funds within their accounts and third party's accounts in Maisarah
- Instantly transfer funds to a valid ATM card number of another local bank within Oman
- Cardless cash
- Mobile top-up (OmanTel, Ooreedoo, Friendi and Renna).

The App also offers:

- Prayer timings
- Locate the Qibla direction.

In translation of its efforts to provide best customer experience through BankDhofar e-channels the unit received a number of international and regional awards including;

- Best Mobile Banking Application in Oman 2016 at the World Finance Digital Banking Awards.
- Best Digital Bank in Oman 2016 at the World Finance Digital Banking Awards.
- Best Mobile Banking Application Oman 2019

BankDhofar has launched a new platform which is an updated core banking system (Omni Channel) as this is an upgraded core banking channel will be able to link all channels in one platform with a new look and feel for the customer and new experience for BankDhofar customers.

The Bank has also launched cardless banking service through ATMs. The first-of-its-kind service in the world, enables customers to conduct ATM transactions easily by only using BankDhofar Mobile Banking App.

Other units within the departments have seen a number of achievements during 2019, including:

Contact Center

1. Preparation and Approval for the Transformation Journey Roadmap, Organization Chart, Job Descriptions, KPI and Location Design

   The Basic Critical Steps are prepared and the approval is received to generate profits, deliver superior cx, and work efficiently including self service

2. Preparation and Approval for Outbound and Retention Pilots

   Initiate the basic steps for sales and profit focus

3. Establishment of the Antifraud Team, Digital RM concept with OCH off line requests, POS Helpline Support, Mobile Wallet, CRM Implementation Contribution

   Initiated solid actions to add additional activities

4. Employee Engagement and Investment in Skillset Development Activities to increase the employee morale which in turn impacts the customer service

   Investment in employee engagement activities like monthly celebrations, public appreciation, off-site team building activities, revisiting all the employee experience points

   Training staff on LSS and starting the projects, Rotation, Digital RM and other initiatives.

5. Very Good Rating from Internal Audit Department

6. Follow up and completion of CRs in Collection, IVR, Queu Management

E-payments unit was set up in 2018 to focus on capitalizing and building on existing payments services as well as leveraging digital payments opportunities. In 2019, the unit has achieved the following:

1. Sign Oman Air as an eCommerce Merchant
2. Sign the Godoba travel company as an eCommerce merchant.
3. Develop a partnership with Sale (now known as Channels) see them transfer c. OMR 3 million company funds to the bank.
4. Signing of an MOU with TelyPay, a local Fintech supported by the Oman Technology Fund.
5. Develop partnerships with Sohar University and Thawani.
6. Initiate Data Analytics pilot with AFS to gain a better understanding of BankDhofar Credit card portfolio

Information security

Achieved the re-certification & compliance with latest version of PCI-DSSv3.2 information & cyber security standard. Completed PCI-DSS security testing activities including external & internal vulnerability assessment scans, external & internal penetration testing, web application penetration testing, network segmentation testing, card tipper scans and Wi-Fi access scans.

Achieved the re-certification & compliance with latest version of ISO 27001:2013 information & cyber security standard. Ensured continuous compliance of ISMS documentation & implementation of ISO 27001:2013 standard covering 14 information security domains and 114 information security controls (viz. technical, process, people, management, etc).

Completed comprehensive annual IT-cyber security assessment exercise for Bank's IT infrastructure covering external vulnerability assessment & penetration testing, internal vulnerability assessment & penetration testing, web application penetration testing, technical security review – security testing of ATMs/CDMs/POSs, network security architecture review, configuration review of network/security devices and social engineering testing.

Completed security assessment and testing activities for bank-wide new transformation projects/systems in coordination with EPMO & IT teams including OCH internet banking system, ERP system, CRM system, iMal core upgrade system, IFRS system, BD career website and treasury system.

Implemented real-time 24x7 anti-phishing & brand monitoring services covering anti-phishing monitoring for internet banking, mobile application monitoring, social media monitoring

Central Operation Division (COD)

Central Operations Department (COD) plays a major role in handling back-end operations, thus enabling the branches and business units to focus on customer service and business development. The volume of transactions processed at COD continues to grow in line with the Bank's overall business growth. Continuous efforts are being made to redesign and simplify the processes by implementing lean sigma concepts, effective utilisation of technological solutions and thus increasing the staff productivity.

Key Projects Implemented by COD in 2019:

Enhancement of Cheque Return System. CBO has enhanced the process of reporting cheques return data in the Cheques Return System.

As a part of the digital initiative of the Bank, uploading of Cheques Return data, have been automated through Robotics application.

Many staff in COD have successfully completed Lean Sigma Yellow Belt projects, related to COD functions, thus simplifying the daily operations. Some staff have taken up Green Belt projects, which will be implemented in the year 2020.

Summary of initiatives completed during the year is given below:

Summary of Initiatives Completed in 2019	Number
Processes Automated	4
Processes Re-engineered	8

Business Continuity Management (BCM)

In terms of regulatory requirements, Bank has in place Business Continuity and Disaster Recovery Planning aiming at continued operations and customers services at all times. Bank undertakes reviews and methods to ensure its capability to meet the contingency arising out of any unforeseen disasters, technological failures and various other threats. In this regard, the Bank has taken number of measures to strengthen the BCM implementation in the Bank. The key initiatives include:

- An exclusive Business Continuity Management (BCM) Department has been set up under Risk Management Division to deal with such as identification, assessment of risks, reporting of BCP activities, conducting BCP testing, organizing BCM awareness programmes, issuing alert staff during adverse weather conditions, maintaining updated BCP document, conducting quarterly BCM Committee meetings, addresses regulatory and compliance /audit issues etc.
- Risk Assessment exercise is undertaken on annual basis to review the BCP related risks and mitigation requirements. Business Impact Analysis (BIA) exercise is conducted on half yearly basis to identify and assess BCP back-up requirements by interacting with nominated Business continuity coordinators.
- Bank has set up an exclusive BCP Steering Committee, entrusted with the responsibility of overseeing BCM implementation and maintaining a sound BCP for the Bank. The Committee is reporting to Board Risk Management Committee (BMRC). The Committee is meeting on quarterly basis to review that BCP formulated across the Bank are implemented and tested.
- Bank has set up state-of-art an alternate BCP site at Knowledge Oasis Oman (KOM) campus for resuming critical business activities in emergent scenarios. In the same location, Bank has also set up secondary Data Back- Up Center as part of Bank DR Plan.

- Various BCP testing are adopted to ensure that the Business Continuity Plan is logical and practically feasible. As part of this testing plan, Bank undertakes two major types of testing 1. BCP Simulation testing under partial disruption scenario (what if current work location is not available) and 2. IT DR Drill under full disruption scenario (Primary data centre not accessible / unavailable scenario). During the year under review, Bank has conducted annual BCP Simulation testing (Oct 2019) and Disaster Recovery drill testing (Dec 2019) at the newly set up BCP Site, to test check people, systems and other capabilities are working expected levels.
- Besides this, Bank conducts several other types of BCP testing such as Database back up testing, Back Up branches testing, etc. to test the adequacy of systems and business resumption procedures in various disruption scenarios. And also the Tabletop testing exercise is conducted to cross verify the preparedness of Business continuity leaders.
- In terms of disaster recovery and safety measures, fire drills are conducted to test the preparedness of the staff and to improve the recovery capabilities in line with the recovery strategies. Floor leaders /Fire wardens are nominated and trained in fire prevention and important procedures that need to be followed in the event of an emergency.
- Staff are provided periodical training on BCM aspects. Different programmes are customized to cater to the different target groups. Importantly, during the period under review, customized specialized BCM Training Programmes have been organized for Board members, Senior Management, Heads of Department and Business Continuity Leaders. Also BCM e-module has also been launched to benefit all end users to undergo mandatory BCM programmes at their convenience either at office or at home. Also, as part of promoting BCM Awareness, new innovations are introduced such screensavers containing BCM Messages and BCM Gifts with embossing BCM contents.
- Bank is in the process of obtaining BCM – ISO 22301 Quality Certification. Currently Gap analysis along with Corrective Action plan are implemented to strengthen the BCM capabilities, prior to obtaining Certification.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency. The contact detail of key officials are provided below:

Position	Contact information(+968 prefix)
Head of BCM Steering Committee – Acting AGM and Head of Ops & Support Services	24 790 466 - Ext:215 GSM: 9923 5197
Acting Head of Risk Management	24 790 466 Ext: 752, 24797246 GSM: 99645641
Senior Manager - BCM	24790466 Ext. 754; GSM 95763521

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment's, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Credit Administration Department

Credit Administration Department "CAD" is the backbone for the lending related operations of the Bank. CAD department structure is formulated in a manner to accommodate post sanction operational process. This pertains to limit maintenance & disbursements, controlling of facilities & collateral documentation, pricing management & lodgment of security documents etc. These activities are carried under specific units allocated for Large Corporate Division, Business Banking and Retail Banking. Each of the units comprises of portfolios handled by portfolio holders and team leaders who are managed by a specialized unit manager.

These units are entrusted with the tasks to carry out the post sanction activities such as identifying the borrowers legal structure and validate and review the KYC documents , Identify, value, and prudently classify and record the collateral, attach Bank's security interest in the collateral module and perfect the lien position in the collateral and also managing legal agreements , preparation of Covenant Compliance Reports, Key Risk Indicator monitoring and other monitoring tools to manage the loan portfolio. An additional CAD support unit was formed in the newly established Corporate Centre in Azaiba in providing swift services to the clients in order to reduce the turnaround time for many CAD related transactions.

As a key support procedure for the business segments of Retail and Wholesale Banking, CAD has an established unit for PRO activities, which handles mortgages/joint registrations in Ministry of Housing (MOH), Ministry of Commerce and Industries (MOCI) & Royal Oman Police (ROP) & the unit in coordination with CAD WSB unit liaise with Muscat Security Market for the creation of pledge and release of shares. Additionally, the unit carries in out the preparation of Arabic letters to the external authorities for various requirements such as No Objection Certificates etc.

The Housing Loan Documentation Unit which is allocated under the CAD Retail Segment, carries out custodian services for original housing loan documents and periodical revaluation for the purpose of MIS reporting for Capital Adequacy computation.

CAD has a Branch Support Unit which manages day to day activities which are centralized at the department. The system rights to handle these activities are solely entrusted with CAD. These activities include lien management, classification/de classification end process, blocking/de blocking end process as well as loan rescheduling and pricing related activities pertaining to the retail segment.

Compliance and MIS

Another key activity handled by CAD is the role as the focal point and carries out the administration of the Oman Credit and Financial Information Centre (OCFIC) activities previously known as the Banking Credit Statistics Bureau (BCSB) of the Central Bank of Oman. This unit coordinates reporting, exception management, access control, complaint management as well as MIS/Regulatory reporting pertaining to the Senior Management of the Bank. This BCSB unit directs the other related periodical regulatory reporting with the prudent coordination of divisions such as Business, Finance and Compliance. CAD plays an active role in the CBO's initiative of establishing the new Oman Credit Bureau (OCB). The unit is also entrusted with formulating the CAD policies and standard operating procedures (SOPs).

Personal Development & the future

As a stepping stone for a self-development, CAD originated a intra departmental staff learning & development section where staff members are given a choice to conduct their own periodical presentations and training programs to share the knowledge of their respective areas as well as their learnt skills. By initiating this CAD ensures there is a prudent transformation of knowledge as well as to enhance the presentation skills of the staff member.

As a vision for the future and the rapidly changing business environment, CAD has embarked on re-engineering and developing of the unit and the processes through Lean Six Sigma and 5s concepts using tools such as Robotic Process Automation (RPA) and Intelligent Business Process System (IBPS).

Recovery Department

Recoveries Department is established under Corporate Services Division, and is specialized and primarily responsible in handling and monitoring all Non-Performing Assets. The department is mandated to ensure the implementation of policies / instructions of the Bank pertaining to the recovery of overdue under all loan and advances.

The main objective of the department is to maximize the recovery by adopting various methods such as;

- Independently validate the grades of classification and adequacy of the provisioning.
- Close follow up with the customers for recovery of past dues before initiating legal action.
- Negotiating for mutually acceptable settlements.
- Re-structuring the classified accounts with definite source of repayments.
- De-classification of accounts in terms of the Bank's extant instruction and CBO's regulation in place from time to time.
- Liaison with Legal Department for demand notices and taking legal action for recovery.
- Regularly monitoring the progress of legal cases with the Bank's external lawyers.
- Coordinating with Royal Oman Police (ROP) and regulatory bodies to expedite various legal processes and execution of decrees and court orders.
- Providing information to Court Appointed Experts for the legal action initiated by us.
- Gathering and maintaining market information on assets and investment of defaulters.
- Handling Asset Classification, monitoring security/ valuation of mortgaged assets.
- Validating/ maintaining provisions for Loan Loss Reserve/ Interest Reserve as per CBO/ IFRS9 norms.
- Maintaining effective MIS system.
- Regulatory Reporting – Internal/ External Auditors, CBO Examiners, Internal Departments/ Control functions.

Due to vigorous follow up and timely actions, the department has successfully recovered substantial amount of non- performing assets during the year and achieved the target despite difficult market conditions.

Policies and Procedures Department

Policies & Procedures department (PPD) continues to maintain an integrated model for linking strategies with everyday business processes & decision making at every level.

The maintenance of above stated integrated model brought together, standardized and systematized all risk, control, compliance and governance processes. Further, it helped in improving efficiency of the operational framework.

PPD mainly undertakes following activities

- Act as nodal department and work closely with Management, Business, Operations, and Others to maintain and improvise internal governance & control framework of the Bank.
- Ensure that documents are designed to support business strategy & operations and promote sound working practices.
- Ensure that documents are accurate, clear-cut, presented consistently & uniformly, and easily identifiable & accessible.
- Ensure that documents are periodically reviewed for accuracy and applicability to address changing business dynamics.
- Ensure proper review mechanism/approvals are obtained and kept on record.
- Ensure that respective staff of units are provided with updated document through common shared folders and/or suitable mode of sharing and updated regularly & on timely manner as ongoing process.

Apart from the core activities of developing and reviewing policies & procedures, PPD serves as member to Management Risk Committee, and continues to contribute significantly in successful implementation of various projects assigned time to time.

Legal Department

The Legal Department provides legal support and advice to all of the Bank's departments and branches in order to safeguard the Bank's interests and prevent breaches. This is achieved by coordinating with the Bank's departments and branches to ensure correct implementation and interpretation of laws, regulations, circulars and internal policies.

- The Legal Department has grown, and the team includes lawyers and paralegals. Work is streamlined between the team members to increase turnaround time and quality of the work.
- There has been an increase in the number of case settlements with customers and quicker responses to claims.
- The Legal Department conducts majority of the review and drafting of contracts in-house to protect the Bank's interests and minimize risks while also improving quality and turnaround time.
- The Bank's policies and terms and conditions for both existing and new products are reviewed and updated in coordination with relevant departments.
- Various committees include participation of the Legal Department.
- The Legal Department coordinates with the Central Bank of Oman, Capital Market Authority, Royal Oman Police, Public Prosecution and other authorities as required.

Compliance Division

Compliance activities in the Bank are guided by Central Bank of Oman (CBO) guidelines, local and applicable international statutory guidelines/ obligations, applicable capital market guidelines & international best practices. The Board of Directors have established an effective compliance function in the Bank and enforce its activities through a set of Board approved policies and procedures. While, the first line, guided by Senior Management, ensures day to day operational management of compliance risk; at the same time, Compliance Division is entrusted to independently look after effective management of compliance risk in the Bank by conducting periodical compliance testing, monitoring of regulatory limits, conducting gap analysis with applicable regulatory guidelines, transaction monitoring, transactions screening, screening of customers, etc. The Board approved Compliance Charter empowers Compliance Division to have direct access to the Board of Directors. However, for routine compliance risk related issues, Compliance reports directly to the Board Risk Management Committee (BRMC) for necessary guidance.

Considering BankDhofar's "Together 2020" vision, the Bank has undertaken fundamental restructuring of its Compliance function, aiming to be the best amongst its peers. In the last 3 years, compliance operational landscape has shifted to maintain 'zero' level compliance risk in the Bank. In 2018-19, Bank engaged an external consultant of international repute to review the Compliance activities within the Bank. The final report, accepted by the Board Risk Management Committee, is being implemented through a separate time bound Compliance project, titled FATF AML Compliance Design & Implementation Program. The primary objective of the program is to ensure on-going compliance with regulatory guidelines and relevant international standards and practices in letter and spirit.

The Bank strictly follows regulatory mandates and Financial Action Task Force (FATF) recommendations on Know Your Customers (KYC)/ Customer Due Diligence (CDD), Anti-money laundering (AML)/Combating Financing of Terrorism (CFT) as well as sanctions resolutions passed by United Nations Security Council (UNSC). Customers of the Bank are risk rated, periodically reviewed and screened from the sanctions database and STRs are raised in case of suspicious transactions as per legal and regulatory requirements in Oman. The Bank relies on state of art IT systems of international specifications to monitor transactions for AML and Anti-Fraud. Moreover, system has been operationalized to screen SWIFT transactions/messages real time from the sanctions database and screen customers from database of sanctions, PEPs, adverse media etc. BankDhofar is registered as Participating Foreign Financial Institution (PFFI) with Internal Revenue Service (IRS), Treasury Department, U.S. for Foreign Account Tax Compliance Act (FATCA) Regulations. Bank has also successfully implemented regulations based on OECD Common Reporting Standard (CRS).

To promote value based compliance culture and set the right tone at the top, Bank has conducted Compliance related training for Board members and Senior Management. Through the year, dedicated programs were carried out for staff training and development, including retention testing of previously trained staff. In addition to specific classroom trainings, mandatory e-Learning courses have also been adopted in the Bank for all staff. Relevant staff in Compliance Division were trained in their operational areas. Compliance officials have coveted CAMS certification from ACAMS, in addition to the International Diploma in Governance, Risk and Compliance and Advanced Certificate in Managing Sanctions Risk examination by International Compliance Association (ICA) and are fully geared to face the emerging issues/ challenges on account of growing profile of the Bank.

Anti-Fraud Unit (AFU) falls within the ambit of Compliance Division. AFU reviews processes, procedures, and products from fraud perspective, and recommends fraud preventive measures. AFU also monitors, reviews, and reports any suspicious activities, transactions and data by utilizing appropriate analytical techniques and data mining tools. It also reports fraud transactions to Central Bank of Oman and Royal Oman Policy (ROP) as per regulatory requirements.

Risk Management Division

1. Risk Management Structure

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk bearing capacity of the Bank.

The overall risk management has been delegated to an independent Board Risk Management Committee (BRMC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRMC relies on an independent Risk Management Division within the Bank.

The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

a. Compliance with regulatory capital requirements;

b. Ensuring balanced performance across business units;

c. Placing emphasis on the diversity, quality and stability of earnings;

d. Making disciplined and selective strategic investments;

e. Maintaining adequate capital adequacy;

f. Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;

g. Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

The Bank defines risk strategy and risk appetite on the basis of the strategic plan to ensure alignment of risk, capital and performance targets. The risk strategy of the Bank includes the Risk Appetite and Capital Plan, which allow the Bank to:

- Review the capital adequacy requirement goals with respect to risk, considering Bank's strategic focus and business plans;
- Assess risk-bearing capacity with regard to internal and external requirements;
- Apply stress testing to assess the impact on the capital base and liquidity position.

2. Management of various Risks

A brief account on the various identifiable risks and their risk management process is given below:

1) Credit Risk

- Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed / updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompasses organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.

- Policy on Country and Counterparty Bank credit risk addresses credit risk emanating from exposure to banks as counterparties as well as countries. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model.

- The Bank has credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7. The rating models have been duly validated by the Bank through independent third party.

- Various credit risk models are used to assess the obligor risk as well as the facility risk and while assessing the credit risk of the borrower, both probability of default and loss given default is estimated.

- Risk Adjusted Return on Capital (RAROC) is computed to assess the risk based pricing of each facility, which facilitates in informed decision making.

- The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.

- All the corporate credit proposals from both conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigates. The observations of RMD form an important input in credit decision making.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

2) Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah. The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; conventional banking and Maisarah, which discharges this function with the assistance of other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.

The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

3) Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

ALM Policy and Investment Management Policy addresses all the aspects of the market risk. The ALM Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in interest rate on profitability and economic value of equity in Conventional entity.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Asset Liability Management (ALM) Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a firm's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or all of its Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

Middle office monitors equity portfolio through daily reporting and assess the risk inherent in the quoted domestic equity portfolio through Value at Risk (VaR) approach. Various limits like stop loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals are reviewed by RMD to provide independent view on the risks associated with them.

Middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on capital adequacy and places the same to the Board Risk Management Committee.

4) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2019, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversee the various operational functions of the Bank.

The Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. During the RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the existing controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on 'Potential Losses' has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting the Bank's bottom-line.

Operational Risk Unit in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division conducts regular training programs for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

5) Country Risk

Country risk arises from changes in the value of foreign exposure due to country specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country & Counterparty Bank Credit Risk policy addresses the country risk that may arise due to cross border exposure, in a structured manner. The Bank has in place a country risk assessment methodology which grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

The Middle office in association with the Financial Institution department monitors the country risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

Internal Capital Adequacy Assessment process

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is an integrated enterprise-wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for ensuring an appropriate relationship between the risk profile and the capital held by the Bank, both in absolute terms and in terms of composition (Tier I & Tier II). This alignment between the capital and risks makes for better risk management.

The ICAAP cover assessment of risks under Pillar 1 and Pillar 2 risks, viz. interest rate risk in the banking book, concentration risk, business risk, reputation, legal and strategic risk. The ICAAP is facilitated by Risk Management and is supported by numerous functional areas which together help determine the Bank's internal capital adequacy assessment.

A Separate Working Group on Capital Planning under ALCO, monitors the overall adequacy of the Bank's available capital in relation to both internal and regulatory capital requirements.

Human Resources Division (HRD)

In line with BankDhofar's Transformation Journey "Together 2020", the Human Resources Division had played an instrumental role in the organization, in collaboration with the leadership team and the Board, the department has been able to drive and deliver corporate HR Transformation Programs and Projects, that were developed with the strategic intent and objective to create strong Performance Culture. The Bank has successfully implemented more than 50 Programs and Projects under the HR Transformation Journey; creating and building the right Culture, People, Processes and Systems

BankDhofar, believes that people are the key competitor advantage and biggest differentiator, and that this transformation journey can be only be achieved by having committed, engaged and motivated talent who will continue driving sustained performance.

The department will continue to develop and invest in people at all levels of the organization, starting with the Board of the Directors all the way to staff in the Branches, providing them with clear, vision & mission, values and more importantly purpose to align all stakeholders objectives, goals and aspirations.

HRD will continue to drive performance culture which is one of the key pillars of the Together 2020 transformation journey. The primary objective of the HR strategy is enhance individual, team and organizational performance by developing people capabilities in terms of knowledge, skills and abilities while providing key talent opportunities to grow by creating an environment that supports and fosters high performance.

HRD will also continue to support "Together 2020" Transformation Journey, as the Bank is seeing the results and outcomes of this journey; creating the Bank of the future that delivers the best customer experience in the Gulf.

Talent Development & Retention

HRD is in the talent business delivering financial solutions, the department will continue to focus on talent development and retention by developing and implementing career development programs, career opportunities management, and by implementing competitive total rewards and recognition programs.

The Bank will continue to harness the talent and ensure that all high performance individuals and teams will have the right career development opportunities to grow and achieve their potential and career aspirations. As a result of these programs, BankDhofar has been able to achieve 93.7% Omanization and achieved an attrition rate of less than 5% being one the lowest in the Omani Banking Sector.

Talent Management

Human Resources has continued implementing Talent Development Programs for different talent segments in the Bank. In this program, talent goes through talent identification, assessment and development. These programs are based on both structured learning programs delivered by the Performance Academy in coloration with the learning & development partners. These programs also may involve participation of real time projects which will enable the talent to improve their functional competencies.

During the year the Bank has conducted various programs targeting different talent segments such as the Board Members, Top Team, Middle Managers and Junior Managers to develop their specific development needs and to cater for the succession planning needs. Bank has also taken steps to assess various staff on identifying competency gaps and training them to improve their performance.

Learning & Development

Though the Performance Academy, the Bank developed and implemented various ambitious projects aiming at improving the employee performance, productivity, and career development. The Bank continues to innovate the learning and development programs by designing and delivering the required learning & development programs and objectives across all business functions.

To align with the Banks Transformation strategy and journey, during the year 2019, Performance Academy continued to cascade the Lean Transformation programs across the Bank and built professional lean practitioners who will be Lean Champions for their respective businesses and operating units to achieve the Lean Operating Model

The Bank has also launched a Learning Management System (LMS) to assist staff "Anytime Anywhere Learning". As a part of this initiative, various eLearning programs have been launched during the year which covers Lean Six Sigma and most of the regulatory programs including Anti Money Laundering, Anti-Fraud and Information Security Awareness.

In order to further build Omani staff skills and competencies, the Bank has also implemented specialized Banking programs including various Master Class Program through internationally recognized training providers. Bank has also initiated Secondment programs to other Banks across the globe to build the right capability for high potential Omani talent. This program has given the seconded staff exposure to best practices and professional way of managing business in global Banks. In 2019 the Bank has sent 10 staff to overseas Banks from Retail, Wholesale, Information Technology, Islamic Banking and Compliance.

Digital People Program

As an integral part of the digital people strategy, BankDhofar has automated all employee services and benefits and the Bank is now able to provide all banking services to the members online. Further, the Bank is in the process of implementing talent management, career & succession planning, onboarding/off-boarding, and people analytics systems to provide all people and talent management processes in a digital platform.

In addition to establishing HR Contact Center to better serve the staff.

Financial Performance

In the midst of current challenging economic and financial situation driven by volatile oil prices and rising interest rates in the local market, the bank reported a net profit of OMR 30.24 million (USD 78.55 million) for the year-to-date (YTD) 31st December 2019 compared to RO 50.28 million (USD 130.60 million) achieved during similar period of last year, a year-on-year decline of 39.86%. This decline is resulting from increase in net provisions by OMR 15.74 million (USD 40.88 million) from classification of certain large exposures (reflecting the current economic environment). Bank's Islamic Banking Window, Maisarah Islamic Banking Services reports strong Profits before tax growth of 17.36% reaching RO 6.98 million (USD 18.13 million) in 2019 compared to RO 5.94 million (USD 15.43 million) in 2018. Total assets of the Bank reached RO 4.33 billion (USD 11.25 billion) in December 2019 as compared to RO 4.21 billion (USD 10.94 billion) at end of 2018, 2.85% increase. The Net Loans, Advances and Financing to customers reached RO 3.06 billion (USD 7.95 billion) at December 2019, compared to RO 3.16 billion (USD 8.21 billion) at the end of 2018, 3.16% decline year-on-year, continuing the cautious approach on increasing the loan and financing book and focusing on credit quality.

An analysis of key gross loan portfolio by segment is tabulated below:

Description (RO 000)	31-Dec-19	31-Dec-18	Growth %
Gross Loans/Financing	**3,181,597**	3,293,945	-3.41%
Retail Loans/ Financing	**1,286,585**	1,375,140	-6.44%
WSB Loans/Financing	**1,895,012**	1,918,805	-1.24%

Analysis of Loan portfolio by product is tabulated below:

Loans, advances and financing to customers (RO 000)	31-Dec-19	31-Dec-18	Growth%
Overdrafts	**137,827**	165,880	-16.91%
Loans	**2,425,730**	2,547,049	-4.76%
Loans against trust receipts	**109,865**	99,393	10.54%
Bills discounted	**46,898**	70,969	-33.92%
Advance against credit cards	**9,450**	8,921	5.93%
Islamic Banking Window financing	**451,827**	401,733	12.47%
Gross loans, advances and financing	**3,181,597**	3,293,945	-3.41%
Less: Impairment allowance	**(118,247)**	(135,101)	12.48%
Net loans, advances and financing	**3,063,350**	3,158,844	-3.02%

Customer deposits, including Islamic deposits increased by 0.68% from RO 2.92 billion (USD 7.58 billion) at the end of 2018 to reach RO 2.94 billion (USD 7.64 billion) at the end of 2019.

The analysis of Key deposits by product is given below:

Deposits from customers (RO 000)	31-Dec-19	31-Dec-18	Growth%
Current accounts	**621,320**	568,332	9.32%
Savings accounts	**457,380**	456,011	0.30%
Time deposits	**1,449,677**	1,531,677	-5.35%
Margin accounts	**9,590**	15,099	-36.49%
Islamic Banking Window deposits	**405,221**	353,385	14.67%
Grand total	**2,943,188**	2,924,504	0.64%

The Net Interest Income and income from Islamic Financing activities earned were RO 94.83 million (USD 246.31 million) for the year 2019 as compared to RO 97.43 million (USD 253.06 million) during 2018, a decrease of 2.67%. However, Non-funded income increased by 2.03% year-on-year reaching RO 35.13 million (USD 91.25 million) in 2019 as against RO 34.43 million (USD 89.43 million) for 2018. The total operating income is RO 129.96 million (USD 337.56 million) for the year 2019 as compared to RO 131.85 million (USD 342.47 million) for the year 2018, year-on-year decrease of 1.43%.

Total Operating Expenses increased to RO 71.47 million (USD 185.64 million) for the year 2019 as compared to RO 65.46 million (USD 170.03 million) for the year 2018, 9.18%. This resulted in increase of the cost to income ratio to 55% in 2019 from 50% in 2018.

Net provisions (Expected Credit Loss 'ECL') increased by OMR 15.74 million (USD 40.88 million) from RO 6.65 million reported in 2018 to RO 22.39 million for the year 2019, this includes classification of certain large exposures (reflecting the current economic environment), as stated above. Correspondingly, gross NPL (Non-performing loans) increased to 4.67% as at 31st December 2019 from 3.68% as at 31st December 2018. Net NPL, net of interest reserve is 3.91% at 31 December 2019 vs. 1.99% at 31 December 2018; Net NPL, net of interest reserve and ECL provision is 2.14% as at 31 December 2019 compared to 0.74% at 31 December 2018. NPL is based on funded non-performing exposure over total funded exposure.

Funding and Capital Raising initiatives

In continuation of its capital augmentation to strengthen the capital base, the Bank has approved the issue of, subject to Regulatory approval, Tier 1 Capital instrument (Additional Tier 1 perpetual bonds (AT-1)) in an indicative amount of USD 300 Million or equivalent in OMR 115.5 Million for the next five years to be listed Euronext Dublin or in the Muscat Securities Market. Country's debut issuance of AT-1 Bond in the international market in May 2015 is coming up for first call date in May 2020.

Bank's Core Equity Tier-1 (CET-1) Ratio has strengthened and increased from 11.88% at 31 December 2018 to 12.59% as at 31 December 2019; Tier 1 is at 16.40% 31 December 2019 vs. 15.52% last year; total capital adequacy ratio (CAR) is 17.86% at 31 December 2019 vs. 17.33% last year. The Regulatory minimum requirements are a) 9.5% CET-1, 11.5% Tier 1 and 13.5% CAR as at 31 December 2019.

Proposed Dividends

(The Board of Directors in their meeting held on 28th January 2020 proposed a total cash dividend of 7% (RO 20.98 million) for the year 2019 (2018: 10%, RO 28 million), made up of a) 3% (amounting to RO 8.99 million) from the Retained Earnings and b) 4% (amounting to RO 11.99 million) from the Special Reserve Account and nil bonus shares issue for year 2019 (2018: 7%). (2018: 196,022,991 shares) of RO 0.100 each, subject to the approval of Central Bank of Oman and shareholders)

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2014	2015	2016	2017	2018
Cash Dividends	5%	15%	13.5%	12%	10%
Bonus Shares	15%	10%	7.5%	8%	7%

FINANCIAL HIGHLIGHTS
OF LAST FIVE YEARS

FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

(OMR'000)	2019	2018	2017	2016	2015
NET INTEREST INCOME (CONVENTIONAL)	84,649	87,918	84,605	90,786	84,478
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	10,182	9,509	8,521	6,874	5,729
NON INTEREST INCOME	35,133	34,426	33,801	29,691	25,019
OPERATING COSTS	71,474	65,456	58,994	56,767	51,199
PROFIT FROM OPERATIONS	36,092	59,743	56,031	54,429	52,501
NET PROFIT FOR THE YEAR	**30,244**	**50,281**	**47,627**	**47,622**	**46,765**

At year-end

TOTAL ASSETS	4,325,845	4,213,490	4,246,710	3,952,043	3,593,061
NET LOANS, ADVANCES AND FINANCING	3,063,350	3,158,844	3,248,873	2,988,592	2,729,306
CUSTOMER DEPOSITS	2,943,188	2,924,504	3,068,409	2,885,189	2,592,371
TOTAL EQUITY	686,155	698,162	587,007	534,000	476,529
SHARE CAPITAL	299,635	280,033	225,786	189,920	154,473
FULL SERVICE BRANCHES	71	71	69	68	67
ATMs / CDMs / FFMs/ MFKs	194	190	179	180	187
STAFF	**1,586**	**1,600**	**1,514**	**1,478**	**1,371**

FINANCIAL RATIOS
OF LAST FIVE YEARS

Financial Ratios of Last Five Years

	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	7.26%	7.82%	8.50%	9.42%	11.66%
Return on Weighted Average Shareholders Equity	9.37%	9.92%	10.70%	12.22%	13.63%
Return on Weighted Average Paid-up Capital	17.35%	19.88%	22.91%	27.66%	32.39%
Return on Average Assets	0.71%	1.19%	1.16%	1.26%	1.38%
Non-Interest Income to Operating Income	27.03%	25.67%	26.63%	23.31%	21.71%
Operating Expenses to Operating Income	55.00%	50.50%	46.48%	44.58%	44.43%
2. LIQUIDITY					
Net Loans to Total Deposits	89.22%	95.91%	94.00%	92.36%	94.07%
Total Customer Deposits to Total Deposits*	85.72%	88.80%	88.78%	89.17%	89.35%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	3.72%	4.10%	4.07%	3.83%	3.49%
Non-Performing Loans to Total Loans	4.67%	3.68%	3.11%	2.68%	2.30%
Non-Performing Loans Net of Interest Reserve to Total Loans **	3.91%	1.99%	1.72%	1.41%	1.10%
Loan Loss Provisions to Total Non-Performing Loans	79.58%	111.38%	130.93%	142.66%	151.88%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	12.59%	11.88%	10.53%	9.85%	9.43%
Tier 1 capital ratio	16.40%	15.52%	13.29%	12.77%	12.68%
Total Capital Adequacy Ratio	17.86%	17.33%	15.44%	14.41%	14.70%
Shareholder's Equity/ Total Assets	12.27%	12.88%	11.10%	10.59%	10.05%

* Net Loan to Customers Deposits is 104.08%.

** Net NPL for 2019 is 2.14% based on NPA less interest reserve and IFRS-9 Stage 3 ECL over gross loans.

Branch Network

BRANCH	TEL. NO.	FAX NO.
MUSCAT NORTH AREA		
Al Khoudh	Dir/ 2427 6000 - 24276001 - 24276002	24 545 268
Seeb Town	Dir/ 24425851 - 24425852 - 24424434 - 24423373	24425627
Ghala	Dir/ 24216001 - 24216002	24216006
Muscat International Airport	Dir/ 24510537 - 24510101 - 24 510102	24510468
Mabellah	Dir/ 24451520 - 24451540 - 24451539	24451542
New Muscat International Airport	Dir/ 24356999 - 24356995 - 24356997	24 216 600
Muscat Center Area		
Muscat Grand Mall	Dir/ 24216666	24216600
Qurum	Dir/ 24568351 - 24567671 - 24567673	24567679
New Bausher	Dir/ 24614768 - 24614786	24614764
Amarat	Dir/ 24877838 - 24876580 - 24876120	24875829
Bausher Polyclinic	Dir/ 24502606 - 24596994	24595323
Al Khuwair Ministry	Dir/ 24694710 - 24694725-24694715	24694730
MUSCAT SOUTH AREA		
MBD	Dir/ 24750516 - 24790466	24798621
Muscat	Dir/ 24 737865 - 24736614 - 24736606 - 24 737066	24739166
Muttrah	Dir/ 24712970 - 24714452 - 24 714279	24713556
Quriyat	Dir/ 24845195 - 24845193 - 24845192	24845173
Ruwi	Dir/ 24831090 - 24835854	24831892
Wadi Kabir	Dir/ 24814127 - 24814126	24814128
BATINAH SOUTH AREA		
Barka	Dir/ 26884423 - 26884428	26884451
Rustaq	Dir/ 26876039 - 26875117	26875591
Suwaiq	Dir/ 26862001 - 26862010	26862102
Muladdah	Dir/ 26868544 - 26868553	26868549
Khadhra	Dir/ 26714164 - 26714162	26714163
BATINAH NORTH AREA		
Sohar	Dir/ 26943400 – 26943401-26943402	26943444
Khaboura	Dir/ 26801028-26801686	26805130
Saham	Dir/ 26854400 - 26856699	26855277
Hafeet	Dir/ 26817646 - 26817991 - 26817992	26817993
Falaj Al Qabail	Dir/ 26949962 - 26949812 - 26949813	26750891
Shinas	Dir/ 26748302 - 26748306-26748308	26748304

DAKHLYAH AREA		
Nizwa	25410234 - 25411370	25411234
Sumail	25350543 - 25351188	25350094
Izki	25340089 - 25341016	25340204
Bahla	25420021 - 25420292	25420387
Bid Bid	25369044 - 25369033	25369055
Adam	25215001	25215050
BURAIMI & DHAHIRA AREA		
Al Buraimi	Dir/ 25652224 - 25652227	25 651 115
Buraimi Industrial Area	Dir/ 25669821 – 25669822 – 25669823 - 25669824	25669825
Yanqul	25672018 - 25672031	25672041
Ibri	25689341 - 25689685	25690341
SHARQYAH NORTH AREA		
Ibra	Dir/ 25571632 - 25571631 - 25571632	25570646
Sinaw	Dir/ 25524663 - 25524367	25524823
Samad A'Shan	Dir/ 25526736 - 25526529	25526574
Al Muntrib	Dir/ 25583853 - 25584049	25583510
Mudhaibi	Dir/ 25578110 - 25578113	25578114
SHARQYAH SOUTH & WOSTA AREA		
Sur	Dir/ 25546677 - 25541255 - 25540256	25540615
J. B. B. Ali	Dir/ 25553414 - 25553440	25553446
J. B. B. Hassan	Dir/ 25551020 - 25551025	25551181
kamil Al Wafi	Dir/ 25557134 - 25557501	25557962
Al Duqum	Dir/ 25215801 - 25215800	25215888
DHOFAR EAST AREA		
Salalah	Dir/ 23290644 - 23292299 - 23294863 - 23291631	23295291
Saada	Dir/ 23227177 - 23 225463 - 23225409	23225179
Taqa	Dir/ 23258108 - 23258113	23258366
Mirbat	Dir/ 23268007 - 23268038	23268080
Dhofar University Booth	Dir/ 23237789 - 23237785 - 23237782	23237745
DHOFAR WEST AREA		
Salalah Gardens Mall	Dir/ 233818200 - 23381201	23381222
Salalah commercial District	Dir/ 23380700 - 23380719 - 23380721	23202761
Salalah-Al Gharbiah	Dir/ 23298046 - 23297526 - 23297536	23295084
Raysut	Dir/ 23219219 - 23219262 - 23219216	23219197

BRANCH	TEL. NO.	FAX NO.
Al Riadah Prestige Opera Galleria	24647070	24647007

BRANCH	TEL. NO.	FAX NO.
Corporate Centre	22520001	22520002

Maisarah Islamic Banking Services Branch Network

BRANCH	TEL. NO.	FAX NO.
Azaiba	24212544	24212521
Salalah	23211100	23211186
Sohar	26840929	26840818
Birkat Al Mouz	25443365 / 25443462	
Al Hail	24287777 / 24287788	
Greater Muttrah	24793297 / 24707959	24706103
Al Khuwair	24484880 / 24480008	24483366
Sur	25545867 / 25541912	25543710
Al Araqi	25694126 / 25695071	25695047
New Salalah	23297492 / 23296158	23294263

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

Report of factual findings to the shareholders of Bank Dhofar SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Bank Dhofar SAOG ("the Bank") as at and for the year ended 31 December 2019 and application of the corporate governance practices in accordance with amendments to the CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors in complying with the requirement of the Code issued by the CMA.

3. We have performed the following procedures:

   a) We have checked that the Corporate Governance Report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and

   b) We obtained the detailed list of areas of non-compliance identified by the Bank's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.

4. As a result of performing the above procedures, we have no exceptions to report.

5. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.

6. Had we performed additional procedures or had we performed an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

7. Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of Bank Dhofar SAOG taken as a whole.

PricewaterhouseCoopers

9 March 2020
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos
P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408,
www.pwc.com/me

1. Introduction

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

a. To maintain capital adequacy ratio (CAR) at a minimum of 11% effective from 01.04.2018. Previously the minimum CAR requirement was 12%;

b. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component.

c. To maintain capital adequacy ratio (CAR) at a minimum of 13.5% (including capital conservation buffer) effective from 01.01.2019

d. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:

- Within the overall requirement of 13.50% CAR (including capital conservation buffer), Tier 1 ratio is to be maintained at a minimum of 11.50%,
- Within the minimum Tier 1 ratio of 11.50%, minimum CET 1 ratio is to be maintained at 9.50%,
- Further, within the minimum overall capital ratio of 1 1% (excluding capital conservation buffer), Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank.

e. To adopt the Basel II standardized approach for credit risk, using national discretion for:

- Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;
- Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)
- Treating all corporate exposures as unrated and assign 100% risk weight.

f. To adopt standardized approach for market risk and basic indicator approach for operational risk.

g. Capital Adequacy returns are submitted to CBO on a quarterly basis and the Bank's external auditors review capital adequacy returns on an annual basis.

As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than OMR 10 million or such higher amount as may be determined from time to time by the Central Bank.

Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of RWA as Tier 1 Capital ratio. The capital buffer requirement is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

2. Scope of Application

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately.

3. Basel II & III Disclosures

3.1 Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

1. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
2. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
3. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, viz., Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in CBO circular BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment factor of alpha at 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.

Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios:

With effect from 01.01.2019

CET 1 Capital Ratio: 9.5% of risk weighted assets

Tier 1 Capital Ratio: 11.5% of risk weighted assets (Going concern capital)

Total Capital Ratio: 13.5% of risk weighted assets (Gone concern capital)

With effect from 01-01-2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB is 2.5% of the total RWA and every year the buffer was to be enhanced by 0.625%, thereby reached a level of 2.5% in 2019. Further, CBO has also finalised Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not imposed. The capital buffer requirements shall be imposed at consolidated level but will not be applied at the Islamic Banking Window level. Thus from 2019 onwards, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 13.5% respectively.

Based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose “a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements”. The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

Basel II, Pillar 3 guidance note states that banks should provide qualitative disclosure that sets out “Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.” Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has three types of capital instruments viz., Common Shares, Perpetual bonds in the form of Additional Tier 1 Capital and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

3. Basel II & III Disclosures (Continued)

3.2. Capital Structure

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Bank's capital structure also consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, Additional Tier I capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as Fair Value through Other Comprehensive income (FVOCI), goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on FVOCI instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of total Stage 1 and permitted Stage 2 provision subject to ceiling of 1.25% of credit risk weighted assets or total general provisions amount taken by Bank for Tier2 capital as on 31st December 2017. However, stage 2 provisions would be phased out over a period of four years.

The details of capital structure are provided as under:

CAPITAL STRUCTURE :	RO'000 Amount
Paid up capital	299,635
Legal reserve	58,966
Share premium	95,656
Special reserve	18,488
Subordinated loan reserve	42,875
Retained earnings	1,447
Proposed bonus shares	-
Common Equity Tier (CET) I capital	**517,067**
Deferred Tax Assets	(1,028)
Less Goodwill	(397)
Cumulative unrealized losses recognized directly in equity	(2,245)
CET I Capital – Regulatory Adjustments	**(3,670)**
Total CET I capital	**513,397**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**668,897**
Investment revaluation reserve (45% only)	370
General provision (Sum of Stage 1 and permitted Stage 2 provision subject to max of 1.25% of credit RWA or General provision amount held under Tier2 capital as on 31/12/2017)	38,315
Subordinated loans	21,000
Total Tier II capital	**59,685**
Total eligible capital (Tier I + Tier II Capital)	**728,582**

3. Basel II & III Disclosures (Continued)

3.3 Capital Adequacy Ratio

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

The Bank's capital adequacy ratio is 17.86% as against the CBO requirement of 13.50% as at 31st December 2019. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which meets periodically and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Board Risk Management Committee (RMC). The composition of capital in terms of Common Equity Tier I, Additional Tier I, Total Tier I and Tier II are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

1) Position of Risk weighted Assets is presented as under:

S. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	4,515,059	4,410,807	3,145,469
2	Off balance sheet items	541,787	506,583	502,814
3	Derivatives	1,301,118	1,301,118	23,137
4	**Total Credit Risk**	**6,357,964**	**6,218,508**	**3,671,420**
5	Market Risk	-	-	**143,412**
6	Operational Risk	-	-	**263,487**
7	Total Risk Weighted Assets	-	-	**4,078,319**

* Net of provisions and, reserve interest

3. Basel II & III Disclosures (Continued)

3.3 Capital Adequacy Ratio (Continued)

2) Detail of Capital Adequacy:

S.No.	Details	RO'000
1	Common Equity Capital	513,397
	Tier 1 Capital	668,897
2	Tier 2 Capital	59,685
3	Tier 3 Capital	-
4	**Total eligible capital**	**728,582**
5	Capital Requirement for Credit Risk	3,671,420
6	Capital Requirement for Market Risk	143,412
7	Capital Requirement for Operational Risk	263,487
8	**Total Required Capital**	**4,078,319**
9	Common Equity Capital Ratio	12.59%
10	Tier 1 Capital Ratio	16.40%
	Total Capital Adequacy Ratio	17.86%

3.4 Risk Exposure and Assessment

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) 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 of all the Corporate, Business Banking and Project Finance credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's networth as stipulated by CBO and where a higher limit is required for projects of national importance, prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is in accordance with the CBO guidelines. The Bank uses a score card as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with other banks. The maximum exposures to these banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank and regulatory ceiling. The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis. In addition to the internal limits, the Bank also adheres to the limits for countries and counterparty banks prescribed by CBO strictly.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1st January 2018.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)

3. Basel II & III Disclosures (Continued)
3.4 Risk Exposure and Assessment (Continued)
3.4.1 Credit Risk (Continued)

1) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

S. No.	Type of Credit Exposure	Average Gross exposure		Total Gross exposures	
		RO'000	RO'000	RO'000	RO'000
	Conventional	**2019**	2018	**2019**	2018
1	Overdrafts	**158,227**	177,624	**137,827**	165,880
2	Loans	**2,448,399**	2,549,067	**2,425,730**	2,547,049
3	Loans against trust receipts	**101,088**	119,580	**109,865**	99,393
4	Other	**49,146**	59,346	**36,564**	59,331
5	Bills purchased /discounted	**10,747**	11,426	**10,334**	11,638
6	Advance against credit cards	**9,207**	8,833	**9,450**	8,921
	Total	**2,776,814**	2,925,876	**2,729,770**	2,892,212
	Islamic				
7	Murabaha Receivables	**22,100**	22,370	**19,686**	24,625
8	Mudaraba Financing	**21,955**	21,601	**18,897**	26,585
9	Ijarah Assets	**45,812**	45,301	**46,028**	46,002
10	Wakala Financing	**30,961**	-	**40,011**	18,762
11	Diminishing Musharaka Financing	**303,040**	291,868	**327,205**	285,759
12	Total Islamic	**423,868**	381,140	**451,827**	401,733
	Total	**3,200,682**	3,307,016	**3,181,597**	3,293,945

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

2) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

S. No	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	India RO'000	Pakistan RO'000	Other RO'000	Total RO'000
		1	2	3	4	5	6	7
1	Overdrafts	137,827	-	-	-	-	-	**137,827**
2	Personal Loans	1,286,585	-	-	-	-	-	**1,286,585**
3	Loans against trust Receipts	109,865	-	-	-	-	-	**109,865**
4	Other Loans	1,139,145	-	-	-	-	-	**1,139,145**
5	Bills Purchased / negotiated	10,334	-	-	-	-	-	**10,334**
6	Advance against credit cards	9,450	-	-	-	-	-	**9,450**
7	Any other	36,564	-	-	-	-	-	**36,564**
	Total	**2,729,770**	**-**	**-**	**-**	**-**	**-**	**2,729,770**
	Islamic							
8	Murabaha Receivables	19,686	-	-	-	-	-	**19,686**
9	Mudaraba Financing	18,897	-	-	-	-	-	**18,897**
10	Ijarah Assets	46,028	-	-	-	-	-	**46,028**
11	Wakala Financing	40,011	-	-	-	-	-	**40,011**
12	Diminishing Musharaka Financing	327,205	-	-	-	-	-	**327,205**
13	Total Islamic	**451,827**	**-**	**-**	**-**	**-**	**-**	**451,827**
	Total	**3,181,597**	**-**	**-**	**-**	**-**	**-**	**3,181,597**

Overdrafts and others includes in Personal loans and others

*excluding countries included in column 2

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

3) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

S.No	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills RO'000 purchased	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
1	Import trade	10,972	79,776	-	12,588	103,336	25,662
2	Export trade	188	121	-	5	314	59
3	Wholesale/retail trade	4,821	21,008	-	2,349	28,178	21,661
4	Mining and quarrying	1,859	16,723	162	13	18,757	619
5	Construction	53,015	399,072	4,683	77,871	534,641	379,395
6	Manufacturing	16,933	121,123	3,527	42,789	184,372	44,491
7	Electricity, gas and water	715	161,826	-	169	162,710	14,675
8	Transport and Communication	1,048	1,455	-	556	3,059	5,047
9	Financial institutions	1,248	143,728	1,940	-	146,916	236,531
10	Services	25,200	149,100	-	2,015	176,315	31,339
11	Personal loans	1,625	1,276,017	-	8,943	1,286,585	3,875
12	Agriculture and allied Activities	4,022	4,543	22	1,782	10,369	813
13	Government	-	248,739	-	3	248,742	18,446
14	Non-resident lending	-	-	-	-	-	-
15	Others	16,181	254,326	-	6,796	277,303	28,317
	Total (1 to 15)	**137,827**	**2,877,557**	**10,334**	**155,879**	**3,181,597**	**810,930**

4) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

S. No.	Time Band	Overdrafts RO'000	Loans & Financing RO'000	Bills purchased/ Discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exp. RO'000
1	Upto 1 month	6,891	51,811	-	515	59,217	315,851
2	1 - 3 months	6,891	158,971	10,334	4,990	181,186	56,590
3	3 - 6 months	6,891	61,202	-	7,071	75,164	26,778
4	6 - 9 months	6,891	9,800	-	8,572	25,263	14,209
5	9 - 12 months	6,891	15,582	-	6,183	28,656	16,895
6	1 - 3 years	34,457	84,680	-	25,049	144,186	138,904
7	3 – 5 years	34,457	143,763	-	27,699	205,919	153,797
8	Over 5 years	34,458	2,351,748	-	75,800	2,462,006	87,906
	Total	**137,827**	**2,877,557**	**10,334**	**155,879**	**3,181,597**	**810,930**

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

5) Analysis of loan & financing book by major industry or counterparty type:

S. No.	Economic Sector	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Stage 3 Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
1	Import trade	96,476	6,860	786	1,369	4,080	515	1,059
2	Export trade	308	6	20	3	3	-	-
3	Wholesale/retail trade	19,067	9,112	2,547	3,564	337	3,777	4,908
4	Mining and quarrying	18,745	12	578	6	7	3	-
5	Construction	510,681	23,960	5,481	8,066	1,764	7,320	-
6	Manufacturing	183,671	701	1,541	221	256	203	-
7	Electricity, gas and water	162,671	39	1,230	9	4	-	-
8	Transport and communication	2,400	659	286	269	80	394	-
9	Financial institutions	146,916	-	944	-	-	-	-
10	Services	174,526	1,789	1,195	697	468	223	-
11	Personal loans	1,222,275	64,310	13,414	28,669	14,199	10,546	2,174
12	Agriculture and allied activities	10,359	10	40	5	4	-	-
13	Government	248,742	-	8	-	-	-	
14	Non-resident lending	-	-	-	-	-	49	4,429
15	Others	236,178	41,124	9,573	13,557	2,967	12,571	-
	Total (1 to 15)	**3,033,015**	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**

* Represents only on balance sheet NPLs.

6) Geographical distribution of amount of impaired loans:

S. No	Countries	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage3 `ECL RO'000	Interest reserve RO'000	Stage 3 ECL made during the year RO'000	Advances written off during the year RO'000
1	Oman	**3,033,015**	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**8,141**
2	Other GCC countries	-	-	-	-	-	-	**4,429**
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**3,033,015**	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**

*excluding countries included in row 2

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.1 Credit Risk (Continued)

7) Movement of Gross Loans/Financing:

(OR in 000's)

S. No.		Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	2,506,380	666,266	121,299	3,293,945
2	Migration/changes (+/-)	(142,818)	66,879	75,939	-
3	New Loans	473,261	214,579	11,927	699,767
4	Recovery from Loans	(633,757)	(117,775)	(5,493)	(757,025)
5	Loans written off	-	-	(55,090)	(55,090)
6	**Closing Balance**	**2,203,066**	**829,949**	**148,582**	**3,181,597**
7	Total Provisions	11,586	26,057	56,435	94,078

3.4.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach

1) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

2) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 139.456 million All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight and 75% for SME borrowers).

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach as at 31.12.2019 is as follows:

S. No	Risk bucket	0% RO 000	1% RO'000	5% RO' 000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	300% RO' 000	Total RO' 000
1	Sovereigns (Rated)	641,808	-	-	-	-	-	-	-	-	-	641,808
2	Banks(Rated)	-	-	-	120,895	-	264,720	-	86,792	4	-	472,411
3	Corporate	102,395	-	-	-	-	-	-	-	-	-	102,395
4	SME	-	-	-	-	-	-	50,555	1,638,516	-	18,897	1,707,968
5	Retail	1,857	-	-	-	-	-	-	669,008	-	-	670,865
6	Claims secured by residential property	-	-	-	-	522,809	-	-	28,587	-	-	551,396
7	Past due loans	-	-	-	-	-	-	-	148,582	-	-	148,582
8	Other assets	-	-	-	-	-	-	-	93,309	-	-	93,309
9	Un-drawn exposure	-	-	-	-	-	-	607	223,937	-	485	225,029
10	Derivative	-	1,082,617	217,042	-	-	-	-	1,459	-	-	1,301,118
11	Non funded- Bank	-	-	-	-	-	-	-	107,632	-	-	107,632
12	Non funded-Customers	35,204	-	-	647	-	224,228	-	71,603	-	-	331,682
13	Non funded-Sovereign	3,769	-	-	-	-	-	-	-	-	-	3,769
	Total	**785,033**	**1,082,617**	**217,042**	**121,542**	**522,809**	**488,948**	**51,162**	**3,069,425**	**4**	**19,382**	**6,357,964**

3) The Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of movement in the staging on its profitability and capital adequacy. The same is placed before the Board Risk Management Committee.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking, which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. The RAROC system provides a competitive edge to the Bank in improving the quality of the portfolio and also covers the cost of doing business in the form of pricing.

The Bank has strengthened its existing credit risk management systems and is committed to improve it further.

3.4.4 Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the possibility that a customer or trading counterparty will fail to fulfill contractual obligations, and such failure may result in the termination or replacement of the transaction at a loss to the Bank. Such exposures arise primarily in relation to over-the-counter (OTC) derivatives. The majority of CCR exposure is incurred in transactions designed to help our clients manage their interest rate and currency risks.

To measure RWA, Bank Dhofar uses the Current Exposure Method (CEM), which is the sum of current credit exposure (CCE) and the potential future exposure (PFE). The CCE is the sum of net positive fair values and the PFE is an estimate of the maximum amount of the exposure that could occur over a one year horizon. BankDhofar has a total notional amount of RO 83.244 Mn in OTC derivatives (such as currency option, interest rate swap and forward interest rate agreement) and risk weighted assets of RO 1.459 Mn as at 31 Dec 2019.

3.4.5 Market Risk

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Bank has a comprehensive Asset Liability Management (ALM) Policy for conventional entity and Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

1) Interest Rate Risk (IRR) for conventional banking:

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.5 Market Risk (Continued)

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon is monitored by ALCO on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee of the Board with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in conventional banking is provided as under:

(RO in 000's)

Position as at 31.12.2019 Impact on	+ or – 1%	+ or – 2%
Earnings	11.06	22.12
Economic Value of Equity	37,235	74,471
Impact on earning as a % of NII	10.41%	20.83%
Impact as a % of Bank's Net worth	5.56%	11.12%

2) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

3) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on capital adequacy and the same is placed to Board Risk Management Committee of Board of Directors on regular basis.

4) Commodity Risk:

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.5 Market Risk (Continued)

5) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 2.92 million as on 31.12.2019, VaR works out to OMR 340K at 99% confidence level and 11.63% of the domestic quoted equity portfolio.

6) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The capital charge for various components of market risk is presented below:

Type of risk	RO'000 Amount
Interest Rate Risk	-
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	11,473
Total	**11,473**

3.4.6 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due. It arises when the banks are 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 ALM Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The ALM policy also incorporates contingency funding plans and measures, so as to be 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 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 above five years. The mismatches in various time buckets indicate liquidity gap and the 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, the Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity stored in the balance sheet.

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 makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test that provides the requirement of liquidity over a given time horizon.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 32 of the notes to financial statements).

3. Basel II & III Disclosures (Continued)

3.4 Risk Exposure and Assessment (Continued)

3.4.7 Operational Risk

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks. Bank has also formulated a framework for reporting red flags to the Management and to the Board.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

Bank uses various operational risk tools like loss data management (LDM), Key Risk Indicators (KRI), Risk Control and Self-Assessment (RCSA) for effective operational risk management. The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to improve control effectiveness. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

4. Liquidity Standards

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

4.1 Liquidity Coverage Ratio (LCR)

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows:

LCR = Stock of High Quality Liquid Assets /
Total Net Cash Outflows over the next 30 calendar days

As per guidelines, the value of the LCR should be minimum 100% on an ongoing basis with effect from 01.01.2019. The Bank is meeting the regulatory limit of LCR as at 31st December 2019 on a consolidated basis.

4. Liquidity Standards (Continued)

4.2 Net Stable Funding Ratio (NSFR)

The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows

Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable

Funding (RSF) *100

In terms of CBO guidelines, the standard for NSFR has become effective from 1st January 2018, with a minimum ratio of 100%. Presently, the Bank is meeting the regulatory limit of NSFR as at 31st December 2019.

5. Basel III Leverage Ratio

As per CBO guidelines on Leverage Ratio standards, Bank is expected to maintain a leverage ratio of 4.5%. The leverage ratio standard is not applicable to Islamic Banking Window. The Bank's leverage ratio, calculated in accordance with the CBO guidelines for the consolidated entity is as follows:

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

S.No	Item	As at 31st December 2019	As at 31st December 2018
1	Total consolidated assets as per published financial statements	**4,325,845**	4,010,454
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments	**13,701**	13,574
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**423,124**	448,750
7	Other adjustments		
8	**Leverage ratio exposure**	**4,762,670**	4,472,778

5. Basel III Leverage Ratio (Continued)

Table 2: Leverage ratio common disclosure template			
S. No	Item	As at 31st December 2019	As at 31st December 2018
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,325,845**	4,010,454
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**4,325,845**	4,010,454
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts for PFE associated with all derivatives transactions	**13,701**	13,574
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**13,701**	13,574
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**-**	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	
14	CCR exposure for SFT assets	**-**	
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**810,930**	848,120
18	(Adjustments for conversion to credit equivalent amounts)	**(387,806)**	(399,370)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**423,124**	448,750
	Capital and total exposures		
20	**Tier 1 capital**	**668,489**	653,977
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,762,670**	4,472,778
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**14.0**	14.6

Annexure I

Basel III Capital Disclosure Template 31st/12/2019

S.No	Basel III common disclosure template to be used during the transition of regulatory adjustments	Amount Subject to Pre-Basel III treatment
		(RO '000)
Common Equity Tier 1 Capital: Instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	395,291.00
2	Retained Earnings	1,447.00
3	Accumulated other comprehensive income (and other reserves)	120,329.00
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public Sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-
6	**Common Equity Tier 1 Capital before regulatory adjustments**	517,067.00
Common Equity Tier 1 Capital: Regulatory Adjustments		
7	Prudential valuation adjustments	2,245.00
8	Goodwill (net of related tax liability)*	397.00
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,028.00
11	Cash Flow hedge reserve	-
12	Shortfall of provisions to expected loss	-
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold)	-

S.No	Basel III common disclosure template to be used during the transition of regulatory adjustments	Amount Subject to Pre-Basel III treatment
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-basel III treatment	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to common equity Tier 1**	3,670.00
29	**Common Equity Tier 1 capital (CET 1)**	513,397.00
Additional Tier 1 Capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	155,500.00
31	of which: classified as equity under applicable accounting standards	155,500.00
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)	
35	of which: instruments issued by subsidiaries subject to phase out	
36	**Additional Tier 1 capital before regulatory adjustments**	155,500.00
	Additional Tier 1 Capital: Regulatory Adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-basel III treatment	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1**	-
44	**Additional Tier 1 capital (CET 1)**	155,500.00
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	668,897.00

S.No	Basel III common disclosure template to be used during the transition of regulatory adjustments	Amount Subject to Pre-Basel III treatment
Tier 2 capital: Instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	21,000.00
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions and Cumulative fair value gains on available for sale instruments	38,685.00
51	**Tier 2 capital before regulatory adjustments**	59,685.00
Tier 2 capital: Regulatory Adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-basel III treatment	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
57	**Total Regulatory Adjustments to Tier 2 capital**	-
58	**Tier 2 Capital (T 2)**	59,685.00
59	**Total Capital (TC = T 1 + T 2)**	728,582.00
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment	
	of which: (insert name of adjustment)	
	of which: (insert name of adjustment)	
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	4,078,319.00
60a	of which: Credit Risk Weighted Assets	3,671,420.00
60b	of which: Market Risk Weighted Assets	143,412.00

S.No	Basel III common disclosure template to be used during the transition of regulatory adjustments	Amount Subject to Pre-Basel III treatment
60c	of which: Operational Risk Weighted Assets	263,487.00
Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.59%
62	Tier 1 (as a percentage of risk weighted assets)	16.40%
63	Total capital (as a percentage of risk weighted assets)	17.86%
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	9.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	0.00%
67	of which: D-SIB/ G-SIB buffer requirements	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.09%
National Minima (if different from Basel 3)		
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA
71	National total capital minimum ratio (if different from Basel III minimum)	NA
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	38,685.00
77	Cap on inclusion of provisions in Tier 2 under standardized approach	45,892.75
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET 1 instruments subject to phase out arrangements	NA
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA
82	Current cap on AT 1 instruments subject to phase out arrangements	NA
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA
84	Current cap on T 2 instruments subject to phase out arrangements	NA
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA

CA Report 1 (For CBO Use only)

S.No	CA Report 1 (For CBO Use only)	
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	517,067
2	Regulatory Adjustments to CET1	3,670
3	CET1	513,397
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	155,500
5	Regulatory Adjustments to AT1	-
6	AT1	155,500
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	668,897
8	Tier 2 Capital before Regulatory Adjustments	59,685
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	59,685
11	Total Capital (11=7+10)	728,582
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,078,319
13	Credit Risk Weighted Assets	3,671,420
14	Market Risk Weighted Assets	143,412
15	Operational Risk Weighted Assets	263,487
16	CET1 (as a percentage of TRWA) (in %) 7.625%	12.59
17	Tier 1 (as a percentage of TRWA) (in %) 9.625%	16.40
18	Total capital (as a percentage of TRWA) (in %) 12.625%	17.86

Basel III common

Capital Adequacy Disclosure

S.No	Details	31st December 2019
		Amount RO ' 000
1	Common Equity Tier 1 capital (CET 1)	513,397
2	Tier I Capital (after supervisory deductions)	668,897
3	Tier II capital (after supervisory deductions & upto eligible limits)	59,685
4	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	
5	Of which, Total Eligible Tier III Capital	0
6	**Risk Weighted Assets – Banking Book**	3,671,420
7	**Risk Weighted Assets – Operational Risk**	**263,487**
8	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**3,934,907**
9	Minimum required capital to support RWAs of banking book & operational risk	**472,189**
	1) Minimum required Tier I Capital for banking book & operational risk	412,504
	2) Tier II Capital required for banking book & operational risk	59,685
10	Tier I capital available for supporting Trading Book	256,393
11	Tier II capital available for supporting Trading Book	0
12	**Risk Weighted Assets – Trading Book**	**143,412**
13	Total capital required to support Trading Book	17,209
14	Minimum Tier I capital required for supporting Trading Book	4,905
15	Used Eligible Tier III Capital	0
16	Total Regulatory Capital	728,582
17	Total Risk Weighted Assets – Whole bank	4,078,319
18	Common Equity Tier 1 Ratio	**12.59%**
19	Tier 1 Ratio	**16.40%**
20	Total Capital Adequacy Ratio	**17.86%**
21	Unused but eligible Tier III Capital	
	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	**3.09%**

Capital Adequacy Disclosure

		OMR ' 000							Exposure with CRM			OMR ' 000
Details		Drawn Exposure	Undrawn Exposure	Repo Style	OTC Derivative	Other OBS	Total Exposure	Unsecured	Pre mitigation	Post mitigation	Net Exposure	RWAs - Standardized Approach
I. Banking Book												
1) Soverign												
	carrying 0%	641,808	-	-	-	3,769	645,577	-	-	-	645,577	-
	carrying 20%											
	carrying 50%											
	carrying 100%											
	carrying 150%											
	Unrated 100%											
2) MDBs	Carrying 0%											
3) Banks												
	carrying 0%											
Placement	carrying 20%	120,895	-	-	-	-	120,895	-	-	-	120,895	24,179
	carrying 50%	264,720	-	-	-	-	264,720	-	-	-	264,720	132,360
	carrying 100%	86,792	-	-	-	107,632	194,424	-	-	-	194,424	194,424
	carrying 150%	4	-	-	-	-	4	-	-	-	4	6
	Unrated 50%											
4) Corporate												
	carrying 0%	102,395	-	-	-	35,204	137,599	-	137,599	137,599	137,599	-
	carrying 20%	-	-	-	-	647	647	-	-	-	-	647
	carrying 50%	-	-	-	-	224,228	224,228	-	-	-	-	224,228
	carrying 75%											
SME	carrying 75%	50,555	607	-	-	-	51,162	51,162	-	-	51,162	38,372
	carrying 100%		98,704	-	-	170,307	170,307	170,307	-	-	170,307	170,307
	Unrated 100%	1,638,516	70,723	-	-	-	1,709,239	1,709,239	-	-	1,709,239	1,709,239
(Mudaraba) SME	carrying 300%	201	-	-	-	-	201	201	-	-	201	603
(Mudaraba)	carrying 300%	18,696	485	-	-	-	19,181	-	-	-	19,181	57,543
5) Retail	carrying 0%	1,857	-	-	-	-	1,857	-	1,857	1,857	1,857	-
	carrying 20%											
	carrying 50%											
	carrying 75%											
	carrying 100%	669,008	54,510	-	-	-	723,518	-	-	-	723,518	723,518
6) Claims secured by residential property												
	carrying 0%											
	carrying 20%											
	carrying 35%	522,809	-	-	-	-	522,809	-	-	-	522,809	182,983
	carrying 100%	28,587	-	-	-	-	28,587	-	-	-	28,587	28,587
7) Claims secured by commercial property												
	carrying 0%											
	carrying 20%											
	carrying 100%											
8) Past Due Loans												
	carrying 0%											
	carrying 20%											
	carrying 150%											
	carrying 100%	148,582	-	-	-	-	148,582	-	(80,604)	67,978	67,978	67,978
net prov for past due loans	carrying 50%											
9) Other Assets												
	carrying 0%											
	carrying 20%											
other assets/investment/fixed assets	carrying 100%	93,309	-	-	-	-	93,309	-	-	-	93,309	93,309
	carrying 150%											
10) High Risk Assets												
Securitization tranches rated between BB+ and BB- - 350%												
Venture Capital & Private Equity Investments - 150%												
11) Off-balance Sheet Items												
Forward Bank and Customer	carrying 0%											
Less than 1 Year	carrying 1%	-	-	-	1,082,617	-	1,082,617	-	-	-	1,082,617	10,826
Above 1 Year	carrying 5%	-	-	-	217,042	-	217,042	-	-	-	217,042	10,852
	carrying 7.5%											
	carrying 100%	-	-	-	1,459	-	1,459	-	-	-	1,459	1,459
12) Failed transactions (para 88)												
	From 5 to 15 days after the agreed settlement date (100% RWA)											
	From 16 to 30 days after the agreed settlement date (625% RWA)											
	From 31 to 45 days after the agreed settlement date (937.5% RWA)											
	46 days or more after the agreed settlement date (1250% RWA)											
Total Banking Book		**4,388,734**	**225,029**	**0**	**1,301,118**	**541,787**	**6,357,964**	**2,155,784**	**58,852**	**207,434**	**6,052,485**	**3,671,420**

Capital Adequacy Disclosure

S.No	Details	31st December 2019 Amount in OMR ,000
	Common Equity Tier 1 Capital: Instruments and reserves	
	Local Banks	
1	Paid - up Capital	299,635
2	Share Premium	95,656
3	Legal reserves	58,966
4	General Reserves (Special Reserve)	18,488
5	Sub-ordinated Loan Reserve	42,875
6	Stock Dividend	-
7	Retained Earnings	1,447
8	Non -cumulative perpetual preferred stock	
9	Other non-distributable Reserve	
	Foreign Banks	
10	Assigned Capital	
11	Capital Deposit	
12	Retained Earnings	
13	Interest free funds from HO Common Equity Tier 1 Capital before regulatory adjustments Common Equity Tier 1 Capital : Regulatory Adjustments Deductions	517,067
14	Goodwill	(397)
15	Deferred Tax Asset	(1,028)
*16	Intangible Assets, including losses, cumulative unrealized losses recognized directly in equity	(1,536)
17	Reciprocal crossholding of bank capital, artificially	(709)
	designed to inflate the capital position of the banks	
	Total regulatory adjustments to common equity Tier 1	(3,670)
18	Tier I capital after the above deductions	
19	50% of investments in capital of banks and other financial entities, other than reciprocal cross holding of bank capital	
20	50% of Significant minority and majority 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	
21	50% of shortfall in t he regulatory capital requirements in the un-consolidated entities	
22	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc sub-total	-
23	**Common Equity Tier 1 capital (CET 1)**	513,397
	Pepercual Capital Tier 1 Capital	155,500

S.No	Details	31st December 2019 Amount in OMR ,000
	Total Tier 1 Capital (T1=CET1+AT1)	**668,897**
	Tier II Capital: Instruments and Provisions	
	Directly issued qualifying Tier 2 instruments plus related stock surplus	
	Directly issued capital instruments subject to phase out from Tier 2	
24	Undisclosed reserves	
25	Revaluation Reserves / Cumulative fair value gains	370
	or losses on available for sale instruments	
26	General Loan Loss Provisions / General Loan Loss	38,315
	Reserve	
27	Sub-ordinated Debt	21,000
28	Hybrid Debt Capital Instruments	
29	**Total Tier II Capital before Regulatory adjustment**	**59,685**
	Tier II capital Regulatory Adjustments	
30	Tier III Capital	
31	**Total Regulatory Capital**	**728,582**

S. No.	Details – Risk Weighted Assets – Trading Book	
1	Capital Charge on Specific Risk	-
	1) On interest rate related instruments	-
	2) On Equities	-
2	Capital charge on general market risk	-
	1) On interest rate related instruments	-
	2) On Equity	-
	3) On foreign exchange & Gold position	11,473
	4) On Commodities position	-
3	Total Capital Charge for market risks	**11,473**
4	Total Risk Weighted Assets – Trading Book	**143,412**

S. No.	Details – Risk Weighted Assets – Operational Risk	
1	Capital Charge for Operational Risk under Basic Indicator Approach	21,079
2	Total Risk Weighted Assets - Operational Risk	263,487

Statement IIA

The components used in the definition of capital disclosure template are provided below:

Rec onciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period end	
Assets			
Cash & Balances with CBO	300,405.00		
Balances with bank and money at call and short notice	471,158.00		
Investments:	378,551.00		
Of which Held to Maturity			
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Available for Sale			
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances - Conventional	2,617,345.00		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks - Net			
Loans & Advances to domestic customers			
Loans & Advances to Non Resident Customers for domestic operations			
Loans & Advances to Non Resident Customers for operations abroad			
Loans & Advances to SMEs			
Financing from Islamic Banking Window	446,005.00		
Fixed Assets	19,172.00		
Other Asset	92,812.00		
Of which,			
Goodwill & Intangible Assets	397.00		a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			

Rec onciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End	As at Period end	
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	4,325,845.00		
Capital & Liabilities			
Paid up capital	455,135.00		
of which:			
Amount eligible for CET 1	299,635.00		h
Amount eligible for AT1	155,500.00		i
Reserves & Surplus	231,020.00		j
Share Premium	95,656.00		k
Legal Reserve & Special Reserve	77,454.00		l
Special reserve – restructured loans	1,281.00		
Subordinated loan reserve	42,875.00		m
Special reserve Impairment Ifrs9	4,654.00		
Special revaluation reserve investment Ifrs9	(709.00)		
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier 1)	(627.00)	(2,245.00)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	10,436.00	1,447.00	o
Total Capital			
Deposits			
Of which,			
Deposit from Banks	490,179.00		
Customer Deposits	2,537,967.00		
Deposit of Islamic Banking Window	405,221.00		
Other deposits (pl specify)			
Borrowings			
Of which,			
From CBO			
From Banks			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Plz specify) (Subordinated Loans)	63,875.00	21,000.00	
Other liabilities & provisions	142,448.00		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	4,325,845.00		

Statement IIB

The components mentioned in above table are mapped to the composition of capital disclosure template, which is provided below:

Table 2c: Common Equity Tier 1 capital: instruments and reserves			
S. No.		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	299,635.00	h
2	Retained earnings	1,447.00	
3	Accumulated other comprehensive income (and other reserves)	215,985.00	k,l,m,o
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	517,067.00	
7	Prudential valuation adjustments	2,245.00	n
8	Goodwill (net of related tax liability)	397.00	a

Annexure III

Main features template for capital instruments

Bank has three types of capital instruments viz., Common Equity Shares, Additional Tier 1 Perpetual bonds and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

S. No.	Disclosure for Main Features of regulatory capital instruments – Common Shares	
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	OM0000002549
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	299.635
9	Par Value of Instrument	0.1
10	Accounting Classification	Shareholder's equity
11	Original date of issuance	Common shares have been announced many times. The change in position of common shares during the year has been provided in point 18 of notes to accounts.
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable

S. No.	Disclosure for Main Features of regulatory capital instruments – Common Shares	
Coupons / Dividends		
17	Fixed or floating dividend coupon	No coupon
18	Coupon rate & any related index	Not applicable
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Non viability
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Fully subordinated (Subordinated debt are senior to ordinary shares)
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 1

S. No.	Disclosure for Main Features of regulatory capital instruments – Subordinated debt	
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	Not applicable
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Tier II
5	Post-transitional Basel III rules	Tier II
6	Eligible at solo/ group/ group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Loan
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	USD 75 Mn
9	Par Value of Instrument	USD 75 Mn
10	Accounting Classification	Subordinated Loan
11	Original date of issuance	16-Sep-14
12	Perpetual or dated	Dated
13	Original Maturity date	16-Mar-20
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	4.75% p.a.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No

S. No.	Disclosure for Main Features of regulatory capital instruments – Subordinated debt	
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Trigger Event" means the earlier of: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank of Oman is of the opinion that a write-off of the Facility is necessary without which the Borrower shall become non-viable; or (b) A decision is taken to make a public sector injection of capital, or equivalent support, without which the Borrower would have become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All the depositors & General Creditors
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 2

S. No.	Disclosure for Main Features of regulatory capital instruments – Subordinated debt	
1	Issuer	BankDhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	Not applicable
3	Governing law(s) of the instrument	law of Sultanate of Oman
	Regulatory Treatment	
4	Transitional Basel III rules	Tier II
5	Post-transitional Basel III rules	Tier II
6	Eligible at solo/ group/ group & solo	Solo
7	(Instrument type (types to be specified by each jurisdiction	Subordinated Loan
8	Amount to be recognized in regulatory capital (currency in Mn, as (of most recent reporting date	RO 35 Mn
9	Par Value of Instrument	RO 35 Mn
10	Accounting Classification	Subordinated Loan
11	Original date of issuance	15-May-17
12	Perpetual or dated	Dated
13	Original Maturity date	15-Nov-22
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	6.25% p.a.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory

S. No.	Disclosure for Main Features of regulatory capital instruments – Subordinated debt	
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	(If convertible, conversion trigger(s	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Trigger even means earlier of: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank is of the opinion that a write-off of the Facility is necessary without which the Borrower shall become non-viable; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the borrower would have become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All the depositors & General Creditors
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features (20.4 (2) of CP1 of CBO (guidelines	Not applicable

Subordinated Loan 3

S. No.	Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities	
1	Issuer	Bank Dhofar
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements	XS1233710380
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by the English law. Subordination of the Capital Securities will be governed by the laws of Oman.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	USD 300 Mn
9	Par Value of Instrument	USD 300 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-May-15
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 May 2020 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occuring after 27 May 2020, means each 27 May and 27 November in each year, starting on (and including 27 November 2020
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating

S. No.	Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities	
18	Coupon rate & any related index	Coupon is determined by adding a fixed margin of 5.128 % p.a. over the mid-swap rate. It has resulted into a rate of 6.850 per cent on the date of issue. The mid-swap rate will be reset every 5 years. The mid-swap rate for U.S. dollar swap transactions with a maturity of 5 years displayed on Reuters 3000 page "ISDAFIX1" at or around 11.00 a.m. (New York time) on the Determination Date, which will be 3 days prior to 27 May 2020 and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

Subordinated Loan 4

S. No.	Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities	
1	Issuer	Bank Dhofar
2	Unique identifier e.g. CUSIP, ISIN or Bloomberg identifier for private placements)	OM0000007548
3	Governing law(s) of the instrument	The Capital Securities (except for Condition on Subordination of the Capital Securities) and any non-contractual obligations arising out of or in connection with the Capital Securities will .be governed by the Oman law
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	(Instrument type (types to be specified by each jurisdiction	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of (most recent reporting date	OMR 40 Mn
9	Par Value of Instrument	OMR 40 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-Dec-18
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 Dec 2023 or on any interest payment date thereafter subject to the prior consent of the regulatory authority and after giving suitable notice
16	Subsequent call dates, if applicable	Any interest payment date occurring after 27 Dec 2023, means each 27 June and 27 December thereafter, at the .option of the Bank
Coupons / Dividends		
17	Fixed or floating dividend coupon	Floating

S. No.	Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities	
18	Coupon rate & any related index	The Bonds shall bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a rate of 7.5% per annum (Initial Interest Rate) on the outstanding principal amount of the Bonds. The Bonds shall bear interest from each Reset Date to the next Reset Date at the then Relevant 5 Year Reset Rate. Reset date is the First Call Date and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	(If convertible, conversion trigger(s	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertibel into	Not applicable
29	If convertibe, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event :that means a) a notification to the Bank in) writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or b) a decision is taken to make a) public sector injection of capital, or equivalent support, without which the Bank will become .non-viable
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument (type immediately senior to instrument	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

DISCLOSURE UNDER BASEL III LIQUIDITY STANDARDS

Liquidity Coverage Ratio:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio (LCR) to the Central Bank of Oman (CBO) with effect from March 2013. The LCR is defined as the proportion of high quality liquid assets to total net cash outflows over the next 30 days. The high quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Development Bonds; Sovereign Treasury Bills; and investment in equity listed on Muscat Securities Market. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

As per CBO guidelines, the LCR is to be maintained at a minimum of 100% from 01.01.2019. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31 December 2019.

The disclosure for Liquidity Coverage Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

Bank Dhofar Consolidated Entity LCR Common Disclosure Template for the period ending: Dec-19			
Maisarah Islamic Banking Services (MIBS) LCR Disclosure for the quarter ended December 2019		Total Unweighted Value (average) OMR '000	Total Weighted Value (average) OMR '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		447,974.20
	Cash Outflows		
2	Retail deposits and deposits from small business customers, of which:	600,675.27	43,351.30
3	Stable deposits	317,675.65	15,051.34
4	Less stable deposits	282,999.62	28,299.96
5	Unsecured wholesale funding, of which:	768,499.80	418,257.53
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	768,499.80	418,257.53
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	463,628.02	33,000.66
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	463,628.02	33,000.66
14	Other contractual funding obligations	34,653.25	34,653.25
15	Other contingent funding obligations	167,619.87	8,380.99
16	**TOTAL CASH OUTFLOWS**		537,643.73
	Cash Inflows		
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	590,718.84	319,919.88
19	Other cash inflows	20,826.70	20,826.70
20	**TOTAL CASH INFLOWS**	611,545.55	340,746.58
	Total Adjusted Value		
21	**TOTAL HQLA**		448,074.67
22	**TOTAL NET CASH OUTFLOWS**		196,897.15
23	**LIQUIDITY COVERAGE RATIO (%)**		227.57

The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the arithmetic average of the values for the last four quarters.

LCR is computed on a monthly basis and year end position for LCR is 340% as at 31.12.2019 (227% as at 31.12.2018).

Net Stability Funding Ratio (NSFR):

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance.

The disclosure for Net Stability Funding Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is as follows:

The above disclosed values for required stable funding and the available stable funding are the arithmetic average of the values for the last four quarters reflecting average during the year 2019.

NSFR is computed on a monthly basis and year end position of NSFR for Bank Dhofar (consolidated entity) was at 115% as at 31.12.2019 (116% as at 31.12.2018).

NSFR disclosures						Year ended: Dec-19
Bank: Dhofar (Consolidated)						(RO '000)
		Unweighted value by residual maturity				
	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	1,906,339.96	1,906,339.96	-	-	1,906,339.96
2	Regulatory capital	913,180.51				913,180.51
3	Other capital instruments	993,159.45				993,159.45
4	Retail deposits and deposits from small business customers	574,772.62	44,720.68	48,090.30	-	667,583.60
5	Stable deposits	322,049.15	1,948.91	2,663.75		326,661.81
6	Less stable deposits	252,723.47	42,771.77	45,426.54		340,921.78
7	Wholesale funding:	1,546.39	-	1,280,386.22	640,193.11	640,966.31
8	Operational deposits	1,546.39				773.19
9	Other wholesale funding			1,280,386.22		640,193.11
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	450,150.17				-
14	**Total ASF**					3,214,889.86
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					12,412.95
16	Deposits held at other financial institutions for operational purposes	23,141.95				11,570.98
17	Performing loans and securities:	-	413,197.48	866,424.87	1,979,561.79	2,344,303.20

NSFR disclosures						Year ended: Dec-19
Bank: Dhofar (Consolidated)						(RO '000)
		Unweighted value by residual maturity				
	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
18	Performing loans to financial institutions secured by Level 1 HQLA		-			-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions			60,129.54		30,064.77
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which		413,197.48	806,295.33		466,288.26
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:				1,964,138.52	1,669,517.75
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				254,342.53	165,322.64
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				15,423.27	13,109.78
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		196,729.52	196,729.52
27	Physical traded commodities, including gold					-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					-
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				196,729.52	196,729.52
32	Off-balance sheet items					66,529.87
33	**TOTAL RSF**					2,631,546.51
34	**NET STABLE FUNDING RATIO (%)**					122.17%

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31st DECEMBER 2019

Independent auditor's report to the shareholders of Bank Dhofar SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank Dhofar SAOG ("the Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter	• Impairment of loans and advances and Islamic financing receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Our audit approach (continued)

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances and Islamic financing receivables At 31 December 2019, gross loans and advances and Islamic financing receivables were RO 2,729.8 million and RO 451.8 million, respectively against which a credit impairment provision of RO 112.4 million and RO 5.8 million, respectively, was maintained. Impairment provisions represent the directors' best estimate of the losses within the loans and advances and Islamic financing receivables portfolios as at the statement of financial position date. We considered impairment of loans and advances and Islamic financing receivables as a key audit matter as the determination of expected credit losses (ECL), that have a material impact on the financial statements, requires the directors to make complex judgements over both (i) timing of recognition of impairment; and (ii) the estimation of the size of any impairment, including: • Establishing portfolios of similar financial assets for the purposes of measuring ECL; • Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD);	We obtained an understanding, assessed and tested the design and operating effectiveness of the key controls over the credit processes, including loan origination, ongoing monitoring and provisioning of loans and advances and Islamic financing receivables including the use of models. We assessed the appropriateness of the methodology and adequacy of the ECL as at 31 December 2019. Our testing included: • Reading the Bank's IFRS 9 impairment provisioning policy and compared it with the requirements of IFRS 9; • Obtaining an understanding of and tested the completeness and accuracy of the historical and current dataset used for the ECL calculation; • Obtaining an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; • Testing a sample of loans to determine the appropriateness and application of the staging criteria; • Obtaining an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and testing a sample of such credit exposures against the methodology; and • Assessing the disclosures made by the directors in the financial statements. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: • Testing the IFRS 9 methodology for the ECL calculation; • Testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used;

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
• Determining criteria for significant increase in credit risk (SICR); • Assessing the recoverability of Stage 3 financial assets; • Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; and • Determining disclosure requirements in accordance with accounting standards. *Information on credit risk and the Bank's credit risk management is provided in note 32 A. Disclosure of the impairment allowance and net impairment charge for the year is provided in note 7 (a), note 7 (b) and note 7 (c).*	• Assessing the appropriateness of the definition of default and testing the application of the default criteria; • Assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; • Assessing the appropriateness of the criteria used to determine the SICR and the resultant classification of exposures into various stages including movements between stages; and • Testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting

Other information

The directors are responsible for the other information. The other information comprises of the Board of Director's Report; Corporate Governance Statement; Management Discussion and Analysis Report; Disclosure Requirements Under Pillar III of Basel II; Maisarah Islamic Banking Services Annual Report 2019 (comprising the Annual Report of Shari'a Supervisory Board, including fatwas; Management Discussion and Analysis Report; and Disclosure Requirements under Pillar III of Basel II), but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report and Financial Highlights of Last Five Years, which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Bank's Annual Report and Financial Highlights of Last Five Years, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report to the shareholders of Bank Dhofar SAOG (continued)

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

PricewaterhouseCoopers

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C.R. No 1230865

PricewaterhouseCoopers LLC

Mario Portelli
Muscat, Sultanate of Oman

9 March 2020

Statement of Financial Position

As at 31 December 2019

2019 USD'000	2018 USD'000		Notes	2019 RO'000	2018 RO'000
		Assets			
780,273	783,130	Cash and balances with Central Bank of Oman	5	300,405	301,505
983,249	790,473	Investment securities	8	378,551	304,332
1,223,787	854,699	Loans, advances and financing to banks	6	471,158	329,059
6,798,299	7,173,402	Loans, advances and financing to customers (conventional)	7	2,617,345	2,761,760
1,158,454	1,031,387	Islamic financing receivables	7	446,005	397,084
241,070	270,231	Other assets	11	92,812	104,039
1,031	2,062	Intangible asset	9	397	794
49,797	38,745	Property and equipment	10	19,172	14,917
11,235,960	10,944,129	Total assets		4,325,845	4,213,490
		Liabilities and equity			
		Liabilities			
1,273,192	958,398	Due to banks	12	490,179	368,983
6,592,122	6,678,231	Deposits from customers (conventional)	13	2,537,967	2,571,119
1,052,522	917,883	Islamic customers deposits	13	405,221	353,385
340,501	374,431	Other liabilities	14	131,093	144,156
29,494	35,870	Tax Liabilities	24 (e)	11,355	13,810
165,909	165,909	Subordinated loans	15	63,875	63,875
9,453,740	9,130,722	Total liabilities		3,639,690	3,515,328
		Equity			
		Shareholders' equity			
778,273	727,358	Share capital	16(a)	299,635	280,033
248,457	248,457	Share premium	17	95,656	95,656
153,159	145,138	Legal reserve	18(a)	58,966	55,878
48,021	48,021	Special reserve	18(d)	18,488	18,488
3,327	3,327	Special reserve for restructured loans	18(e)	1,281	1,281
12,088	11,849	Special Impairment reserve	18(f)	4,654	4,562
(1,842)	(1,842)	Special revaluation reserve – Investment	18(g)	(709)	(709)
111,364	78,182	Subordinated loan reserve	18(b)	42,875	30,100
(1,629)	(4,647)	Investment revaluation reserve	18(c)	(627)	(1,789)
27,106	153,668	Retained earnings	19	10,436	59,162
1,378,324	1,409,511	Total equity attributable to the equity holders of the Bank		530,655	542,662
403,896	403,896	Perpetual Tier 1 capital securities	16 (b)	155,500	155,500
1,782,220	1,813,407	Total equity		686,155	698,162
11,235,960	10,944,129	Total liabilities and equity		4,325,845	4,213,490
2,106,312	2,625,491	Contingent liabilities and commitments	28	810,930	1,010,814
0.46	0.50	Net assets per share (Rial Omani)	20	0.177	0.194

The financial statements including notes and other explanatory information on pages 130 to 210 were approved and authorised for issue by the Board of Directors on 28 January 2020 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Ojai
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

Independent auditor's report - pages 117 to 121

Statement of Comprehensive Income

For the year ended 31 December 2019

2019 USD'000	2018 USD'000		Notes	2019 RO'000	2018 RO'000
441,906	453,938	Interest income	21	170,134	174,766
(222,039)	(225,579)	Interest expense	22	(85,485)	(86,848)
219,868	228,359	Net interest income	21	84,649	87,918
62,348	55,990	Income from Islamic financing / Investments	21	24,004	21,556
(35,901)	(31,291)	Unrestricted investment account holders' share of profit and profit expense	22	(13,822)	(12,047)
26,447	24,699	Net income from Islamic financing and investment activities		10,182	9,509
47,787	53,514	Fees and commission income		18,398	20,603
(10,834)	(12,984)	Fees and commission expense		(4,171)	(4,999)
36,953	40,530	Net fees and commission income	29	14,227	15,604
54,301	48,888	Other operating income	22	20,906	18,822
337,569	342,476	Operating income		129,964	131,853
(170,852)	(160,488)	Staff and administrative costs	23	(65,778)	(61,788)
(14,795)	(9,527)	Depreciation	10	(5,696)	(3,668)
(185,647)	(170,015)	Operating expenses		(71,474)	(65,456)
(58,166)	(17,273)	Net impairment losses on financial assets	7	(22,394)	(6,650)
(10)	(10)	Bad debts written-off		(4)	(4)
93,746	155,178	Profit before taxation		36,092	59,743
(15,190)	(24,577)	Income tax expense	24	(5,848)	(9,462)
78,556	130,602	Profit for the year		30,244	50,281
		Other comprehensive income:			
		Items that will not be reclassified to profit or loss			
(1,252)	(1,971)	Movement in fair value reserve (FVOCI equity instrument)	18(d)	(482)	(759)
		Items that are or may be reclassified to profit or loss in subsequent periods:			
4,270	(3,992)	Movement in fair value reserves FVOCI debt instruments	18(d)	1,644	(1,537)
3,018	(5,963)	Other comprehensive income / (loss) for the year		1,162	(2,296)
81,574	124,639	Total comprehensive income for the year		31,406	47,985
0.02	0.04	Earnings per share (basic and diluted) (Rial Omani)	25	0.006	0.016

The notes on pages 130 to 210 are an integral part of these financial statements.

Independent auditor's report - pages 117 to 121

Statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balance at 1 January 2019		280,033	95,656	55,878	18,488	1,281	4,562	(709)	30,100	(1,789)	59,162	542,662	155,500	698,162
Profit for the year		-	-	-	-	-	-	-	-	-	30,244	30,244	-	30,244
Other comprehensive income for the year:														
Net changes in fair value reserveFVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(482)	-	(482)	-	(482)
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	1,644	-	1,644	-	1,644
Total comprehensive income for the year		-	-	-	-	-	-	-	-	1,162	30,244	31,406	-	31,406
Reversal of specialimpairment reserve to IFRS 9 provision (Net Tax)	18(f)	-	-	-	-	-	(4,562)	-	-	-	-	(4,562)	-	(4,562)
Transfer to special impairment reserve IFRS 9	18(f)	-	-	-	-	-	4,654	-	-	-	(4,654)	-	-	-
Transfer to legal reserve	18(a)	-	-	3,024	-	-	-	-	-	-	(3,024)	-	-	-
Excess of receipts over right issue expenses	18(a)	-	-	64	-	-	-	-	-	-	-	64	-	64
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	12,775	-	(12,775)	-	-	-
Transfer to sub-loan reserve	18(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Perpetual Tier 1 capital securities:														
Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance cost		-	-	-	-	-	-	-	-	-	-	-	-	-
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(10,912)	(10,912)	-	(10,912)
Transactions with owners recorded directly in equity														
Issue of right shares		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividendpaid	35	-	-	-	-	-	-	-	-	-	(28,003)	(28,003)	-	(28,003)
Bonus shares issued	35	19,602	-	-	-	-	-	-	-	-	(19,602)	-	-	-
Balances as at 31 December 2019		**299,635**	**95,656**	**58,966**	**18,488**	**1,281**	**4,654**	**(709)**	**42,875**	**(627)**	**10,436**	**530,655**	**155,500**	**686,155**

The notes on pages 130 to 210 are an integral part of these financial statements.

Independent auditor's report - pages 117 to 121

Statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2018		225,786	77,564	50,254	18,488	1,281	-	-	42,325	507	55,302	471,507	115,500	587,007
Adjustment on initial application of IFRS 9, net of tax	2.7	-	-	-	-	-	3,527	(709)	-	-	709	3,527	-	3,527
Restated balance on 1 January 2018		225,786	77,564	50,254	18,488	1,281	3,527	(709)	42,325	507	56,011	475,034	115,500	590,534
Profit for the year		-	-	-	-	-	-	-	-	-	50,281	50,281	-	50,281
Other comprehensive income for the year:														
Net changes in fair value reserve														
FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(759)	-	(759)	-	(759)
FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(1,537)	-	(1,537)	-	(1,537)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(2,296)	50,281	47,985	-	47,985
Transfer to special impairment reserve IFRS 9	18(f)	-	-	-	-	-	1,035	-	-	-	(1,035)	-	-	-
Transfer to legal reserve	18(a)	-	-	5,028	-	-	-	-	-	-	(5,028)	-	-	-
Excess of receipts over right issue expenses	18(a)	-	-	596	-	-	-	-	-	-	-	596	-	596
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	12,775	-	(12,775)	-	-	-
Transfer to retained earnings	18(b)	-	-	-	-	-	-	-	(25,000)	-	25,000	-	-	-
Perpetual Tier 1 capital securities:														
Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	40,000	40,000
Issuance cost		-	-	-	-	-	-	-	-	-	(223)	(223)	-	(223)
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity														
Issue of right shares		36,184	18,092	-	-	-	-	-	-	-	-	54,276	-	54,276
Dividendfor 2017	35	-	-	-	-	-	-	-	-	-	(27,094)	(27,094)	-	(27,094)
Bonus shares issued for 2017	35	18,063	-	-	-	-	-	-	-	-	(18,063)	-	-	-
Balances as at 31 December 2018		280,033	95,656	55,878	18,488	1,281	4,562	(709)	30,100	(1,789)	59,162	542,662	155,500	698,162

The notes on pages 130 to 210 are an integral part of these financial statements.

Independent auditor's report - pages 117 to 121

Statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured loan RO'000	Special impairment reserve USD'000	Special revaluation reserve USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balances as at 1 January 2019		727,358	248,457	145,138	48,021	3,327	11,849	(1,842)	78,182	(4,647)	153,668	1,409,511	403,896	1,813,407
Profit for the period		-	-	-	-	-	-	-	-	-	78,556	78,556	-	78,556
Other comprehensive income for the period:														
Net changes in fair value reserve		-	-	-	-	-	-	-	-	-	-	-		
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(1,252)	-	(1,252)	-	(1,252)
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	4,270	-	4,270	-	4,270
Total comprehensive income for the period		-	-	-	-	-	-	-	-	3,018	78,556	81,574	-	81,574
Reversal of special impairment reserve to IFRS 9 provision (Net Tax)	18(f)	-	-	-	-	-	(11,849)	-	-	-	-	(11,849)	-	(11,849)
Transfer to special impairment reserve IFRS 9	18(f)	-	-	-	-	-	12,088	-	-	-	(12,088)	-	-	-
Transfer to legal reserve	18(a)	-	-	7,855	-	-	-	-	-	-	(7,855)	-	-	-
Excess of receipts over right issue expenses	18(a)	-	-	166	-	-	-	-	-	-	-	166	-	166
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	33,182	-	(33,182)	-	-	-
Transfer to sub-loan reserve	18(b)	-	-	-	-	-	-	-	-	-	-			
Perpetual Tier 1 capital securities:														
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
- Issuance cost		-	-	-	-	-	-	-	-	-	-	-	-	-
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(28,343)			
Transactions with owners recorded directly in equity														
Issue of right shares	35	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	35	-	-	-	-	-	-	-	-	-	(72,735)	(72,735)	-	(72,735)
Bonus shares issued	35	50,914	-	-	-	-	-	-	-	-	(50,914)	-	-	-
Balances as at 31 December 2019		778,272	248,457	153,159	48,021	3,327	12,088	(1,842)	111,364	(1,629)	27,107	1,378,324	403,896	1,782,220

The notes on pages 130 to 210 are an integral part of these financial statements.

Independent auditor's report - pages 117 to 121

Statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve USD'000	Special reserve restructured loan USD'000	Special impairment reserve USD'000	Special revaluation reserve USD'000	Subordinated loans reserve USD'000	Investment revaluation reserve USD'000	Retained earnings USD'000	Total USD'000	Perpetual Tier 1 capital securities USD'000	Total equity USD'000
Balances as at 1 January 2018		586,457	201,465	130,530	48,021	3,327	-	-	109,935	1,317	143,642	1,224,694	300,000	1,524,694
Adjustment on initial application of IFRS 9, net of tax	2.7	-	-	-	-	-	9,161	(1,842)	-	-	1,842	9,161	-	9,161
Restated balance on 1 January 2018		586,457	201,465	130,530	48,021	3,327	9,161	(1,842)	109,935	1,317	145,484	1,233,855	300,000	1,533,855
Profit for the period		-	-	-	-	-	-	-	-	-	130,600	130,600	-	130,600
Other comprehensive income for the period:														
Net changes in fair value reserve														
- FVOCI equity instrument	18(c)	-	-	-	-	-	-	-	-	(1,971)	-	(1,971)	-	(1,971)
- FVOCI debt instruments	18(c)	-	-	-	-	-	-	-	-	(3,992)	-	(3,992)	-	(3,992)
Total comprehensive income for the period		-	-	-	-	-	-	-	-	(5,963)	130,600	124,637	-	124,637
Transfer to special impairment reserve IFRS 9	18(f)	-	-	-	-	-	2,688	-	-	-	(2,688)	-	-	-
Transfer to legal reserve	18(a)	-	-	13,060	-	-	-	-	-	-	(13,060)	-	-	-
Excess of receipts over right issue expenses	18(a)	-	-	1,548	-	-	-	-	-	-	-	1,548	-	1,548
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	33,182	-	(33,182)	-	-	-
Transfer to retained earnings	18(b)	-	-	-	-	-	-	-	(64,935)	-	64,935	-	-	-
Perpetual Tier 1 capital securities:														
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	103,896	103,896
- Issuance cost		-	-	-	-	-	-	-	-	-	(579)	(579)	-	(579)
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(20,551)	(20,551)	-	(20,551)
Transactions with owners recorded directly in equity														
Issue of right shares		93,984	46,992	-	-	-	-	-	-	-	-	140,976	-	140,976
Dividend for 2017	35	-	-	-	-	-	-	-	-	-	(70,374)	(70,374)	-	(70,374)
Bonus shares issued for 2017	35	46,917	-	-	-	-	-	-	-	-	(46,917)	-	-	-
Balances as at 31 December 2018		727,358	248,457	145,138	48,021	3,327	11,849	(1,842)	78,182	(4,646)	153,668	1,409,512	403,896	1,813,408

The notes on pages 130 to 210 are an integral part of these financial statements.

Independent auditor's report - pages 117 to 121

Statement of cash flows

For the year ended 31 December 2019

2019 USD'000	2018 USD'000		2019 RO'000	2018 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES		
93,745	155,177	Profit for the year before taxation	**36,092**	59,743
		Adjustment for:		
15,826	10,558	Depreciation and amortisation	**6,093**	4,065
58,177	17,273	Net impairment on financial asset	**22,398**	6,650
(751)	(743)	Dividend Income	**(289)**	(286)
777	862	End of service benefits provision for the year	**299**	332
(16)	(119)	Gain on disposal of property and equipment	**(6)**	(46)
9,294	9,439	Interest Expense on Subordinated Loans	**3,578**	3,634
(403)	777	(Gain) / loss on sale of investments	**(155)**	299
176,649	193,224	**Operating profit before working capital changes**	**68,010**	74,391
		Change in working capital:		
315,197	(48,418)	Due to banks	**121,351**	(18,641)
(335,519)	22,361	Due from banks	**(129,175)**	8,609
178,974	227,348	Loans & advances and financing	**68,905**	87,529
29,242	(87,068)	Other assets	**11,258**	(33,521)
48,530	(373,779)	Customer deposits	**18,684**	(143,905)
(34,148)	102,917	Other liabilities	**(13,147)**	39,623
378,925	36,585	**Cash generated from operations before tax and end of service benefits**	**145,886**	14,085
(19,951)	(19,109)	Taxes paid	**(7,681)**	(7,357)
(558)	(935)	End of service benefits paid	**(215)**	(360)
358,416	16,541	**Net cash generated fromoperating activities**	**137,990**	6,368
		CASH FLOWS FROM INVESTING ACTIVITIES		
(26,397)	(23,535)	Purchase of property and equipment	**(10,163)**	(9,061)
751	743	Dividends received from investment securities	**289**	286
(597,197)	(641,696)	Purchase of investments	**(229,921)**	(247,053)
404,101	599,951	Proceeds from sale/maturities of investments	**155,579**	230,981
566	119	Proceeds from sale of property and equipment	**218**	46
(218,176)	(64,418)	**Net cash used in investing activities**	**(83,998)**	(24,801)
		CASH FLOWS FROM FINANCING ACTIVITIES		
0	(64,935)	(Repayment) of subordinated loans	**-**	(25,000)
(72,735)	(70,374)	Dividend paid	**(28,003)**	(27,094)
0	103,896	Proceeds from Tier 1 perpetual subordinated bond	**-**	40,000
0	(579)	Perpetual Tier 1 capital securities issuance cost	**-**	(223)
0	142,525	Proceeds from rights issue of share capital, net of expense	**-**	54,872
(28,343)	(20,551)	Interest on Tier 1 perpetual subordinated bond	**(10,912)**	(7,912)
(9,294)	(9,439)	Interest expense on subordinated loans	**(3,578)**	(3,634)
166	0	Excess of Rights Issue Receipt	**64**	-

Statement of cash flows

For the year ended 31 December 2019

2019 USD'000	2018 USD'000		2019 RO'000	2018 RO'000
(110,206)	80,543	**Net cash (used in) /generated from financing activities**	(42,429)	31,009
30,034	32,665	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	11,563	12,576
1,110,273	1,077,608	**Cash and cash equivalents at 1 January**	427,455	414,879
1,140,307	1,110,273	**Cash and cash equivalents at 31 December**	439,018	427,455
		Cash and cash equivalent comprises of:		
780,273	783,130	Cash and balances with Central Bank of Oman	300,405	301,505
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	(500)	(500)
362,143	329,655	Due from banks	139,425	126,917
(810)	(1,213)	Due to banks	(312)	(467)
1,140,307	1,110,273		439,018	427,455
		Reconciliation of liabilities and equity arising from financing activities:		
		Subordinated loan		
165,909	230,844	Balance at beginning of the period	63,875	88,875
0	(64,935)	Cash flows	-	(25,000)
165,909	165,909	Balance at end of the period	63,875	63,875
		Retained earnings		
153,668	143,642	Balance at beginning of the period	59,162	55,302
0	1,842	Changes on initial application of IFRS 9	-	709
78,556	130,600	Profit for the year	30,244	50,281
(7,855)	(13,060)	Transfer to legal reserve	(3,024)	(5,028)
(33,182)	(33,182)	Transfer to subordinate reserve	(12,775)	(12,775)
0	64,935	Transfer from subordinated loans to retained earning	-	25,000
(28,343)	(20,551)	Additional Tier 1 coupon	(10,912)	(7,912)
0	(579)	Perpetual tier 1 capital securities issuance cost	-	(223)
(12,088)	(2,688)	Transfer to special reserve (IFRS 9)	(4,654)	(1,035)
(50,914)	(46,917)	Bonus shares issued	(19,602)	(18,063)
(72,735)	(70,374)	Dividend transfer	(28,003)	(27,094)
27,107	153,668	Balance at end of the period	10,436	59,162

Non cash Transaction

The principal non-cash transactions for the year ended 31 December 2019 consist mainly of the following:

- Impact of the application of IFRS 16 amounting to RO 2.03 million that has been charged to right-of-use assets (note 3).
- Impact of bonus shares issued for 2018 amounting to RO 19.60 million that has been deducted from retained earnings (note 14).

The notes on pages 130 to 210 are an integral part of these financial statements.
Independent auditor's report - pages 117 to 121

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 of its ordinary shares on the Muscat Securities Market ("MSM"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Irish Stock Exchange ('ISE") and Muscat Securities Market ("MSM"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended, the disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of the CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All balances and transactions between Bank and IBW are eliminated in these financial statements.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

This is the first set of the Bank's annual financial statements in which IFRS 16 "Leases" have been applied. The statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Bank's operations.

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani ("RO"), which is the Bank's functional (currency of primary economic environment in which the Bank operates) and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

2. BASIS OF PREPARATION (CONTINUED)

2.5 Standards, amendments and interpretations to IFRS effective in 2019 and relevant for the Bank's operation.

For the year ended 31 December 2019, the Bank has adopted applicable all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2019.

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments
- Definition of Material - Amendments to IAS 1 and IAS 8.

Bank also elected to adopt the following amendments early:

- Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7

The Bank had to change its accounting policies as a result of adopting IFRS 16. The Bank elected to adopt the new rules but has not restated comparatives for the 2018 reporting period. This is disclosed in note 2.7. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2019:

There are no relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2019 that would be expected to have a material impact on the financial statements of the Bank.

2.7 Changes in accounting policies

A. IFRS 16 Leases

The Bank has adopted IFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on 1 January 2019. The new accounting policies are disclosed in note 36.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Bank recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.5%.

(1) Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. BASIS OF PREPARATION (CONTINUED)
2.7 Changes in accounting policies (Continued)

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made by applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(2) Measurement of lease liabilities

	Consolidated 2019 (RO'000)
Operating Lease Commitments as at 31 December 2018	3,783
Discounted lease commitments at the date of initial application	2,341
(Less): short-term leases not recognized as a liability	(1,018)
Lease liability recognized as at 1 January 2019	**1,323**
Of which are :	
Current lease liabilities	342
Non-current lease liabilities	981
	1,323

(3) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(4) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019.

- Right-of-use assets - increase by RO 2,535 thousands
- Prepayment - decrease by RO 1,212 thousands
- Lease liabilities - increase by RO 1,323 thousands

There was no impact on opening retained earnings.

B. Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. This is expected to impact current risk management strategy and possibly accounting for certain financial instruments. There is currently uncertainty around the timing and precise nature of these changes.

The Bank has Loans and Advances and Due from Banks , Due to Banks, Perpetual Tier I capital securities, Interest rate swaps, which are exposed to the impact of LIBOR.

The Bank has early adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019. The amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency using the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3.2.2 Classification

(a) Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL)

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

Financial assets measured at amortised cos

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income

1) Debt Instruments

- Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;
- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (Continued)

2) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. It is initially recognised at fair value with transaction costs recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Bank's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.
- The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (Continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL) to Stage 2 (Lifetime ECL) or Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets.

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as impairment as described in note 3.3. The Bank has issued no loan commitment that are measured at FVTPL. Impairment arising from financial guarantee and loan commitments are included within impairment allowance under other liabilities in statement of financial position.

Loans & advances and financing receivables

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for impairment losses which are recognised in the statement of profit or loss.

3.2.3 Recognition

The Bank initially recognises loans, advances and financing to customers, deposits from customers, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

3.2.4 De-recognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (1) the consideration received (including any new asset obtained less any new liability assumed) and (2) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (Continued)

3.2.5 Modifications of financial assets and financial liabilities

Financial assetS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognized. Where a modification does not result in de-recognition, the date of origination continues to be used to determine significant increase in credit risk (SICR). Where a modification results in de-recognition, the new financial asset is recognized at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Bank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets modifications of the contractual terms may result in de-recognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorized amount, term, or type of underlying collateral. The original loan is derecognized and the new loan is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized in the statement of profit or loss.

For all loans, performing and credit-impaired, where the modification of terms did not result in the de-recognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the statement of profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.6 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (Continued)

3.2.8 Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.2.9 Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank designates certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.3 Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with banks
- Due from banks
- Debt investment securities
- Loans, advances & financings to customers
- Loan commitment
- Financial guarantee
- Other assets (acceptances and interest receivables)

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment (Continued)

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Impairment allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons.While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguish between those amounts forming part of (1) revolving (2) non-revolvingand (3) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank's own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment (Continued)

(a) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: at the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(b) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

(c) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data regarding the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment (Continued)

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is an evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (refer note 3.3 (g)) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(d) Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

(e) Macroeconomic factors

In impairment models, the Bank relies on a broad range of forward looking information as economic inputs, such as: real gross domestic product (GDP) growth and oil revenue (as % of GDP). The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

(f) Assessment of significant increase in credit risk

The Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers counterparty quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR on financial assets include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the counterparty and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of counterparties; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(g) Definition of default

The Bank considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security held (if any); or
- The counterparty is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being in default if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where there are not enough credits in the account to cover the interest charged or unauthorized drawings have frequently been allowed.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Bank follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Impairment (Continued)

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a reduction from the gross carrying amount of the financial assets;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as an impairment allowance on off-balance sheet items on other liabilities.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk grading;
- Collateral type;
- Loan to value (LT5) ratio for retail mortgages;
- Date of initial recognition; - Remaining term to maturity; and
- Industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

(i) Write-off

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the financing impairment account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss. The policy on write off's remains unchanged.

The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

(j) Hedge accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management objectives and strategy with more qualitative approach to assess hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The types of hedge accounting relationships that the Bank currently designates meet the requirements of IFRS 9 and are aligned with the Bank's risk management strategy and objective.

Based on the Bank's assessment, there is no impact from the adoption of new standard on hedge accounting.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balance with CBO, balances with Bank, treasury bills, money market placements and deposits with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.5 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks includes nostro balances, placements and loans to banks.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of profit or loss.

Repairs and renewals are charged to the statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of profit or loss as an expense as incurred.

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances before de-recognition and the current fair value of such assets.Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of profit or loss.

3.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.9 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest rate (EIR).

3.10 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Income tax (Continued)

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.11 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3.12 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re- measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re- measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Derivative financial instruments and hedging activities (Continued)

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the profit or loss in the period in which the hedged transaction impacts the profit or loss.If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss.

The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

As explained in note 2.7, the Bank has changed its accounting policy for leases where the Bank is the lessee. The new policy is described in note 36 and the impact of the change in note 2.7.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Bank as lessee were classified as operating leases (note 18). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

3.16 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of profit or loss as incurred.

The Bank's obligation in respect of non-Omani end of service benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

The obligation is calculated using the projected unit credit method and is discounted to its present value.

3.17 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of profit or loss the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.18 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the regulators and shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

3.20 Directors' remuneration

The Board of Directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.21 Revenue and expense recognition

1. Interest income and expense

Interest income and expense is recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Interest income and expense presented in the statement of comprehensive income include:

(1) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;nd

(2) Interest on debt investment securities on an effective interest rate basis.

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

2. Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

3.22 Dividends

Dividend income is recognised in the statement of profit or loss in 'Other income', when the Bank's right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). The Bank's main business segments are corporate, retail banking, Treasury and Investment. Segmental information pertaining to Islamic Banking Window is also disclosed in note 34.

3.25 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IFRS 9: Financial Instruments. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2018, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which is described in Note 3.

4.1 Impairment of Loans and Advances

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the mostappropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the Bank and the relevant tax authority.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.3 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Euronext Dublin (formerly trading as Irish Stock Exchange) and Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain Clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event.. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.4 Determination of lease term under IFRS 16

In determining the lease term, the Bank considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Bank may contain an extension option, where the Group has not considered extension options after analysing above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

4.5 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Bank's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

5. CASH AND BALANCES WITH CENTRAL BANK OF OMAN

	2019 RO'000	2018 RO'000
Cash in hand	**31,223**	31,422
Balances with the Central Bank of Oman	**171,007**	126,863
Placements with Central Bank of Oman	**98,175**	143,220
	300,405	301,505

Balances with CBO includes capital deposit of RO 500,000 (2018: RO 500,000). This is not available for day to day operations of the Bank and cannot be withdrawn without the Central Bank of Oman approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves is RO 85.77 million (2018: RO 92.49 million)

6. LOANS, ADVANCES AND FINANCING TO BANKS

At Amortised Cost

	2019 RO'000	2018 RO'000
Syndicated loans to other banks	**86,662**	81,104
Placements with other banks	**343,997**	230,060
Current clearing accounts	**41,752**	18,732
	472,411	329,896
Less: impairment allowance	**(1,253)**	(837)
	471,158	329,059

At 31 December 2019, No placement with any bank individually represented 20% or more of the Bank's placements (2018: One local bank - 30.3%).

Movement of the impairment allowance is analysed below:

	2019 RO'000	2018 RO'000
Opening balance as on 1 January	**837**	409
IFRS 9 transition impact	**-**	495
Charge for the year	**416**	
Less: Reversal during the year	**-**	(67)
Closing balance as on 31 December	**1,253**	837

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS – CONVENTIONAL BANKING

	2019 RO'000	2018 RO'000
(a) Conventional Banking		
Loans	**2,425,730**	2,547,049
Overdrafts	**137,827**	165,880
Loans against trust receipts	**109,865**	99,393
Bills discounted	**46,898**	70,969
Advance against credit cards	**9,450**	8,921
Gross loans, advances and financing to customers	**2,729,770**	2,892,212
Less: Impairment allowance including reserved interest	**(112,425)**	(130,452)
Net Loans, advances and financing to customers	**2,617,345**	2,761,760

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

	2019 RO'000	2018 RO'000
(b) Islamic Banking Window Financing		
Housing finance	**162,731**	158,610
Corporate finance	**276,851**	232,301
Consumer finance	**12,245**	10,822
	451,827	401,733
Less: Impairment allowance	**(5,822)**	(4,649)
Net financing to customers	**446,005**	397,084

Impairment allowance includes the amount of profit reserve of RO 392 thousand and RO 249 thousand for 2019 and 2018 respectively.

	2019 RO'000	2018 RO'000
(c) The movement in the impairment allowance is analysed below:		
(1) Allowance for loan impairment (conventional and Islamic)		
1 January	**79,308**	90,740
IFRS 9 transition impact,	**-**	(16,370)
Reversal of special impairment reserve to IFRS 9 provision	**5,185**	-
Allowance for the year	**30,151**	11,320
Released to profit or loss during the year	**(7,996)**	(6,354)
Written off during the year	**(12,570)**	(28)
31 December	**94,078**	79,308
(2) Reserved interest		
1 January	**55,793**	47,212
Reserved during the year	**12,519**	10,146
Recoveriesto profit or loss during the year	**(1,623)**	(1,398)
Written-off during the year	**(42,520)**	(167)
31 December	**24,169**	55,793
Total impairment allowance	**118,247**	135,101

As of 31 December 2019, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 6.86 million(2018: RO 3.13 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

In 2019, the Bank has written off RO 51.78 million which includes RO 12.51 million of principal amount and RO 39.36 million of reserve interest (2018 - Nil) as technical write off.

In accordance with CBO requirements, where the aggregate provision on portfolio & specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

(3) Comparison of provision held as per IFRS 9 and required as per CBO norms

Disclosure requirements containing the risk classification –wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognized as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

At 31 December 2019 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	GrossAmount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	2,211,386	27,109	11,586	15,523	2,184,277	2,199,800	-	-
	Stage 2	581,389	7,668	8,281	(613)	573,721	573,108	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,792,775	34,777	19,867	14,910	2,757,998	2,772,908	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
Subtotal		19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
Subtotal		57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
Loss	Stage 1	-	-	-	-	-	-		
	Stage 2	-	-	-	-	-	-		
	Stage 3	71,343	43,227	29,399	13,828	8,044	41,944		20,072
Subtotal		71,343	43,227	29,399	13,828	8,044	41,944	-	20,072
Total loans and advances		3,181,597	112,856	94,078	18,778	3,044,572	3,087,519	-	24,169
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,722,430	428	5,909	(5,481)	1,722,002	1,716,521	-	-
	Stage 2	423,510	-	8,643	(8,643)	423,510	414,867	-	-
	Stage 3	2,452	-	-	-	2,452	2,452	-	-
Subtotal		2,148,392	428	14,552	(14,124)	2,147,964	2,133,840	-	-
Total (31stDecember 2019)	Stage 1	3,933,816	27,537	17,495	10,042	3,906,279	3,916,321	-	-
	Stage 2	1,245,139	12,862	34,700	(21,838)	1,232,277	1,210,439	-	-
	Stage 3	151,034	72,885	56,435	16,450	53,980	94,599	-	24,169
	Total	5,329,989	113,284	108,630	4,654	5,192,536	5,221,359	-	24,169

* Net of provision and reserve interest as per CBO norms.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

At 31 December 2018 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	GrossAmount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	2,506,302	28,268	13,349	14,919	2,478,034	2,492,953	-	-
	Stage 2	411,703	4,868	5,859	(991)	406,637	405,844	-	198
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,918,005	33,136	19,208	13,928	2,884,671	2,898,797	-	198
Special Mention	Stage 1	78	2	1	1	76	77	-	-
	Stage 2	254,563	7,037	18,699	(11,662)	247,526	235,864	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		254,641	7,039	18,700	(11,661)	247,602	235,941	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,611	2,515	3,936	(1,421)	6,748	5,675	-	348
Subtotal		9,611	2,515	3,936	(1,421)	6,748	5,675	-	348
Doubtful	Stage 1	-	-	-	-	-	-		
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,835	3,159	2,952	207	4,017	4,883	-	659
Subtotal		7,835	3,159	2,952	207	4,017	4,883	-	659
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-		
	Stage 3	103,853	45,104	34,512	10,592	4,161	69,341	-	54,588
Subtotal		103,853	45,104	34,512	10,592	4,161	69,341	-	54,588
Total loans and advances		3,293,945	90,953	79,308	11,645	3,147,199	3,214,637	-	55,793
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,923,599	493	5,857	(5,364)	1,923,106	1,917,742	-	-
	Stage 2	375,270	-	8,456	(8,456)	375,270	366,814	-	-
	Stage 3	790	-	-	-	790	790	-	-
Subtotal		2,299,659	493	14,313	(13,820)	2,299,166	2,285,346	-	-
Total (31stDecember 2018)	Stage 1	4,429,979	28,763	19,207	9,556	4,401,216	4,410,772	-	-
	Stage 2	1,041,536	11,905	33,014	(21,109)	1,029,433	1,008,522	-	198
	Stage 3	122,089	50,778	41,400	9,378	15,716	80,689	-	55,595
	Total	5,593,604	91,446	93,621	(2,175)	5,446,365	5,499,983	-	55,793

* Net of provision and reserve interest as per CBO norms.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

(d) Restructured Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

At 31 December 2019 RO'000

Asset Classification as per CBO Norms 31st December 2019	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**38,013**	**449**	**2,649**	**(2,200)**	**37,564**	**35,364**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
Sub total		**4,760**	**2,953**	**1,881**	**1,072**	**704**	**2,879**	**-**	**1,103**
Total (31st December 2019)	**Stage 1**	5,941 32,072	56 393	14 2,635	42 (2,242)	5,885	5,927	-	-
	Stage 2					31,679	29,437	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
	Total	**42,773**	**3,402**	**4,530**	**(1,128)**	**38,268**	**38,243**	**-**	**1,103**

* Net of provision and reserve interest as per CBO norms

At 31 December 2018 RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,356	53	269	(216)	5,303	5,087	-	-
	Stage 2	43,591	624	3,322	(2,698)	42,777	40,269	-	190
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		48,947	677	3,591	(2,914)	48,080	45,356	-	190
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,542	2,446	1,718	728	1,177	2,824	-	919
Sub total		4,542	2,446	1,718	728	1,177	2,824	-	919
Total (31st December 2018)	Stage 1	5,356 43,591	53 624	269 3,322	(216) (2,698)	5,303	5,087	-	-
	Stage 2					42,777	40,269	-	190
	Stage 3	4,542	2,446	1,718	728	1,177	2,824	-	919
	Total	53,489	3,123	5,309	(2,186)	49,257	48,180	-	1,109

* Net of provision and reserve interest as per CBO norms

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

(5) Impairment charge and provisions held 2019

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to profit and loss account (net of recoveries)	**-**	**22,394**	**(22,394)**
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**113,284**	**108,630**	**4,654**
Gross NPL ratio	**4.67%**	**4.67%**	**-**
Net NPL ratio	**1.62%**	**2.14%**	**(0.52%)**

Gross NPL (Non-performing Loans) is 4.67% and Net NPL is 2.14% based on funded non-performing exposure over funded exposure (Net NPL exclude interest reserve and ECL Provision).

Note 1 : Excluding Interest Reserve of RO 24,169 thousand.

5(a) Special impairment reserve

During 2019 certain adjustments were made including transfer from retained earnings resulting in 31 December 2019 balance amounts to RO 4,654 thousand under the special impairment reserve as per IFRS 9 representing the difference of provisions required as per CBO – BM977 of RO 113,284 thousand and provisions held as per IFRS 9 of RO 108,630 thousands.

Impairment charge and provisions held 2018

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to profit and loss account (net of recoveries)	-	6,650	(6,650)
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	91,446	93,621	(2,175)
Gross NPL ratio	3.68%	3.68%	-
Net NPL ratio	0.45%	0.74%	(0.29%)

Gross NPL (Non-performing Loans) is 3.68% and Net NPL is 0.74% based on funded non-performing exposure over funded exposure (Net NPL exclude interest reserve and ECL Provision).

Note 1: Excluding Interest Reserve of RO 55,793 thousand.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 December 2019:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	131,583	-	-	131,583
Due from Banks	472,411	-	-	472,411
Sovereign	196,415	-	-	196,415
Investment Securities at amortized cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,545	-	-	60,545
Loans and advances	2,211,386	821,629	148,582	3,181,597
Accrued profit	13,535	4,690	-	18,225
Total funded gross exposure	**3,106,802**	**826,319**	**148,582**	**4,081,703**
Letters of credit/guarantee	524,725	283,753	2,452	810,930
Acceptances	44,675	10,892	-	55,567
Loan commitment / unutilised limits	257,614	124,175	-	381,789
Total non-funded gross exposure	**827,014**	**418,820**	**2,452**	**1,248,286**
Total gross exposure	**3,933,816**	**1,245,139**	**151,034**	**5,329,989**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	1,253	-	-	1,253
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	186	-	-	186
Loans and advances	11,586	26,057	56,435	94,078
Accrued profit	59	136	-	195
Total funded impairment	**13,084**	**26,193**	**56,435**	**95,712**
Letters of credit/guarantee	2,442	7,297	-	9,739
Acceptances	78	18	-	96
Loan commitment/unutilised limits	1,891	1,192	-	3,083
Total non-funded impairment	**4,411**	**8,507**	**-**	**12,918**
Total impairment	**17,495**	**34,700**	**56,435**	**108,630**
Net exposure				
Central Bank balances	131,583	-	-	131,583
Due from Banks	471,158	-	-	471,158
Sovereign	196,415	-	-	196,415
Investment Securities at amortized Cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,359	-	-	60,359
Loans and advances	2,199,800	795,572	92,147	3,087,519
Accrued Profit	13,476	4,554	-	18,030
Total funded net exposure	**3,093,718**	**800,126**	**92,147**	**3,985,991**
Letter of credit/guarantee	522,283	276,456	2,452	801,191
Acceptances	44,597	10,874	-	55,471
Loan commitment / unutilised limits	255,723	122,983	-	378,706
Total net non-funded exposure	**822,603**	**410,313**	**2,452**	**1,235,368**
Total net exposure	**3,916,321**	**1,210,439**	**94,599**	**5,221,359**

Gross exposure of loans and advances of RO 148,582 thousands under stage 3 includes reserved interest of RO 24,168 thousand. Accordingly, the principal outstanding of RO 65,506 was subject to ECL.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 December 2018:

RO'000

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	143,220	-	-	143,220
Due from Banks	329,857	-	-	329,857
Sovereign	237,520	-	-	237,520
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	55,412	-	-	55,412
Loans and advances	2,506,380	666,266	121,299	3,293,945
Accrued profit	13,405	2,951	-	16,356
Total funded gross exposure	**3,286,711**	**669,217**	**121,299**	**4,077,227**
Letters of credit/guarantee	800,612	209,412	790	1,010,814
Acceptances	61,116	13,473	-	74,589
Loan commitment / unutilised limits	281,540	149,434	-	430,974
Total non-funded gross exposure	**1,143,268**	**372,319**	**790**	**1,516,377**
Total gross exposure	**4,429,979**	**1,041,536**	**122,089**	**5,593,604**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	837	-	-	837
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	266	-	-	266
Loans and advances	13,350	24,558	41,400	79,308
Accrued profit	61	103	-	164
Total funded impairment	**14,514**	**24,661**	**41,400**	**80,575**
Letters of credit/guarantee	3,258	6,722	-	9,980
Acceptances	92	35	-	127
Loan commitment/unutilised limits	1,343	1,596	-	2,939
Total non-funded impairment	**4,693**	**8,353**	**-**	**13,046**
Total impairment	**19,207**	**33,014**	**41,400**	**93,621**
Net exposure				
Central Bank balances	143,220	-	-	143,220
Due from Banks	329,020	-	-	329,020
Sovereign	237,520	-	-	237,520
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	55,146	-	-	55,146
Loans and advances	2,493,030	641,708	79,899	3,214,637
Accrued Profit	13,344	2,848	-	16,192
Total funded net exposure	**3,272,197**	**644,556**	**79,899**	**3,996,652**
Letter of credit/guarantee	797,354	202,690	790	1,000,834
Acceptances	61,024	13,438	-	74,462
Loan commitment / unutilised limits	280,197	147,838	-	428,035
Total net non-funded exposure	**1,138,575**	**363,966**	**790**	**1,503,331**
Total net exposure	**4,410,772**	**1,008,522**	**80,689**	**5,499,983**

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

(d) Classification of financial assets and financial liabilities

RO'000

	Stage 1	Stage 2	Stage 3	Total
Opening Balance (Day 1 impact) – as at 1 January 2019				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	29,743	41,400	84,493
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest Accrued	61	103	-	164
Total	**19,207**	**38,199**	**41,400**	**98,806**
Net transfer between stages				
- Loans and advances to customers	1,297	(4,726)	3,429	-
- Loan commitments and financial guarantees	(18)	18	-	
- Acceptances	5	(5)	-	-
- Unutilised	(11)	11	-	-
- Interest accrued	-			
Total	1,273	(4,702)	3,429	-
Charge for the Period (net)				
- Due from banks	416	-	-	416
- Loans and advances to customers	(3,061)	1,040	24,176	22,155
- Investment securities at FVOCI (Debt)	(80)	-	-	(80)
- Loan commitments and financial guarantees	(798)	557	-	(241)
- Acceptances	(19)	(12)	-	(31)
- Unutilised	559	(415)	-	144
- Interest accrued	(2)	33	-	31
Total	**(2,985)**	**1,203**	**24,176**	**22,394**
Written-off during the year	-	-	(12,570)	-
Closing Balance – as at 31 December 2019				
- Due from banks	1,253	-	-	1,253
- Loans and advances to customers	11,586	26,057	56,435	94,078
- Investment securities at FVOCI (Debt)	186	-	-	186
- Loan commitments and financial guarantees	2,442	7,297	-	9,739
- Acceptances	78	18	-	96
- Unutilised	1,891	1,192	-	3,083
- Interest accrued	59	136	-	195
Total net exposure	17,495	34,700	56,435	108,630

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

RO'000

	Stage 1	Stage 2	Stage 3	Total
Opening Balance (Day 1 impact) – as at 1 January 2018				
- Due from banks	804	100	-	904
- Loans and advances to customers	15,672	21,335	37,363	74,370
- Investment securities at FVOCI (Debt)	67	-	-	67
- Loan commitments and financial guarantees	4,000	3,869	-	7,869
- Acceptances	23	77	-	100
- Unutilised	1,871	1,766	-	3,637
- Interest accrued	22	30	-	52
Total	**22,459**	**27,177**	**37,363**	**86,999**
Net transfer between stages				
- Loans and advances to customers	(2,827)	4,366	(1,539)	-
- Loan commitments and financial guarantees	(28)	28	-	-
Total	**(2,855)**	**4,394**	**(1,539)**	**-**
Charge for the Period (net)				
- Due from banks	33	(100)	-	(67)
- Loans and advances to customers	505	(1,143)	5,604	4,966
- Investment securities at FVOCI (Debt)	199	-	-	199
- Loan commitments and financial guarantees	(714)	2,825	-	2,111
- Acceptances	69	(42)	-	27
- Unutilised	(528)	(170)	-	(698)
- Interest accrued	39	73	-	112
Total	**(397)**	**1,443**	**5,604**	**6,650**
Written-off during the year	-	-	(28)	(28)
Closing Balance – as at 31 December 2018				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	24,558	41,400	79,308
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest accrued	61	103	-	164
Total net exposure	**19,207**	**33,014**	**41,400**	**93,621**

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS CONVENTIONAL BANKING (CONTINUED)

(e) Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

RO'000

31 December 2019	Notes	FVTPL	FVOCI – debt instruments	FVOCI – equity instrument	Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	300,405	300,405
Loans and advances to banks	6	-	-	-	471,158	471,158
Loans and advances to customers	7	-	-	-	3,063,350	3,063,350
Investment securities	8	4,263	3,643	70,370	300,275	378,551
Other assets	11	**1,435**	**-**	**-**	**88,834**	**90,269**
		5,698	**3,643**	**70,370**	**4,224,022**	**4,303,733**
Due to banks	12	-	-	-	490,179	490,179
Deposits from customers	13	-	-	-	2,943,188	2,943,188
Subordinated liabilities	15	-	-	-	63,875	63,875
Other liabilities	14	**-**	**-**	**-**	**116,649**	**116,649**
		-	**-**	**-**	**3,613,891**	**3,613,891**

Other assets include RO 1,435 thousand of derivatives financial instruments mandatorily measured at FVPTL.

RO'000

31 December 2018	Notes	FVTPL	FVOCI – debt instruments	FVOCI – equity instrument	Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	301,505	301,505
Loans and advances to banks	6	-	-	-	329,059	329,059
Loans and advances to customers	7	-	-	-	3,158,844	3,158,844
Investment securities	8	4,140	45,147	4,118	250,927	304,332
Other assets	11	642	-	-	99,271	99,913
		4,782	45,147	4,118	4,139,606	4,193,653
Due to banks	12	-	-	-	368,893	368,893
Deposits from customers	13	-	-	-	2,924,504	2,924,504
Subordinated liabilities	15	-	-	-	63,875	63,875
Other liabilities	14	-	-	-	129,474	129,474
		-	-	-	3,486,746	3,486,746

Other assets includes RO 642 thousands of derivatives financial instruments mandatorily measured at FVPTL.

8. INVESTMENT SECURITIES

	2019 RO'000	2018 RO'000
Equity investments:		
Measured at FVTPL	1,884	1,882
Measured at FVOCI	3,643	4,118
Gross equity investments	5,527	6,000
Less: Impairment losses on investments	-	-
Net equity investments	5,527	6,000
Debt investments:		
Designated at FVTPL	2,379	2,258
Measured at FVOCI	70,556	45,413
Measured at amortized cost	300,275	250,927
Gross debt investments	373,210	298,598
Total investment securities	378,737	304,598
Less: Impairment loss allowance	(186)	(266)
Total investment securities	378,551	304,332
Investment securities measure as at FVTPL	4,263	4,140
Investment securities measured at FVOCI	74,013	49,265
Debt investments measured at amortised cost	300,275	250,927
	378,551	304,332

The movement of investment securities is summarised as below page 46 and 48.

8. INVESTMENT SECURITIES (CONTINUED)

8. 1 Categories of investments by measurement

As at 31 December 2019	FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	1,082		1,082
Unit funds	153	-	-	153
Financial services sector	-	155	-	155
Industrial sector	-	1,685	-	1,685
	153	2,922	-	3,075
Unquoted Equities:				
Local securities	-	721	-	721
Unit funds	1,731	-	-	1,731
	1,731	721	-	2,452
Gross Equity investments	1,884	3,643	-	5,527
Quoted Debt:				
Government Bonds and sukuk	-	41,127	269,358	310,485
Foreign Bonds	2,379	393	-	2,772
Local bonds and sukuks	-	29,036	917	29,953
Treasury Bills	-	-	30,000	30,000
Gross debt investments	2,379	70,556	300,275	373,210
Total Investment Securities	4,263	74,199	300,275	378,737
Less: Impairment losses on investments	-	(186)	-	(186)
	4,263	74,013	300,275	378,551

Government Development Bonds represents Oman Government Bonds having face value of RO 256.89million (2018: RO 237.52 million) at average coupon rate of 4.82% maturing between 2020 and 2029.

Omani Treasury bills represents RO 30 Mil average yield of 1.99%.

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investment RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2019	45,413	4,118	250,927	4,140	304,598
Additions	50,418	7	179,371	88	229,884
Disposals and redemption	(26,948)		(130,023)	(77)	(157,048)
Gain /(loss) from change in fair value	1,681	(482)	-	112	1,311
Realised gains on sale	(8)	-	-	-	(8)
At 31 December 2019	70,556	3,643	300,275	4,263	378,737
Less: Impairment losses on investments	(186)	-	-	-	(186)
31 December 2019	70,370	3,643	300,275	4,263	378,551

8. INVESTMENT SECURITIES (CONTINUED)

As at 31 December 2018	FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	1,170	-	1,170
Unit funds	220	-	-	220
Financial services sector	-	323	-	323
Industrial sector -	-	1,904	-	1,904
	220	3,397	-	3,617
Unquoted Equities:				
Local securities	-	721	-	721
Unit funds	1,662	-	-	1,662
	1,662	721	-	2,383
Gross Equity investments	1,882	4,118	-	6,000
Quoted Debt:				
Government Bonds and sukuk	-	12,570	250,010	262,580
Foreign Bonds	2,258	12,819	-	15,077
Local bonds and sukuks	-	20,024	917	20,941
Gross debt investments	2,258	45,413	250,927	298,598
Total Investment Securities	4,140	49,531	250,927	304,598
Less: Impairment losses on investments	-	(266)	-	(266)
	4,140	49,265	250,927	304,332

The Bank has designated some investments in equity instruments at FVOCI as these are investments that the bank plans to hold in the long-term for strategic reasons.

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investments RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2018	29,529	6,283	255,043	-	290,855
Reclassification on transition to IFRS 9	(3,092)	(1,733)	-	4,825	-
At 1 January (reclassified)	26,437	4,550	255,043	4,825	290,855
Additions	30,840	-	215,917	-	246,757
Disposals and redemption	(10,011)	(19)	(220,033)	(86)	(230,149)
Loss from change in fair value	(1,853)	(413)	-	(599)	(2,865)
At 31 December 2018	45,413	4,118	250,927	4,140	304,598
ECL	(266)	-	-	-	(266)
Total	45,147	4,118	250,927	4,140	304,332

9. INTANGIBLE ASSET

	2019 RO'000	2018 RO'000
1 January	**794**	1,191
Impaired during the year	**(397)**	(397)
31 December	**397**	794

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman during 2001 and merger with Majan International Bank during 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank. An impairment change of RO 397 thousand (2018: 397 thousand) was recognised during the year.

10. PROPERTY AND EQUIPMENT

31 December 2019	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2019	140	1,573	15,248	1,326	27,970	4,650	2,535	53,442
Additions	-	-	2,633	35	7,908	(3,053)	105	7,628
Disposals	-	-	(716)	(35)	(334)	-	-	(1,085)
31 December 2019	140	1,573	17,165	1,326	35,544	1,597	2,640	59,985
Depreciation								
1 January 2019	-	1,292	12,318	1,059	21,321	-	-	35,990
Charge for the year	-	59	1,307	145	3,368	-	817	5,696
Disposals	-	-	(678)	(35)	(160)	-	-	(873)
31 December 2019	-	1,351	12,947	1,169	24,529	-	817	40,813
Carrying value 31 December 2019	140	222	4,218	157	11,015	1,597	1,823	19,172

10. PROPERTY AND EQUIPMENT (CONTINUED)

31 December 2018	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2018	140	1,573	14,138	1,308	23,726	1,612	42,497
Additions	-	-	1,466	212	4,345	3,038	9,061
Disposals	-	-	(356)	(194)	(101)	-	(651)
31 December 2018	140	1,573	15,248	1,326	27,970	4,650	50,907
Depreciation							
1 January 2018	-	1,234	11,455	1,112	19,172	-	32,973
Charge for the year	-	58	1,219	141	2,250	-	3,668
Disposals	-	-	(356)	(194)	(101)	-	(651)
31 December 2018	-	1,292	12,318	1,059	21,321	-	35,990
Carrying value 31 December 2018	140	281	2,930	267	6,649	4,650	14,917

As of 31 December 2019, cost of Computer and includes acquired software of RO 21.71 Million (31 December 2018: RO 16.39 Million). Accumulated depreciation against these software is RO 13.66 Million (31 December 2018: RO 11.36 Million).

11. OTHER ASSETS

	2019 RO'000	2018 RO'000
Acceptances	**55,567**	74,590
Interest receivable	**18,794**	16,575
Prepaid expenses	**1,710**	3,262
Positive fair value of derivatives (note 30)	**1,435**	642
Deferred tax assets (note 24)	**1,028**	1,028
Other receivables	**14,473**	8,106
Less: impairment allowance	**(195)**	(164)
	92,812	104,039

12. DUE TO BANKS

	2019 RO'000	2018 RO'000
Syndicated Inter bank borrowings	**192,500**	201,041
Inter bank borrowings	**297,368**	167,475
Payable on demand	**311**	467
	490,179	368,983

At 31 December 2019, Inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 38.88 million (2018: RO 38.88 million). The bank has complied with the financial covenant of its borrowing facilities during the year 2019 and 2018.

At 31 December 2019, inter bank borrowings with one bank individually represented 20%of the Inter bank's borrowings (2018: one bank, 39%). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

13. DEPOSITS FROM CUSTOMERS – CONVENTIONAL BANKING

	2019 RO'000	2018 RO'000
Current accounts	**621,320**	568,332
Savings accounts	**457,380**	456,011
Time and certificate of deposits	**1,449,677**	1,531,677
Margin accounts	**9,590**	15,099
	2,537,967	2,571,119
Deposits from customers - Islamic Banking window		
Current accounts	112,498	56,040
Savings accounts	39,319	34,026
Time deposits	253,404	263,319
	405,221	353,385

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,160.6 million as at 31 December 2019 (2018: RO 1,180.1 million).

14. OTHER LIABILITIES

	2019 RO'000	2018 RO'000
Acceptances	**55,567**	74,590
Interest payable	**17,798**	15,632
Creditors and accruals	**42,325**	39,251
Lease liabilities	**764**	-
Employee terminal benefits (1)	**1,721**	1,637
Impairment allowance on off-balance sheet items (note 7) (2)	**12,918**	13,046
	131,093	144,156

Impairment allowance on off-balance sheet items consists of Loan commitments and financial guarantees, Acceptances and Unutilised credit limit. Refer (note 7) (2)

(1) Employee terminal benefits

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2019 RO'000	2018 RO'000
1 January	**1,637**	1,665
Charge for the year	**299**	332
Payments made during the year	**(215)**	(360)
	1,721	1,637

15. SUBORDINATED LOANS

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

	2019 RO'000	2018 RO'000
Subordinated loan- RO (1) & (2)	**35,000**	35,000
Subordinated loan- US Dollar (3)	**28,875**	28,875
	63,875	63,875

(1) In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenure of 66 months.This carries fixed interest rate of interest, payable half yearly with principal being repaid on maturity.

(2) In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries fixed interest rate payable half yearly, with principal being repaid on maturity.

(3) Details regarding subordinated loan reserve are set out in note 18(b).

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate sensitivityof subordinated liabilities are disclosed in noted32.

16. (a) SHARE CAPITAL

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2018: 5,000,000,000 ordinary shares of RO 0.100 each).

In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue resulting in an increase of share capital (refer note 17). Further, the Bank also issued 196,022,991 bonus shares in 2019 (2018: 180,628,618 bonus shares).

At 31 December 2019, the issued and paid up share capital comprise 2,996,351,436 ordinary shares of RO 0.100 each (2018: 2,800,328,445 ordinary shares of RO 0.100 each).

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2019 No. of shares	**%**	2018 No. of shares	%
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.4%**	682,776,167	24.4%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**702,668,215**	**23.4%**	653,699,269	23.3%
Civil Service Employees' Pension Fund	**314,256,261**	**10.5%**	289,825,834	10.3%
Total	**1,747,494,974**	**58.3%**	1,626,301,270	58.0%
Others	**1,248,856,462**	**41.7%**	1,174,027,175	42.0%
	2,996,351,436	**100%**	2,800,328,445	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 55,000,000 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2019 and 2018.

16. (b) PERPETUAL TIER 1 CAPITAL SECURITIES

	2019 RO'000	2018 RO'000
Tier 1 USD Securities	**115,500**	115,500
Tier 1 RO Securities	**40,000**	40,000
	155,500	155,500

Tier 1 USD Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000 thousand. The Tier 1 USD Securities are listed on Irish Stock Exchange.

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

16. (b) PERPETUAL TIER 1 CAPITAL SECURITIES (CONTINUED)

Tier 1 RO Securities

On 27 December 2018, the Bank issued additional Perpetual Tier 1 Capital Securities (the "Tier 1 RO Securities"), amounting to RO 40,000 thousand. The Tier 1 RO Securities are listed on Muscat Securities Market.

The Tier 1 RO Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five year intervals. Interest is payable semi-annually in arrears and treated as deduction from equity

The Bank at its sole discretion may elect not to distribute interest on both perpetual Tier 1 capital securities and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 USD Securities and/or Tier 1 RO Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 USD Securities and Tier 1 RO Securities unless and until it has paid one interest payment in full on the Tier 1 USD Securities and Tier 1 RO Securities. The Tier 1 USD Securities and Tier 1 RO Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

Refer to the Critical Accounting Judgments and Key Sources Of Estimation Uncertainty in note 4.3

17. SHARE PREMIUM

In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36,184 thousand and RO 18,092 thousand, respectively.

In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21,622 thousand and RO 17,946 thousand, respectively.

In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20,000 thousand and RO 19,600 thousand, respectively.

In 2013, the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to RO 13,311 thousand (133,114,993 shares of par value RO 0.100 each) from the share premium account.

In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17,692 thousand and RO 53,076 thousand, respectively.

18. RESERVES

(a) Legal reserve

	2019 RO'000	2018 RO'000
1 January	**55,878**	50,254
Appropriation for the year (1)	**3,024**	5,028
Increase in legal reserve (2),	**64**	596
31 December	**58,966**	55,878

(1) In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(2) During the year 2018, the Bank received RO 724 thousand towards rights issue expenses and incurred RO 128 thousand towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 64 thousand (2018: RO 596 thousand) has been transferred to the legal reserve.

(b) Subordinated loans reserve

	2019 RO'000	2018 RO'000
1 January	**30,100**	42,325
Appropriation for the year:		
Subordinated loan reserve	**12,775**	12,775
Transfer to retained earnings (refer note 15)	**-**	(25,000)
31 December	**42,875**	30,100

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan.The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCIuntil the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2019 RO'000	2018 RO'000
1 January	**(1,789)**	507
Increase/(decrease) in fair value	**1,162**	(2,296)
31 December	**(627)**	(1,789)

18. RESERVES (CONTINUED)

(d) Special reserve

During 2013, the Bank recognised in profit or loss, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

(e) Special reserve – restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC's/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution.

Requirement to create special reserve at 15% has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve IFRS 9

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 provisions, under CBO normsare higher than IFRS 9 provisions.

(g) Special investment revaluation reserve IFRS 9

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the impairment allowance of RO 709 thousand charged to statement of profit or loss. A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19. RETAINED EARNINGS

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

20. NET ASSETS PER SHARE

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2019 RO'000	2018 RO'000
Net assets (RO)	**530,655,000**	542,662,000
Number of shares outstanding at 31 December	**2,996,351,436**	2,800,328,445
Net assets per share (RO)	**0.177**	0.194

21. NET INTEREST INCOME

Conventional Banking	2019 RO'000	2018 RO'000
Loans and advances	**153,126**	162,274
Due from banks	**16,534**	12,128
Investments	**474**	364
Total	**170,134**	174,766

Islamic Banking	2019 RO'000	2018 RO'000
Islamic financing receivables	**23,851**	21,255
Islamic due from banks	**153**	301
Total	**24,004**	21,556

22.INTEREST EXPENSE / DISTRIBUTION TO DEPOSITORS

Conventional Banking	2019 RO'000	2018 RO'000
Customers' deposits	**69,468**	72,413
Subordinated liabilities / mandatory convertible bonds	**3,578**	3,634
Bank borrowings	**12,439**	10,801
Total	**85,485**	86,848

Islamic Banking	2019 RO'000	2018 RO'000
Customer Deposits	**12,343**	11,428
Islamic bank borrowings	**1,479**	619
Total	**13,822**	12,047

Included in interest expenses on deposits from customers and related parties is interest on subordinated loan against related parties and customer of RO 3,578 thousand (2018: RO 3,634 thousand). Interest expense on customer's deposits include cost of prize schemes of RO 1,800 thousands belong to conventional bank and Islamic Bank of RO 662 thousands (2018: RO 1,811.thousand and Islamic Bank RO 460 thousands offered by the Bank to its saving deposit holders).

22. OTHER OPERATING INCOME

	2019 RO'000	2018 RO'000
(a) Foreign exchange	**4,268**	4,562
Investment income 22 (b)	**14,671**	11,315
Miscellaneous income	**1,967**	2,945
	20,906	18,822
(b) Investment income		
Dividend income	**289**	286
Gain /(Loss) on disposals	**155**	(299)
Income on Sukuk investments including government Sukuk	**2,236**	1,942
Interest income on Government Development Bonds and other bonds	**11,991**	9,386
	14,671	11,315

23. STAFF AND ADMINISTRATIVE COSTS

	2019 RO'000	2018 RO'000
(a) Staff costs		
Salaries and allowances	**36,205**	33,992
Other personnel costs	**11,294**	8,365
Non-Omani employees terminal benefit	**299**	332
	47,798	42,689
At 31 December 2019, the Bank had 1,586 employees (2018: 1,600 employees).		
(b) Administrative costs		
Occupancy costs	**4,003**	4,816
Operating and administration cost	**12,069**	13,192
Impairment of goodwill	**397**	397
Others	**1,511**	694
	17,980	19,099
Total staff and administrative cost	**65,778**	61,788

24. INCOME TAX

	2019 RO'000	2018 RO'000
(a) Income tax expense:		
Current tax		
Current year charge	**4,895**	9,436
Prior years	**331**	1,615
	5,226	11,051
Deferred tax		
Current year	**609**	(153)
Prior years	**13**	(1,436)
	622	(1,589)
Tax expense for the year	**5,848**	9,462

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2019. The Bank sought confirmation from the Secretariat General for Taxation (SGT) of the Bank's position on the deductibility of interest expense in Additional Tier1 securities. However, in view of no confirmation received from the SGT in this regard, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bankis 15%(2018: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 16.20% (2018: 15.84%).

The difference between the applicable tax rate of 15 % (2018: 15%) and effective tax rate of 16.20 % (2018: 15.84%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 36.1 million (2018: RO 59.7 million) and the taxation charge in the consolidated financial statements is as follows:

	2019 RO'000	2018 RO'000
Profit before tax	**36,092**	59,743
Income tax as per rates mentioned above	**5,414**	8,961
Tax exempt revenue	**(43)**	(43)
Non-deductible expenses	**146**	365
Prior years	**331**	179
Tax expense for the year	**5,848**	9,462

The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2018 - 15%).

24. INCOME TAX (CONTINUED)

(c) Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Impairment allowance on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax liability are as follows:

Particulars	2019 RO '000	Recognised in SCI	Recognised in SOCI	2019 RO '000
Property and equipment	**(294)**	**(202)**	**-**	**(496)**
Impairment allowance on financial instruments	**1,920**	**(720)**	**-**	**1,200**
Investment revaluation reserve (Non listed)	**121**	**-**	**-**	**121**
Fair value derivatives	**(96)**	**-**	**-**	**(96)**
Specialimpairment reservefor loan loss IFRS 9	**(623)**	**-**	**622**	**(1)**
Provision for legal claim	**-**	**375**	**-**	**375**
Right of Use Asset and Finance Liability	**-**	**(75)**	**-**	**(75)**
Net deferred tax asset/(liability)	**1,028**	**(622)**	**622**	**1,028**

Particulars	2018 RO '000	Recognised in SCI	Recognised in SOCI	2018 RO '000
Property and equipment	(461)	167	-	(294)
Impairment allowance on financial instruments	523	1,397	-	1,920
Investment revaluation reserve (Non listed)	-	121	-	121
Fair value derivatives	-	(96)	-	(96)
Specialimpairment reservefor loan loss IFRS 9	-		(623)	(623)
Net deferred tax asset/(liability)	62	1,589	(623)	1,028

(d) Status of previous year returns:

The tax returns of the Bank for the years 2014 to 2018 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2019.

(e) tax liability

The movement in the income tax liability is summarised as follows:

	2019 RO'000	2018 RO'000
At 1 January	**13,810**	10,116
Charge for the year	**5,226**	11,051
Payments during the year	**(7,681)**	(7,357)
At 31 December	**11,355**	13,810

25. EARNINGS PER SHARE (BASIC AND DILUTED)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2019 RO'000	2018 RO'000
Profit for the year (RO)	**30,244,000**	50,281,000
Less : Additional Tier 1 Coupon	**(10,912,000)**	(7,912,000)
Profit for the period attributable to equity holders of the Bank	**19,332,000**	42,369,000
Weighted average number of shares outstanding during the year	**2,996,351,436**	2,706,910,285
Earnings per share basic and diluted (RO)	**0.006**	0.016

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding, to include 7% bonus shares and bonus element (196,022,991 shares) in respect of bonus shares issued during the year.

26. RELATED PARTIES TRANSACTIONS

In the ordinary course of business, the Bank conducts certain transactions on mutually agreed terms with its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2019 RO'000	2018 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**42,445**	35,993
Other related parties	**25,755**	26,055
	68,200	62,048
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**23,663**	23,663
Other related parties	**19,775**	19,775
	43,438	43,438
Deposits and other accounts		
Directors and shareholders holding 10% or moreinterestin the Bank	**125,597**	143,240
Other related parties	**213,739**	161,701
	339,336	304,941
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**3,305**	562
Other related parties	**5,201**	6,203
	8,506	6,765

26. RELATED PARTIES TRANSACTIONS (CONTINUED)

	2019 RO'000	2018 RO'000
Remuneration paid to Directors		
Chairman		
– remuneration paid	15	16
– sitting fees paid	10	10
OtherDirectors		
– remuneration paid	100	108
– sitting fees paid	75	66
	200	200
Other transactions		
Rental payment to related parties	564	486
Other transactions	2,894	3,288
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	48	43
Key management compensation		
salaries and other short-term benefits	1,740	1,612

The Bank conducts certain transactions with its Directors, the interest rates on loan and advances start ranges from 2.75% to 7%. and for Deposits the interest rates ranges from0% to 4.85%.

27. SINGLE BORROWER AND SENIOR MEMBERS

	2019 RO'000	2018 RO'000
(a) Single borrower		
Total direct exposure	157,798	157,162
Number of members	4	4
(b) Senior members		
Total exposure:		
Direct	74,534	67,434
Indirect	8,507	6,764
	83,041	74,198
Number of members	47	44

28. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit related contingent items

Letters of credit, guarantees and other commitments provided by the Bank to the customers are as follows:

	2019 RO'000	2018 RO'000
Letters of credit	88,954	91,920
Guarantees and performance bonds	721,976	918,894
	810,930	1,010,814

At 31 December 2019, letters of credit, guarantees and other commitments amounting to RO 264,699 thousand (2018: RO 292,171 thousand) are counter guaranteed by other banks.

At 31 December 2019, the unutilised limits towards the loans, advances and financing to customer amount to RO 786,983 thousand (2018: 822,935 thousand).

(b) Capital and investment commitments

	2019 RO'000	2018 RO'000
Contractual commitments for property and equipment	4,269	1,902

(c) Non-cancellable leases

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options

From 1 January 2019, the Bank has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 8(b) and note 26 for further information.

Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:	2019 RO'000	2018 RO'000
Within one year	2,014	1,295
Later than one year but not later than five years	-	2,517
Later than five years	-	762
	2,014	4,574

Rental expense relating to leases

	2019 RO'000	2018 RO'000
Minimum lease payments	2,440	3,227
Contingent rentals	-	-
Total rental expense relating to leases	2,440	3,227

29. DISAGGREGATION OF NET FEES AND COMMISSION INCOME 2019

	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	3,400	-	62	3,462
Trade services	13	8,130	279	8,422
Syndication and other financing related services	862	2,608	202	3,672
Advisory and asset management services	-	263	209	472
Net fee and commission income	4,275	11,001	752	16,028

The total of RO 16,028 thousands includes service charges income of RO 1,801 thousand included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 159 thousands.

Disaggregation of net fees and commission income 2018

	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	3,506	4,141	108	7,755
Trade services	-	6,446	146	6,592
Syndication and other financing related services	1,232	1,908	168	3,308
Advisory and asset management services	-	474	354	828
Net fee and commission income	4,738	12,969	776	18,483

The total of RO 18,483 thousands includes service charges income of RO 2,879 thousand included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 66 thousands.

30. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another.Swaps result in an economic exchange of currencies.No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation.This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.The aggregate contractual or notionalamount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time.The fair values of derivative instruments held are set out below:

30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2019						RO 000's
	Positive fair value	Negative Fair Value	Notional amount total	Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
Derivatives:						
Interest rate swaps	-	3,419	83,244	-	-	83,244
IRS customer	3,419	-	83,244	-	-	83,244
Currency options bought	-	-	-	321	-	-
Currency options sold	-	-	-	321	-	-
Forward purchase contracts	3,150	-	-	587,197	495,420	217,042
Forward sales contracts	-	1,715	-	586,747	491,890	213,490
Total	6,569	5,134	166,488	1,174,586	987,310	597,020

31 December 2018						RO 000's
	Positive fair value	Negative Fair Value	Notional amount total	Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
Derivatives:						
Fair value hedge	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-
Interest rate swaps Purchase	652	-	41,609	-	-	41,609
Interest rate Swaps Contract	-	652	41,609	-	-	41,609
Forward purchase contracts	1,095	-	-	518,127	516,773	1,217,263
Forward sales contracts	-	453	-	518,043	513,131	1,209,823
Total	1,747	1,105	83,218	1,036,170	1,029,904	2,510,304

The following table indicates the positive fair values of derivatives (net)associated with derivatives that are recognised in the statement of comprehensive income.

	Assets		Liabilities	
	2019 RO'000	2018 RO'000	**2019 RO'000**	2018 RO'000
Expected cash flows	**1,435**	642	**-**	-

31. FAIR VALUE INFORMATION

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value meas urements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2019	Level 1 RO '000	Level 2 RO '000	Level 3 RO '000	Total RO '000	Cost RO '000
Financial assets					
Investments at FVOCI	**73,478**	**-**	**721**	**74,199**	**74,825**
Investments at FVTPL	**2,532**	**-**	**1,731**	**4,263**	**4,485**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**1,435**	**-**	**1,435**	**-**
Total	**-**	**1,435**	**-**	**1,435**	**-**
	76,010	**1,435**	**2,452**	**79,897**	**79,310**
At 31 December 2018					
Investment at FVOCI	48,810	-	721	49,531	51,319
Investment at FVTPL	2,478	-	1,662	4,140	4,440
Derivative financial instruments					
Forward foreign exchange contracts	-	642	-	642	-
Total	-	642	-	642	-
	51,288	642	2,383	54,313	55,759

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Group's level 3 investments:

Level 3 movement

	2019 RO'000	2018 RO'000
At 1 January	**2,383**	3,116
Total losses	**(19)**	(86)
Purchases	**88**	-
Transfer from level 3	**-**	(647)
At 31 December	**2,452**	2,383

31. FAIR VALUE INFORMATION (CONTINUED)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the year.

32. 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 (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 Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval of 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 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. Bank has an independent credit risk management function which identifies, assess 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. 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.

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 leading external 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure

The following table informs about the Credit Exposure to customers of the Bank:

(1) Geographical concentrations

	Assets			Liabilities		
	Gross loans, advances and financing to banks RO'000	Gross loans, advances and financing to customers RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2019						
Sultanate of Oman	**87,202**	**3,181,597**	**375,965**	**2,941,485**	**85,704**	**688,744**
Other GCC countries	**209,776**	**-**	**2,076**	**1,390**	**352,692**	**32,321**
Europe and North America	**103,914**	**-**	**-**	**4**	**26,950**	**56,858**
Africa and Asia	**71,519**	**-**	**696**	**309**	**24,833**	**33,007**
	472,411	**3,181,597**	**378,737**	**2,943,188**	**490,179**	**810,930**
31 December 2018						
Sultanate of Oman	87,610	3,287,406	299,531	2,922,039	51,855	883,964
Other GCC countries	102,311	5,664	1,555	2,024	253,940	40,622
Europe and North America	80,415	875	2,809	4	40,280	58,029
Africa and Asia	59,560	-	703	437	22,908	28,199
	329,896	3,293,945	304,598	2,924,504	368,983	1,010,814

Other assets and liabilities are predominately concentrated in the Sultanate of Oman.

(2) Customer concentrations

	Assets			Liabilities		
	Gross loans, Advances and financing to banks RO'000	Gross Loans, Advances and financing to customers RO'000	Investment Securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2019						
Personal	**-**	**1,286,585**	**-**	**641,452**	**-**	**3,875**
Corporate	**472,411**	**1,646,270**	**37,335**	**1,141,100**	**490,179**	**788,609**
Government	**-**	**248,742**	**341,402**	**1,160,636**	**-**	**18,446**
	472,411	**3,181,597**	**378,737**	**2,943,188**	**490,179**	**810,930**
31 December 2018						
Personal	-	1,375,140	-	625,887	-	174
Corporate	329,896	1,650,688	48,101	1,118,535	368,983	999,970
Government	-	268,117	256,497	1,180,082	-	10,670
	329,896	3,293,945	304,598	2,924,504	368,983	1,010,814

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(3) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2019			
Personal	**1,286,585**	**641,452**	**3,875**
International trade	**103,650**	**69,642**	**25,662**
Construction	**534,641**	**179,670**	**379,395**
Manufacturing	**184,372**	**42,017**	**44,491**
Wholesale and retail trade	**28,178**	**13,298**	**21,661**
Communication and utilities	**165,769**	**59,668**	**19,722**
Financial services	**146,916**	**89,089**	**236,531**
Government	**248,742**	**1,160,636**	**18,446**
Other services	**176,315**	**128,099**	**31,339**
Others	**306,429**	**559,617**	**29,808**
	3,181,597	**2,943,188**	**810,930**

	Assets	Liabilities	
	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2018			
Personal	1,375,140	625,887	174
International trade	107,375	51,174	35,718
Construction	496,901	172,005	465,775
Manufacturing	213,220	39,277	49,235
Wholesale and retail trade	60,798	22,248	32,727
Communication and utilities	144,420	20,044	100,138
Financial services	140,850	89,281	248,862
Government	268,117	1,180,082	10,670
Other services	199,183	169,101	38,319
Others	287,941	555,405	29,196
	3,293,945	2,924,504	1,010,814

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(4) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2019 RO'000	2018 RO'000	**2019 RO'000**	2018 RO'000
Overdrafts	**137,827**	165,880	**158,227**	177,624
Loans	**2,425,730**	2,547,049	**2,448,399**	2,549,067
Loans against trust receipts	**109,865**	99,393	**101,088**	119,580
Bills discounted	**46,898**	70,969	**59,893**	70,772
Advance against credit cards	**9,450**	8,921	**9,207**	8,833
Islamic Banking Window financing	**451,827**	401,733	**423,868**	381,140
Total	**3,181,597**	3,293,945	**3,200,682**	3,307,016

(5) Geographical distribution of exposures:

31 December 2019	**Sultanate of Oman RO'000**	**Other countries RO'000**	**Total RO'000**
Overdrafts	**137,827**	**-**	**137,827**
Loans	**2,425,730**	**-**	**2,425,730**
Loans against trust receipts	**109,865**	**-**	**109,865**
Bills discounted	**10,334**	**-**	**10,334**
Advance against credit cards	**9,450**	**-**	**9,450**
Others	**36,564**	**-**	**36,564**
Islamic Banking Window financing	**451,827**	**-**	**451,827**
	3,181,597	**-**	**3,181,597**
31 December 2018			
Overdrafts	165,880		165,880
Loans	2,541,596	5,453	2,547,049
Loans against trust receipts	99,393	-	99,393
Bills discounted	10,552	1,086	11,638
Advance against credit cards	8,921	-	8,921
Others	59,331	-	59,331
Islamic Banking Window financing	401,733	-	401,733
	3,287,406	6,539	3,293,945

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(6) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans including Islamic financing RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2019						
Import trade	**10,972**	**79,776**	**-**	**12,588**	**103,336**	**25,662**
Export trade	**188**	**121**	**-**	**5**	**314**	**59**
Wholesale/retail trade	**4,821**	**21,008**	**-**	**2,349**	**28,178**	**21,661**
Mining and quarrying	**1,859**	**16,723**	**162**	**13**	**18,757**	**619**
Construction	**53,015**	**399,072**	**4,683**	**77,871**	**534,641**	**379,395**
Manufacturing	**16,933**	**121,123**	**3,527**	**42,789**	**184,372**	**44,491**
Electricity, gas and water	**715**	**161,826**	**-**	**169**	**162,710**	**14,675**
Transportand Communication	**1,048**	**1,455**	**-**	**556**	**3,059**	**5,047**
Financial institutions	**1,248**	**143,728**	**1,940**	**-**	**146,916**	**236,531**
Services	**25,200**	**149,100**	**-**	**2,015**	**176,315**	**31,339**
Personal loans	**1,625**	**1,276,017**	**-**	**8,943**	**1,286,585**	**3,875**
Agriculture and allied Activities	**4,022**	**4,543**	**22**	**1,782**	**10,369**	**813**
Government	**-**	**248,739**	**-**	**3**	**248,742**	**18,446**
Non-resident lending	**-**	**-**	**-**	**-**	**-**	
Others	**16,181**	**254,326**	**-**	**6,796**	**277,303**	**28,317**
	137,827	**2,877,557**	**10,334**	**155,879**	**3,181,597**	**810,930**
31 December 2018						
Import trade	15,573	76,260	-	15,314	107,147	29,026
Export trade	172	51	-	5	228	6,692
Wholesale/retail trade	13,086	44,356	-	3,356	60,798	32,727
Mining and quarrying	5,722	30,481	1,930	1,612	39,745	1,719
Construction	62,741	338,266	6,598	89,296	496,901	465,775
Manufacturing	21,372	161,416	1,307	29,125	213,220	48,994
Electricity, gas and water	586	137,917	-	-	138,503	92,763
Transport andCommunication	2,420	3,114	-	383	5,917	7,375
Financial institutions	1,987	138,606	257	-	140,850	248,862
Services	24,845	171,743	-	2,595	199,183	38,319
Personal loans	1,045	1,365,684	-	8,411	1,375,140	174
Agriculture and allied Activities	4,004	6,231	-	1,888	12,123	696
Government	-	268,114	-	3	268,117	10,670
Non-resident lending	-	5,453	1,086	-	6,539	241
Others	12,327	201,090	460	15,657	229,534	26,781
	165,880	2,948,782	11,638	167,645	3,293,945	1,010,814

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(7) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2019 RO' 000	2018 RO' 000
Treasury bill	**30,000**	-
Loans, advances and financing to banks	**471,158**	329,059
Loan, advances and financing to customers	**3,063,350**	3,158,844
Government development bonds and Sukuk	**310,485**	262,580
Foreign bonds	**2,772**	15,077
Local bonds and sukuks	**29,953**	20,941
	3,907,718	3,786,501
Off-balance sheet items		
Financial guarantees	**721,976**	918,894
	4,629,694	4,705,395

As at 31 December 2019, Bank has total gross impaired loans of RO 148,582 (RO 121,299) thousand which includes interest reserved of RO 24,169 (2018: RO 55,594) thousand against principal outstanding of RO 124,413 (2018: RO 65,705) expected credit losses of RO 56,435 (2018: RO 41,400) thousands have been carried.

(8) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2019

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2019				
Exposure				
Banks	734,029	3,080	-	737,109
Sovereigns	370,575	-	-	370,575
Wholesale banking	1,594,293	1,209,117	89,178	2,892,588
Retail banking	1,196,023	32,942	61,856	1,290,821
Investments	38,896	-	-	38,896
Total	3,933,816	1,245,139	151,034	5,329,989
Provision for expected credit losses	17,495	34,700	56,435	108,630

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(8) Credit Quality Analysis (Continued)

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2018

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2018				
Exposure				
Banks	767,020	1,028	-	768,048
Sovereigns	239,384	-	-	239,384
Wholesale banking	2,084,903	1,001,862	63,099	3,149,864
Retail banking	1,282,342	38,646	58,990	1,379,978
Investments	56,330	-	-	56,330
Total	4,429,979	1,041,536	122,089	5,593,604
Provision for Expected credit losses	19,207	33,014	41,400	93,621

(9) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Bank uses an internal risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2019 including the projections used is presented as under:

31st December 2019

Real GDP growth (%)	Present	2.10%	Oil revenue (%GDP)	Present	31.08%
	Year 1 Projection	1.10%		Year 1 Projection	27.07%
	Year 2 Projection	6.20%		Year 2 Projection	25.43%
	Year 3 Projection	2.80%		Year 3 Projection	27.74%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 15 years.

1 January 2019

Real GDP growth (%)	Present	2.0%	Oil revenue (%GDP)	Present	21.1%
	Year 1 Projection	2.0%		Year 1 Projection	24.3%
	Year 2 Projection	3.6%		Year 2 Projection	24.7%
	Year 3 Projection	1.9%		Year 3 Projection	23.8%

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2019, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	ECL (RO' 000)	Impact on ECL due to Sensitivity (RO 000)
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	48,917	
Sensitivity:		
ECL if only Upside case happens - 100% probability	27,176	(21,740)
ECL if only Base case happens - 100% probability	45,835	(3,082)
ECL if only Downside case happens - 100% probability	58,745	9,828

** for computation of ECL (ie actual estimates), Bank considers three scenario viz. base case, upside case and downside case with weightage of 50%, 25% & 25% respectively.

c. Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolios

(1) GDP, given the significant impact it has on mortgage collateral valuations; and

(2) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios

(1) GDP, given the significant impact on companies' performance and collateral valuations; and

(2) Oil Price Index, given its impact on companies' likelihood of default.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(10) Loss Allowance

The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers RO'000	Exposure RO'000	Reserved interest RO'000	Net exposure RO'000	ECL RO'000	% of ECL RO'000
31 December 2019						
Wholesale banking	**209**	**89,178**	**10,152**	**79,026**	**28,488**	**36.0%**
Retail banking	**2,378**	**61,856**	**14,017**	**47,839**	**27,946**	**58.4%**
Total	**2,587**	**151,034**	**24,169**	**126,865**	**56,434**	**44.5%**
31 December 2018						
Wholesale banking	218	63,099	40,968	22,131	15,463	69.9%
Retail banking	2,262	58,990	14,626	44,364	25,937	58.5%
Total	2,480	122,089	55,594	66,495	41,400	62.3%

(11) Credit Quality

An analysis of credit quality of gross exposures as at 31 December 2019 and changes in gross exposure balances from 1 January 2019 to 31 December 2019 is set out in the following tables by class of financial assets 2019

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	184,633	-	-	184,633
Standard Grade (Ba1 to Ba2)	139,992	-	-	139,992
Satisfactory Grade (Ba3 to Caa3)	147,786	-	-	147,786
Total	472,411	-	-	472,411
Total (RO000')	472,411	-	-	472,411

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	336,718	93,264	-	429,982
Standard Grade (Ba1 to Ba2)	508,402	364,670	-	873,072
Satisfactory Grade (Ba3 to Caa3)	174,469	330,753	-	505,222
Non-performing	-	-	89,178	89,178
Total	1,019,589	788,687	89,178	1,897,454
Total (RO'000)	1,019,589	788,687	89,178	1,897,454

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	539,913	-	-	539,913
Standard Grade (Ba1 to Ba2)	626,381	7,603	-	633,984
Satisfactory Grade (Ba3 to Caa3)	25,504	25,339	-	50,843
Non-performing	-	-	61,856	61,856
Total	1,191,798	32,942	61,856	1,286,596
Total (RO'000)	1,191,798	32,942	61,856	1,286,596

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	9,861	-	-	9,861
Standard Grade (Ba1 to Ba2)	29,010	-	-	29,010
Satisfactory Grade (Ba3 to Caa3)	25	-	-	25
Non-performing	-	-	-	-
Total	38,896	-	-	38,896
Total (RO'000)	38,896	-	-	38,896

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	70,556	-	-	70,556
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	70,556	-	-	70,556
Total (RO'000)	70,556	-	-	70,556

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	300,275	-	-	300,275
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	300,275	-	-	300,275
Total (RO'000)	300,275	-	-	300,275

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	15,145	1,702	-	16,847
Standard Grade (Ba1 to Ba2)	15,909	6,523	-	22,432
Satisfactory Grade (Ba3 to Caa3)	12,965	2,458	-	15,423
Sub Standard	-	-	-	-
Total	44,019	10,683	-	54,702
Total (RO'000)	44,019	10,683	-	54,702

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	257,614	124,175	-	381,789
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	257,614	124,175	-	381,789
Total (RO'000)	257,614	124,175	-	381,789

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	524,725	283,753	2,452	810,930
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	524,725	283,753	2,452	810,930
Total (RO'000)	524,725	283,753	2,452	810,930

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Profit- Amortised cost*				
High Grade (Aaa to Baa3)	13,535	4,690	-	18,225
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	13,535	4,690	-	18,225
Total (RO'000)	13,535	4,690	-	18,225

* includes Corporate & SME , Retail and Banks

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

2018:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	214,348	-	-	214,348
Standard Grade (Ba1 to Ba2)	194,734	-	-	194,734
Satisfactory Grade (Ba3 to Caa3)	65,338	-	-	65,338
Total	474,420	-	-	474,420
Total (RO000')	474,420	-	-	474,420

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	421,893	41,723	-	463,616
Standard Grade (Ba1 to Ba2)	629,506	256,535	-	886,041
Satisfactory Grade (Ba3 to Caa3)	175,987	329,507	-	505,494
Non-performing	-	-	62,309	62,309
Total	1,227,386	627,765	62,309	1,917,460
Total (RO'000)	1,227,386	627,765	62,309	1,917,460

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	604,230	-	-	604,230
Standard Grade (Ba1 to Ba2)	643,117	8,085	-	651,202
Satisfactory Grade (Ba3 to Caa3)	30,303	30,416	-	60,719
Non-performing	-	-	58,990	58,990
Total	1,277,650	38,501	58,990	1,375,141
Total (RO'000)	1,277,650	38,501	58,990	1,345,141

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	26,295	-	-	26,295
Standard Grade (Ba1 to Ba2)	30,010	-	-	30,010
Satisfactory Grade (Ba3 to Caa3)	24	-	-	24
Non-performing	-	-	-	-
Total	56,329	-	-	56,329
Total (RO'000)	56,329	-	-	56,329

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	45,413	-	-	45,413
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	45,413	-	-	45,413
Total (RO'000)	45,413	-	-	45,413

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	250,927	-	-	250,927
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	250,927	-	-	250,927
Total (RO'000)	250,927	-	-	290,927

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	5,341	1,764	-	7,105
Standard Grade (Ba1 to Ba2)	42,795	2,138	-	44,933
Satisfactory Grade (Ba3 to Caa3)	12,750	9,265	-	22,015
Sub Standard	-	-	-	-
Total	60,886	13,167	-	74,053
Total (RO'000)	60,886	13,167	-	74,053

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	281,539	149,434	-	430,973
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	281,539	149,434	-	430,973
Total (RO'000)	281,539	149,434	-	430,973

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	313,454	44,011	790	358,255
Standard Grade (Ba1 to Ba2)	331,026	67,027	-	398,053
Satisfactory Grade (Ba3 to Caa3)	156,363	98,681	-	255,044
Non-performing	-	-	-	-
Total	800,843	209,719	790	1,011,352
Total (RO'000)	800,843	209,719	790	1,011,352

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Profit- Amortised cost*				
High Grade (Aaa to Baa3)	13,405	2,951	-	16,356
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	13,405	2,951	-	16,356
Total (RO'000)	13,405	2,951	-	16,356

* includes Corporate & SME , Retail and Banks

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(12) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Stage 3 Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
31 December 2019							
Import trade	**96,476**	**6,860**	**786**	**1,369**	**4,080**	**515**	**1,059**
Export trade	**308**	**6**	**20**	**3**	**3**	**-**	**-**
Wholesale/retail trade	**19,067**	**9,112**	**2,547**	**3,564**	**337**	**3,777**	**4,908**
Mining and quarrying	**18,745**	**12**	**578**	**6**	**7**	**3**	**-**
Construction	**510,681**	**23,960**	**5,481**	**8,066**	**1,764**	**7,320**	**-**
Manufacturing	**183,671**	**701**	**1,541**	**221**	**256**	**203**	**-**
Electricity, gas and water	**162,671**	**39**	**1,230**	**9**	**4**	**-**	**-**
Transport and communication	**2,400**	**659**	**286**	**269**	**80**	**394**	**-**
Financial institutions	**146,916**	**-**	**944**	**-**	**-**	**-**	**-**
Services	**174,526**	**1,789**	**1,195**	**697**	**468**	**223**	**-**
Personal loans	**1,222,275**	**64,310**	**13,414**	**28,669**	**14,199**	**10,546**	**2,174**
Agriculture and allied activities	**10,359**	**10**	**40**	**5**	**4**	**-**	**-**
Government	**248,742**	**-**	**8**	**-**	**-**	**-**	
Non-resident lending	**-**	**-**	**-**	**-**	**-**	**49**	**4,429**
Others	**236,178**	**41,124**	**9,573**	**13,557**	**2,967**	**12,571**	**-**
	3,033,015	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**
31 December 2018							
Import trade	94,488	12,659	871	1,743	10,548	596	1
Export trade	222	6	17	4	3	2	-
Wholesale/retail trade	30,598	30,200	230	4,906	25,045	(90)	-
Mining and quarrying	39,735	10	689	3	5	(37)	-
Construction	488,548	8,353	5,907	2,416	3,253	1,519	1
Manufacturing	213,039	181	1,175	31	141	16	-
Electricity, gas and water	138,467	36	761	9	1	8	-
Transport and communication	5,709	208	202	84	6	108	-
Financial institutions	140,850	-	310	-	-	10	-
Services	197,750	1,433	797	537	306	-	-
Personal loans	1,316,151	58,989	16,885	25,937	14,625	8,252	26
Agriculture and allied activities	12,114	9	43	5	4	-	-
Government	268,117	-	234	-	-	-	-
Non-resident lending	1,086	5,453	1	4,380	1,027	-	-
Others	225,772	3,762	9,786	1,345	829	35	-
	3,172,646	121,299	37,908	41,400	55,793	10,419	28

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage 3 `ECL RO'000	Interest reserve RO'000	Stage 3 ECL during the year RO'000	Advances written off during the year RO'000
31 December 2019							
Sultanate of Oman	**3,033,015**	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**8,141**
Other countries	**-**	**-**	**-**	**-**	**-**	-	**4,429**
	3,033,015	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**
31 December 2018							
Sultanate of Oman	3,171,560	115,846	37,907	37,020	54,766	10,419	28
Other countries	1,086	5,453	1	4,380	1,027	-	-
	3,172,646	121,299	37,908	41,400	55,793	10,419	28

Analysis of impairment and collateral

A. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2019 RO 000's	2018 RO 000's
Against individually impaired		
Property	**37,996**	18,483
Equities	**-**	-
Others	**869**	17
	38,865	18,500

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%, 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, 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.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2019						
Cash and balances with Central Bank of Oman	**299,905**	**-**	**-**	**-**	**500**	**300,405**
Loan and advances to customer	**248,200**	**347,818**	**165,902**	**791,902**	**1,509,528**	**3,063,350**
Loans and advances to banks	**224,416**	**181,404**	**39,126**	**26,212**	**-**	**471,158**
Investments FVTPL	**-**	**-**	**4,263**	**-**		**4,263**
Investments FVOCI Equity	**-**	**-**	**3,643**	**-**		**3,643**
Investments FVOCI-Debt Instrument	**-**	**-**	**-**	**34,245**	**36,125**	**70,370**
Investments at amortized cost	**79,844**	**10,074**	**57,681**	**75,691**	**76,985**	**300,275**
Intangible asset	**-**	**-**	**-**	**-**	**397**	**397**
Property and equipment	**-**	**-**	**-**	**-**	**19,172**	**19,172**
Other assets	**18,943**	**50,955**	**4,462**	**-**	**18,452**	**92,812**
Total Assets Funded	**871,308**	**590,251**	**275,077**	**928,050**	**1,661,159**	**4,325,845**
Total Assets Non Funded (Forward, Option and Commitments)	**503,635**	**426,548**	**277,717**	**217,042**	**-**	**1,424,942**
Total Assets Funded and Non Funded	**1,374,943**	**1,016,799**	**552,794**	**1,145,092**	**1,661,159**	**5,750,787**
Due to banks	239,929	77,000	-	173,250	-	490,179
Deposits from customers	235,674	681,756	567,155	908,479	550,124	2,943,188
Other liabilities	55,419	57,448	5,107	7,974	16,500	142,448
Subordinated loans	-	28,875	-	35,000	-	63,875
Total equity**	-	-	-	-	686,155	686,155
Total liabilities and shareholders' equity	531,022	845,079	572,262	1,124,703	1,252,779	4,325,845
Total Liabilities Non Funded (Forward , Unutilized)	387,764	432,218	276,688	338,615	-	1,435,285
Total Liabilities Funded and Non Funded	918,786	1,277,297	848,950	1,463,318	408,380	5,761,130
Cumulative Liabilities		918,786	1,277,297	848,950	1,463,318	408,380
Gap		456,157	(260,492)	(296,150)	(318,226)	1,252,779
Cumulative Gap		456,157	195,659	(100,497)	(418,723)	834,056

** Including Perpetual Tier 1 capital securities

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2018						
Cash and balances with Central Bank of Oman	301,005	-	-	-	500	301,505
Loan and advances to customer	305,432	333,556	139,074	834,571	1,546,211	3,158,844
Loans and advances to banks	105,474	179,559	23,041	20,985	-	329,059
Investments FVTPL	-	-	4,140	-	-	4,140
Investments FVOCI Equity	-	-	4,118	-	-	4,118
Investments FVOCI-Debt Instrument	-	-	-	26,585	18,562	45,147
Investments at amortized cost	-	22,989	21,791	126,109	80,038	250,927
Intangible asset	-	-	-	-	794	794
Property and equipment	-	-	-	-	14,917	14,917
Other assets	16,662	63,024	12,166	280	11,907	104,039
Total assets Funded	728,573	599,128	204,330	1,008,530	1,672,929	4,213,490
Total Assets Non Funded (Forward, Option and Commitments)	542,131	260,406	436,418	182,363	-	1,421,318
Total Assets Funded and Non Funded	1,270,704	859,534	640,748	1,190,893	1,672,929	5,634,808
Due to banks	213,250	59,483	-	96,250	-	368,983
Deposits from customers	225,298	530,666	380,152	960,549	827,839	2,924,504
Other liabilities	48,936	73,785	12,842	8,466	13,937	157,966
Subordinated loans	-	-	-	63,875	-	63,875
Total equity**	-	-	-	-	698,162	698,162
Total liabilities and shareholders' equity	487,484	663,934	392,994	1,129,140	1,539,938	4,213,490
Total Liabilities Non Funded (Forward, Unutilized)	387,819	268,421	434,292	344,199	-	1,434,731
Total Liabilities Funded and Non Funded	875,303	932,355	827,286	1,473,339	1,539,938	5,648,221
Cumulative Liabilities		875,303	932,355	827,286	1,473,339	1,539,938
Gap		395,401	(72,821)	(186,538)	(282,446)	132,991
Cumulative Gap		395,401	322,580	136,042	(146,404)	(13,413)

** Including Perpetual Tier 1 capital securities

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

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 which is effectively pegged to Rial Omani. 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. The foreign currency exposures are given below:

Foreign currency exposures

	2019 RO 000's	2018 RO 000's
Net assets denominated in US Dollars	**94,327**	163,412
Net assets denominated in UAE Dirham (AED)	**278**	14,020
Net assets denominated in other foreign currencies	**1,327**	1,320
	95,932	178,752

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.Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		+ or – 2%	
	2019 RO 000's	2018 RO 000's	2019 RO 000's	2018 RO 000's
Omani Rials	**7,825**	8,859	**15,649**	17,718
US Dollars	**3,948**	4,083	**7,896**	8,165
Others currencies	**537**	232	**1,075**	464
	12,310	13,174	**24,620**	26,347

The impact of statement in changes of equitydue to interest rate risk in the banking book is not material to the financial statements

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

D. Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2019								
Cash and balances with Central Bank of Oman	**1.2%**	98,175	-	-	-	500	201,730	300,405
Loans, advances and financingto banks	**3.8%**	224,162	181,404	39,128	26,212		252	471,158
Loans, advances and financing tocustomers	**5.7%**	512,781	1,204,195	113,202	659,603	573,569	-	3,063,350
Investments - FVTPL		-	-	4,263	-	-	-	4,263
Investment – FVOCI Equity		-	-	3,643	-	-	-	3,643
Investment FVOCI – Debt Instrument	**6.4%**	-	-	-	34,245	36,125	-	70,370
Investments at amortized cost	**4.1%**	79,844	2,167	48,656	105,066	56,635	7,907	300,275
Intangible asset		-	-	-	-	-	397	397
Property and equipment		-	-	-	-	-	19,172	19,172
Other assets		-	-	-	-	-	92,812	92,812
Total assets		**914,962**	**1,387,766**	**208,892**	**825,126**	**666,829**	**322,270**	**4,325,845**
Due to banks	**3.3%**	239,928	77,000	-	173,251	-	-	490,179
Deposits from customers	**2.9%**	179,059	579,517	965,017	644,302	101,390	473,903	2,943,188
Other liabilities		-	-	-	-	-	142,448	142,448
Subordinated loan	**5.6%**	-	28,875	-	35,000	-	-	63,875
Shareholders' equity		-	145,744	-	40,000	-	500,411	686,155
Total liabilities and Equity**		**418,987**	**831,136**	**965,017**	**892,553**	**101,390**	**1,116,762**	**4,385,845**
On-balance sheet gap		**495,975**	**556,630**	**(756,125)**	**(67,427)**	**565,438**	**(794,492)**	**-**
Cumulative interest sensitivity gap		**495,975**	**1,052,605**	**296,480**	**229,053**	**794,492**	**-**	**-**

** Including Perpetual Tier 1 capital securities

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2018								
Cash and balances with Central Bank of Oman	1.9%	143,220	-	-	-	500	157,785	301,505
Loans, advances and financingto banks	3.7%	102,702	223,317	-	-	-	3,040	329,059
Loans, advances and financing tocustomers	5.7%	643,680	1,155,615	108,895	683,481	567,173	-	3,158,844
Investments - FVTPL		-	-	-	-	-	4,140	4,140
Investment – FVOCI Equity		-	-	-	-	-	4,118	4,118
Investment FVOCI – Debt Instrument	5.1%	-	-	-	26,585	18,562	-	45,147
Investments at amortized cost	4.0%	-	30,315	58,952	67,156	80,039	14,465	250,927
Intangible asset		-	-	-	-	-	794	794
Property and equipment		-	-	-	-	-	14,917	14,917
Other assets		-	-	-	-	-	104,039	104,039
Total assets		889,602	1,409,247	167,847	777,222	666,274	303,298	4,213,490
Due to banks	3.6%	367,250	1,733	-	-	-	-	368,983
Deposits from customers	2.8%	162,127	432,824	412,224	972,594	40,420	904,315	2,924,504
Other liabilities		-	-	-	-	-	157,966	157,966
Subordinated loan	5.6%	-	-	-	63,875	-	-	63,875
Shareholders' equity		-	50,281	-	155,500	33,006	459,375	698,162
Total liabilities and Equity**		529,377	484,838	412,224	1,191,969	73,426	1,521,656	4,213,490
On-balance sheet gap		360,225	924,409	(244,377)	(414,747)	592,848	(1,218,358)	-
Cumulative interest sensitivity gap		360,225	1,284,634	1,040,257	625,510	1,218,358	-	-

** Including Perpetual Tier 1 capital securities

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

(e) Investment Pricerisk

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 Level 1 portfolio, the value of the portfolio may decrease by RO 1,045 thousand (2018: decrease by RO 906 thousand).

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 (NA5) 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 36,030 thousand (2018: decrease / increase by RO 36,029 thousand).

D. Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2019, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on "Potential Losses" has also been introduced.Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank's bottom-line.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment's, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

1. Credit Exposure (CONTINUED)

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP)with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets.ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

33. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.875% (including the capital conservation buffer) as at 31 December 2019 and with effect from 1 January 2019, to maintain minimum capital adequacy ratio of 13.5% (including capital conservation buffer).

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 15, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 16 to 19

33. CAPITAL RISK MANAGEMENT (CONTINUED)

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 2019 is 17.86% (2018: 17.33%).

Capital structure	2019 RO 000's	2018 RO 000's
Common Equity Tier (CET) I/ TIERI CAPITAL		
Paid up capital	**299,635**	280,033
Legal reserve	**58,966**	55,878
Share premium	**95,656**	95,656
Special reserve	**18,488**	18,488
Subordinated loan reserve	**42,875**	30,100
Retained earnings	**1,447**	11,557
Proposed bonus shares	**-**	19,602
CET I/Tier I Capital	**517,067**	511,314
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(1,028)**	(1,029)
Goodwill	**(397)**	(794)
Negative investment revaluation reserve	**(2,245)**	(2,271)
Total CET 1capital	**513,397**	507,220
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**668,897**	662,720
TIERII CAPITAL		
Investment revaluation reserve	**370**	134
General provision	**38,315**	43,606
Subordinated loan	**21,000**	33,775
Total Tier II capital	**59,685**	77,515
Total eligible capital	**728,582**	740,235
Risk weighted assets		
Banking book	**3,671,420**	3,936,646
Trading book	**143,412**	75,779
Operational risk	**263,487**	258,086
Total	**4,078,319**	4,270,511
Total Tier 1 Capital (T1=CET1+AT1)	**668,897**	662,720
Tier II capital	**59,685**	77,515
Total regulatory capital	**728,582**	740,235
Common Equity Tier 1 ratio	**12.59%**	11.88%
Tier I capital ratio	**16.40%**	15.52%
Totalcapital ratio	**17.86%**	17.33%

34. SEGMENTAL INFORMATION

The Bank is organised into three main business segments:

Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and

Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment which are included in "Treasury and investments" segment.

Transactions between the business segments are on normal commercial terms and conditions.Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income.Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business.Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2019	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	75,988	100,989	17,161	194,138
Other revenues (net of commission expense)	4,279	11,160	19,694	35,133
Total	80,267	112,149	36,855	229,271
Interest, Islamic Window Deposit expenses	(30,205)	(51,089)	(18,013)	(99,307)
Net operating income	50,062	61,060	18,842	129,964
Segment cost				
Operating expenses including depreciation	(35,867)	(30,130)	(5,477)	(71,474)
Impairment for loans and investment net recoveries from allowance for loans impairment	(719)	(21,424)	(251)	(22,394)
Bad Debts Written	(4)	-	-	(4)
Profit from operations after provision	13,472	9,506	13,114	36,092
Income tax expenses	(2,183)	(1,540)	(2,125)	(5,848)
Net profit for the year	11,289	7,966	10,989	30,244
Segment assets	1,376,470	2,071,420	997,836	4,445,726
Less: Impairment allowance	56,332	62,110	1,439	119,881
Total segment assets	1,320,138	2,009,310	996,397	4,325,845
Segment liabilities	675,099	2,385,730	565,943	3,626,772
Add: Impairment allowance	124	11,898	896	12,918
Segment liabilities	675,223	2,397,628	566,839	3,639,690

34. SEGMENTAL INFORMATION (CONTINUED)

At 31 December 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	82,641	100,746	12,935	196,322
Other revenues (net of commission expense)	4,738	12,991	16,697	34,426
Total	87,379	113,737	29,632	230,748
Interest, Islamic Window Deposit expenses	(37,490)	(56,264)	(5,141)	(98,895)
Net operating income	49,889	57,473	24,491	131,853
Segment cost				
Operating expenses including depreciation	(31,119)	(29,168)	(5,169)	(64,456)
Impairment for loans and investment net recoveries from allowance for loans impairment	(6,650)	349	(353)	(6,654)
Profit from operations after provision	12,120	28,654	18,969	59,743
Income tax expenses	(1,920)	(4,538)	(3,004)	(9,462)
Net profit for the year	10,200	24,116	15,965	50,281
Segment assets	1,444,926	2,086,191	818,742	4,349,859
Less: Impairment allowance	(57,590)	(77,676)	(1,103)	(136,369)
Total segment assets	1,387,336	2,008,515	817,639	4,213,490
Segment liabilities	659,296	2,408,677	434,309	3,502,282
Add: Impairment allowance	9	12,023	1,014	13,046
Segment liabilities	659,305	2,420,700	435,323	3,515,328

Islamic Banking Window

At 31 December 2019	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	9,073	14,778	153	24,004
Other revenues	223	1,465	2,929	4,617
Total	9,296	16,243	3,082	28,621
Unrestricted investment account holders' share of profit and profit expense	(1,777)	(10,566)	(1,479)	(13,822)
Net operating income	7,519	5,677	1603	14,799
Segment cost				
Operating expenses including depreciation	(3,676)	(2,446)	(970)	(7,092)
Impairment allowance	(58)	(737)	61	(734)
Bad Debts Written	(3)	-	-	(3)
Profit before tax	3,782	2,494	694	6,970
Segment assets	175,792	282,850	132,286	590,928
Less: Impairment allowance	(456)	(5,413)	(127)	(5,996)
Total segment assets	175,336	277,437	132,159	584,932
Segment liabilities	63,995	350,385	36,327	450,707
Add: Impairment allowance	1	268	-	269
Segment liabilities	63,996	350,653	36,327	450,976

34. SEGMENTAL INFORMATION (CONTINUED)

At 31 December 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	8,531	12,724	301	21,556
Other revenues	234	786	2,600	3,620
Total	8,765	13,510	2,901	25,176
Unrestricted investment account holders' share of profit and profit expense	(1,047)	(10,381)	(619)	(12,047)
Net operating income	7,718	3,129	2,282	13,129
Segment cost				
Operating expenses including depreciation	(2,633)	(3,114)	(927)	(6,674)
Impairment allowance	(133)	(242)	(141)	(516)
Profit before tax	4,952	(227)	1,214	5,939
Segment assets	170,063	235,315	111,659	517,037
Less: Impairment allowance	(382)	(4,040)	(188)	(4,610)
Total segment assets	169,681	231,275	111,471	512,427
Segment liabilities	28,432	299,472	82,884	410,788
Add: Impairment allowance	3	528	-	531
Segment liabilities	28,435	300,000	82,884	411,319

35. DIVIDENDS – PROPOSED AND DECLARED

The Board of Directors in their meeting held on 28th January 2020 proposed a total cash dividend of 7% (RO 20.98 million) for the year 2019 (2018: 10%, RO 28 million), made up of a) 3% (amounting to RO 8.99 million) from the Retained Earnings and b) 4% (amounting to RO 11.99 million) from the Special Reserve Account and nil bonus shares issue for year 2019 (2018: 7%). (2018: 196,022,991 shares) of RO 0.100 each, subject to the approval of Central Bank of Oman and shareholders. The Bank received Central Bank of Oman approval for a total cash dividend of 3% (RO 8.99 million) against the proposal of total cash dividend of 7% (RO 20.98 million). A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 23 March 2020. Board of Directors in their meeting held on 28 January 2020 approved a distribution of RO 15 million from Maisarah Islamic Banking Services, Bank's Islamic Banking Window to the Head Office and also approved increase in paid up capital from Bank's core capital to Maisarah Islamic Banking Services an amount RO 15 million.

During the year, unclaimed dividend amounting to RO 3,864 (2018: RO 22,449) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

The shareholders of the Bank in the annual general meeting held during March 2019 approved the issuance of 7% bonus shares comprising 196,022,991 shares of par value RO 0.100 each (2018: 180,628,618 shares of par value RO 0.100 each) and 10% (2018 – 12%) as cash dividend of the paid share capital of the Bank amounting to RO 28 million for the year ended 31 December 2018 (2017 – RO 27.09. million for the year ended 31 December 2017).

36. LEASES

This note provides information for leases where the Bank is a lessee.

Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2019 RO 000's	2018 RO 000's
Right-of-use assets		
Leased Premises	1,823	2,535
Lease liabilities		
Current	26	552
Non-current	738	771
	764	1,323

Additions to the right-of-use assets during the 2019 financial year were RO 105 thousands.

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 RO 000's	2018 RO 000's
Depreciation charge of right-of-use assets		
Leased Premises	817	-
Interest expense (included in finance costs)	56	-
Expense relating to short-term leases	1,929	-

The total cash outflow for leases in 2019 was RO 2,151 thousand.

The Bank's leasing activities and how these are accounted for

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (4) below.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

36. LEASES (CONTINUED)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for exam ple term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).

36. LEASES (CONTINUED)

If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).

Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

As at 31 December 2018, potential future cash outflows of RO 1.34 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

37. Comparative figures

Certain comparative figures have been reclassified in order to conform the presentation for the current year. These have no impact on the profit for the year or total equity. The details are as follows:

(a) Expenses reclassified;

	2019 RO 000	2018 Revised RO 000	2018 RO 000
Interest expense	85,485	86,848	85,037
Unrestricted investment account holders' share of profit and profit expense	13,822	12,047	11,587
General and administrative expenses	65,778	61,788	64,059

(b) Cash flows from investing activities statements:

The cash flows in 2018 from investment securities were previously presented under operating activities on a net basis amounting to RO 16.072 million. These cash flows are currently reclassified and presented on a gross basis under investing activities.

MAISARAH ISLAMIC BANKING SERVICES

TABLE OF **CONTENTS**

MAISARAH ISLAMIC BANKING SERVICES WINDOW OF BANKDHOFAR SAOG
Annual Report 2019

ANNUAL REPORT OF **SHARI'A SUPERVISORY BOARD**

31st DECEMBER 2019

Report of Shari'a Supervisory Board

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – Bank Dhofar (S.A.O.G)

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.

In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2019:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2019. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by us.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles.

In our opinion:

a) The affairs of Maisarah have been carried out in accordance with the rules and principles of Sharia, Central Bank's regulations and guidelines related to Sharia compliance and other rules as well as with specific Fatwa and rulings issued by the SSB from time to time;

b) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2019 that we have reviewed are in compliance with Sharia principles;

c) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles;

d) Earnings that have been realized from sources or by means prohibited by Shari'a principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Although Maisarah has focused on training and development of human resources in 2019, however more focus is required for training of new and existing staff in 2020;

b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;

c) As MIBS operations are expected to increase in 2020, therefore, management should further focus on ensuring highest standard of Sharia compliance;

d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Date : 29th January 2020
Place : Muscat, Sultanate of Oman

Fatwa: Advance Rental

The Sharia Supervisory Board (SSB) of Maisarah Islamic Banking Services has discussed the treatment of Advance Rental during construction/ assembling period and gives the following Fatwa:

Sharia Query Submitted to Sharia Supervisory Board:

MIBS is financing the construction cases mainly under Diminishing Musharakah (Construction). The Rental Agreement under Diminishing Musharakah (Construction) is based on the concept of Ijarah Mausufa Fi Al Zimma. Under DM structure, MIBS appoints the customer as an agent of MIBS through an independent agreement for arranging/ managing the construction/ assembling of DM asset on behalf of MIBS.

In this regard, following mechanism of income recognition during the construction/ assembling period is adopted.

1. Advance Rentals received from the customer during the construction/ assembling period is treated as an income of Maisarah Islamic Banking Services (MIBS) and distributed to stakeholders including the depositors.

2. In-case any of the assets under construction/ assembling of DM is not completed due to negligence of the customer, consultant or construction project manager, MIBS will request the said parties to compensate for any negligence, taking into account the rights of the customer being agent and partner.

3. In-case any of the assets under construction/ assembling of DM is not completed without the negligence of customer, consultant or construction project manager, MIBS will return the advance rental to the customer from its share of profit i.e. Mudarib share.

   The management of Maisarah Islamic Banking Services seeks the Sharia Supervisory Board opinion on the above mentioned treatment of Advance Rent under Diminishing Musharakah (DM) and Ijarah.

Sharia Supervisory Board Fatwa

In-case Maisarah wants to take the advance rent as income of the bank during the construction/ assembling period and distribute it to all the stakeholder including the depositors, Maisarah may do so, provided that Maisarah takes full responsibility to fulfill the contractual commitment with the customer i.e. to ensure that the usufruct of the DM/ Ijarah asset is delivered to the customer as per the terms and condition agreed with the customer under the DM/ Ijarah agreements. In-case the usufruct of the DM/ Ijarah asset is not delivered to the customer without the negligence/ breach of the contractual obligation by the customer or due to the act of Allah i.e. natural disaster etc. then Maisarah will be responsible to return the advance rent to customer from its own sources i.e. Mudarib share.

Once the asset is constructed/ assembled the advance rent may become the part of rent for post completion of construction/ assembling period.

In this context, it is necessary that Maisarah should have a mechanism in place to record and monitor the advance rental received during the construction/ assembling period of DM/ Ijarah asset.

Shari'ah Supervisory Board hereby approves the above practice and pronounces that the same is in conformity with the provisions of Shari'ah.

We seek Allah guidance and Allah knows the best.

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Fatwa Business Account:

The Sharia Supervisory Board (SSB) of Maisarah Islamic Banking Services has reviewed the subject Product and its related documents and gives the following Fatwa:

First: Product Concept and Shari'ah Basis:

This product is a combination of two accounts i.e. saving and current. The saving account is based on the Islamic principle of Wakala, wherein customer will be Muwakil (Principal) while MIBS will be Wakil (investment agent) while current account will be based on the concept of Qard.

The business account will be having a sweep facility allowing the customer's balance maintained in current account to be swept (or transferred) to the Business Account and vice versa. If a customer's financial instrument is presented for clearing from current account and the current account is not having the required balance, then the remaining amount from business account will be swept to current account to clear customer's financial instrument provided that there is enough balance available in the business account.

Second: The Agreements

1. Business Account – Special Conditions

The Shari'ah Supervisory Board hereby approves the above product and pronounces that Business account product is in conformity with the provisions of Islamic Shari'ah.

We seek Allah guidance and Allah knows the best.

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Fatwa Profit Calculation in Wakala Financing

The Sharia Supervisory Board (SSB) of Maisarah Islamic Banking Services has reviewed the profit calculation method of Wakala finance product and gives the following Fatwa:

First: Product Concept and Shari'ah Basis:

The subject product is based on Wakala contract (Investment Agency) that is defined as follows:

Wakala (Investment Agency)

Wakala (investment agency) means appointing another person to invest and grow one's wealth with or without a fee.

Under the subject product, Maisarah Islamic Banking Services (Principal) will appoint Customer as its agent (investment agent) for investing the funds provided by Maisarah Islamic Banking Services in its (agent's) Sharia Compliant business to generate an anticipated profit based on the actual performance of the business. Maisarah will pay a fee to customer for providing the services as an agent. Any profit generated over and above the anticipated profit rate will be held in the profit reserve account. At the end of the Wakala tenure this profit can be paid to the customer as an incentive provided that facility is not renewed. The anticipated profit of the Wakala will be calculated as following:

The profit will be calculated at the end of the agreed Wakalah period for each Wakala transaction/ facility and will take into account the final Wakalah accounts presented by the customer, the actual gross profit generated by the customer's business, the customer's current assets and the amount of funds utilized by the customer for the Wakalah during the Wakalah period.

Wakala profit = customer's business turnover- total cost of sales as agreed and documented between Bank and the customer

Where the total cost of sales will be the direct costs attributable to the goods manufactured/traded by the customer including transport and insurance but excluding any amounts incurred in respect of financing costs, costs attributable to fixed assets, payroll, administration costs, depreciation and profit tax as agreed and documented between Bank and the customer.

The Shari'ah Supervisory Board hereby approves the above method for calculating the profit of Wakala Financing product and is of the opinion that same is in conformity with the provisions of Islamic Shari'ah.

We seek Allah guidance and Allah knows the best.

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Fatwa Salam Financing:

The Sharia Supervisory Board (SSB) of Maisarah Islamic Banking Services has reviewed the subject Product and its related documents and gives the following Fatwa:

First: Product Concept and Shari'ah Basis:

The subject product is based on Islamic concept of Salam that is defined as follows:

Salam is a kind of sale whereby the seller undertakes to deliver specified goods to a buyer at a future date in consideration of a price fully paid in advance at the time the contract of Salam sale is executed. Salam is permitted for fungible goods.

The specifications, quality, quantity, delivery date and place of delivery of the goods must be determined at the time of Salam sale to avoid any ambiguity which could become a cause of dispute between buyer and seller.

Under this product Maisarah Islamic Banking service (buyer) will purchase the specified goods from the customer (seller) through Salam sale wherein Maisarah Islamic Banking Services will pay the price in advance to the customer (seller) at the time of executing the Salam contract and customer (seller) will give the delivery of the goods at a deferred date as mutually agreed between Maisarah Islamic Banking Services and Customer. Maisarah Islamic Banking Services after taking the possession (physical or constructive) will sell the goods to a third party either directly or through its appointed agent.

Second: The Agreements

1. Master Salam Agreement

2. Agency Agreement

3. Independent Corporate Guarantee

The Shari'ah Supervisory Board hereby approves the above product and pronounces that Salam Financing product is in conformity with the provisions of Islamic Shari'ah.

We seek Allah guidance and Allah knows the best.

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Abdullah bin Mubarak Al Abri
Vice Chairman

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

SHARI'A SUPERVISORY BOARD MEMBERS

Name of Chairman: Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab
Basis of Membership: Chairman of Shari'a Supervisory Board
No. of other Directorships held: None

Name of Director:
Sheikh Dr. Abdullah bin Mubarak Al Abri

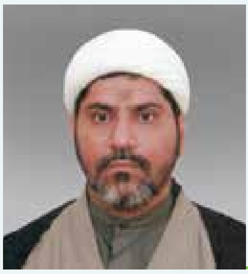
Basis of Membership:
Member

No. of other Directorships held: None

Name of Director:
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

Basis of Membership:
Member

No. of other Directorships held: None



Name of Director:
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

Basis of Membership:
Member

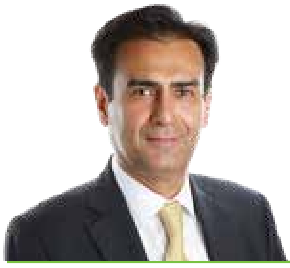
No. of other Directorships held: None

Name of Director:
Sheikh Dr. Mohammad Ameen Ali Qattan

Basis of Membership:
Member

No. of other Directorships held: None

MANAGEMENT **TEAM**

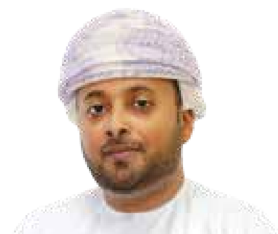


Sohail Niazi
Chief Executive

Ismail Jama Ismail Bait Ishaq
Chief Operating Officer

Yahya Mohamed Ahmed Al Sharaiqi
Head of Treasury

Jamsheed Hamza
Head of Retail



Fawaz Rajab Al Ojaili
Head of Corporate Banking

Mohsin Shaik
Head Of Investment Banking & Capital Markets

MANAGEMENT DISCUSSION & ANALYSIS REPORT

31st DECEMBER 2019

Maisarah Islamic Banking Services

The Islamic banking window of BankDhofar, Maisarah Islamic Banking Services was launched in 2013 offering superior Islamic banking experience and a wide range of Shariah compliant range of products and services. Maisarah has grown tremendously over the years due to its continued commitment to provide exceptional Islamic banking services to its customers and fulfillment of long term goals of its all stakeholders. Maisarah started with 1 branch in 2013 and now operates with network of 10 branches strategically located across Sultanate of Oman.

The major units operating under Maisarah and Maisarah Financial performance as at December 2019 is highlighted below:

MAISARAH WHOLESALE BANKING GROUP

In order to provide focused financial solutions to its clienteles, Maisarah Wholesale Banking (MIBS WSB) is divided into two segments, i.e. Corporate Banking and SME. Each of these segments is managed by a dedicated team of highly trained and qualified business professionals.

MIBS WSB offers a wide range of innovative products, financial solutions and services stemming out of the financial needs of clients operating in different sectors, in a Sharia compliant manner. The spectrum of the products and services is not limited to the market known Working Capital requirements, Term Finance, Project Finance and Trade Finance, but it also spans over financial advisory and syndicate arrangements as well. MIBS WSB products have been developed and managed by specialized professionals with extensive experience and expertise in the field, through which MIBS was able to have competitive edge in its offering to clients in public and private sector companies, governments and quasi-governmental entities, and HNWI.

MIBS WSB continues to strengthening its market position and recorded strong performance during 2019, despite the prevailing economic challenges during the year, where it has successfully grow its corporate financing portfolio by a remarkable 19.1% during the year, at the same time was able to keep focused on the quality and healthiness of the portfolio.

The strategy for the year was to continue diversifying the portfolio through increased geographic coverage and availability of additional products. Diversification was achieved through financing clients in Food industries, Logistics, Environmental and Recycling industries, Hotels & Tourism, Education, Quarry & Mining, Trading, Health, oil and gas, contracting and Manufacturing Sectors. The trusted experienced team of professionals and the vast branches network and the dedicated full-fledged Corporate Offices in Muscat, Salalah and the dedicated presence in Batinah Region were among the top critical success factors for MIBS WSB.

The market response and demand has been so encouraging, that MIBS WSB plans to introduce new products and services designed with specific consideration of the Omani market and business requirements. These products will provide further options and flexibility to the existing and potential clientele including Corporate, SME and even Individual entrepreneurs. We optimistically look at 2020 as a year of economy rejuvenation and stabilization to mark another year of business success and growth for MIBS WSB.

MAISARAH RETAIL BANKING SERVICES

Maisarah Retail Banking division continued its business with the existing network of 10 branches across Oman which include Azaiba, Salalah, Sohar, Birkat Al Mouz, Al Hail, New Salalah, Araqi, Sur, Greater Muttrah and Al Khuwair. During 2019 the products and services were enhanced with optimizing the product process as well as introducing new products to meet customer demand. With these strengths in hand in addition to the well acceptance that Maisarah received amongst the customers, Retail portfolio registered a growth of 3.27% in Assets and 3.22% in liabilities in spite of the challenging market conditions.

During the year many initiatives were kicked off and rolled out to enhance the Mobile Banking Application, segmentation and Prize Account for customers. Maisarah introduced contact less cards were to the customers which help customer to tap and complete transaction on POS and ATMs where the option is enabled.

Maisarah continued to put its focus on excellence in service and to meet the same staff members went through intensive training programs on products, sharia and soft skills.

To complement the efforts and as part of Maisarah efforts to increase the awareness of Islamic banking, many programs for customers, social media awareness programs as well as various Islamic banking conference initiatives were sponsored and supported. Furthermore, VIP gathering events were conducted in various parts of Oman, where the dignitaries from the locality was invited and Islamic banking awareness given for better understanding and soliciting relationship.

In addition, Maisarah Prize Account was also one of the key product that Maisarah has and which was well accepted amongst the customers. During the year, the transformation and digitalization was also given focus to improve the customer experience as well as improve user experience at the same time. To enhance the customer experience and further elevate the digital journey, the upgrading of the core banking took place during the year.

In 2020, Maisarah is poised to reach out to more customers. More attractive prize scheme, financial inclusion plans, branch and kiosk roll outs are all initiated to meet the demand. The team is also being structured more to focus on business as well as operations thereby enhancing the customer experience and differentiating with the service we offer.

INVESTMENT & CAPITAL MARKETS

Investment Banking and Capital Markets focus besides investments is to create and distribute Shariah compliant investment products in both equity and debt markets. This department provides comprehensive range of services such as financial advisory, corporate finance, deal structuring mainly in Sukuk and private equity placements.

In 2019, Maisarah's Investment Banking & Capital Market was engaged as the sole Issue Manager and Lead Manager for a family office based in Salalah on a sukuk deal. Furthermore, the department has been engaged to advise on Real Estate Investment Fund for a leading real estate development company in Oman. In 2019, Maisarah also won the "Sukuk Deal of the Year" by Islamic Finance Network for advising the USD denominated sukuk for Tilal Development Company in 2018.

As a step forward, Maisarah's Investment banking & Capital Market will play an important role in the growth of Maisarah and also to enhance the investment banking platform in Oman from the Shariah compliant space.

MAISARAH – TREASURY

Maisarah Treasury continued to operate with a clear vision and mission that is in line with the overall Bank's strategy and commitment to be the Best Bank in Gulf. Maisarah Treasury demonstrated an impressive financial and operational performance that is driven by admirable customer experience, enhancing value for employees by building a high performance work environment and to diversify revenue streams by exploring new and innovative business opportunities. The department contributed towards the completion and implementation of several IT infrastructures based projects including Maisarah's Banking system upgrade. This has helped Maisarah retain its position as one of the leading Islamic Banking Entity in the Sultanate of Oman.

Maisarah Treasury is one of the main drivers of wholesale and government deposit base with the objective to strengthen and diversify core funding sources that supported the overall asset growth. Maisarah's client base continued to broaden which was instrumental in making additional wholesale/retail financing and investments in order to meet the overall business budget.

Maisarah Treasury strives to maintain a strong balance sheet position and regulatory ratios that comfortably exceed threshold. The department constantly endeavors to hold a certain amount of liquidity along with a portfolio of liquid and marketable securities for unexpected events and economic uncertainties. In addition, Maisarah Treasury inducted new offshore counterparties by signing interbank Money Market agreements that helped the Bank in developing a contingency funding plan to ensure business continuity under stressful market conditions.

Maisarah Treasury also participated in the latest Omani Rial based sovereign Sukuk in order to support the successful close of the issuance and to contribute positively towards the economy. Furthermore, the department continued its approach towards managing long and short term cash flows along with its foreign currency exposures in line with the growing financing, investment and trade business volume to contribute towards achieving the planned targets for the year 2020.

SHARIA SUPERVISORY BOARD

Maisarah's Sharia Supervisory Board (SSB) is the highest authority in Maisarah to decide on the Sharia related matters. SSB, with the aim of upholding the highest Sharia standards held 4 meetings during the year under the Chairmanship of Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab, and membership of Sheikh Dr. Abdullah bin Mubarak Al Abri, Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Mohammad Ameen Ali Qattan.

The SSB reviewed and approved all new products, services, policies, procedures, manuals and amendments in the existing products and services to ensure ongoing Sharia compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department.

SHARIA COMPLIANCE AND AUDIT DEPARTMENT

A full-fledged Sharia Compliance and Audit Department is working under the supervision of Sharia Supervisory Board (SSB), in order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles and as per the Sharia Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Sharia Compliance Unit and Sharia Audit Unit.

To implement Sharia controls and ensure highest standards of Sharia compliance, the Sharia Department works closely with all departments and management within Maisarah to ensure all activities, operations and transactions are conducted in accordance with Sharia rules, principles and IBRF guidelines.

As a part of its role, the Sharia Department monitors and audits all branches, business units and control functions of Maisarah. The service level agreements and profit distribution with BankDhofar are also reviewed and audited by the Sharia Compliance and Audit Department.

Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third party independent Sharia audit and review to ensure highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance Department is actively involved in Islamic banking and product related training of staff, management and other stakeholders.

MAISARAH CORPORATE SERVICES

Maisarah Corporate Services comprising of Maisarah Operations & Support Services (MO&SS), Policies & Procedures, Product Development, Projects & IT, and Learning & Development departments provides infrastructure support for efficient functioning of Maisarah Islamic Banking Services. This group is working under the supervision of Chief Operating Officer Maisarah.

MAISARAH OPERATIONS & SUPPORT SERVICES

Maisarah Operations & Support Services MO&SS consist of following departments;

- Centralized Operations
- Credit Administration
- Trade Finance
- General Admin Services
- Remedial and Recovery

MO&SS facilitates all operations of Maisarah to allow business units to offer best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day to day basis. Similarly with the addition of Maisarah Remedial and recovery department bank has improved its recovery of bad debts and minimize provisioning for the year. MO&SS also plays an important role in the implementation of systems and procedures to automate its activities to fulfill its goal of providing best customer experience through state of the art infrastructure support.

PRODUCT DEVELOPMENT

As a part of the core strategy for providing complete range of Sharia compliant products and services, Maisarah has established a dedicated product development department that focuses on creatively developing new and innovative product along with enhancing the existing products through continuous research and customer feedback. The main objective of product development is to design product structures that meets the customer requirements in the best possible manner, whilst helping Maisarah expand its business.

During the year Product Development department has successfully launched Prize Scheme for 2019 under Prize Account product for its retail customers based on the Sharia structure of Mudarabah, allows the customer a chance to win periodic prizes, which are paid from shareholder's funds. Additional prize draws were also launched for Prize Account customers during the year.

Product development efforts will continue to play an important role in providing best customer experience through development and launch of innovative products and services.

MAISARAH PROJECTS, POLICIES AND PROCEDURES

Under Corporate Services the Maisarah Project department in coordination with Maisarah Policies & Procedures Department has achieved several milestones within this year to enhance customer services by delivering the following key projects among many other initiatives:

- Core Banking Upgrade from R12.8 to R14.1
- ERP
- Mobile Wallet Service

The department plays an important role in enabling Maisarah to continue its remarkable growth by building the state-of-the art infrastructure and developing the organizational structure for future success.

MAISARAH - FINANCIAL PERFORMANCE

Maisarah Islamic Banking Services has achieved a remarkable growth in profitability during 2019. For the year 2019, Maisarah Islamic Banking Services posted a profit before tax of OMR 6.97 million compared to OMR 5.94 million earned in 2018, reflecting strong 17.34%, year-on-year growth.

Maisarah key financial metrics showed significant growth compared to the previous year. The gross income from Financing, Placement and Investment increased by 11.66% to OMR 26.24 million in 2019 from OMR 23.50 million reported in 2018. The net financing income (after cost of funds) increased by 8.47%, to OMR 12.42 million for 2019 as compared to OMR 11.45 million reported in 2018. Non-Funded income increased significantly by 41.67% to OMR 2.38 million in 2019 from OMR 1.68 million in 2018. Cost to income ratio continue to improve and reduced to 47.92% for 2019 from 50.83% last year. Maisarah net provisions (ECL) including bad debts for 2019 is OMR 0.737 million compared to OMR 0.516 million for 2018, an increase of 42.83%

Particulars	OMR in Million	
	2019	2018
Gross Profit income	26.24	23.50
Net Financing income (after cost of fund)	12.42	11.45
Fees, commissions & other income	2.38	1.68
Total Operating Income	**14.8**	**13.13**
Total operating costs	(7.09)	(6.67)
Net operating profit / (loss)	**7.71**	**6.46**
Impairment allowance (net)	(0.74)	(0.52)
Net profit / (loss) before tax	**6.97**	**5.94**

Maisarah gross financing portfolio has grown 12.44% to OMR 451.44 million at 31 December 2019 from OMR 401.49 million at 31 December 2018. The Sukuk investment portfolio increased by 48.28% from OMR 42.15 million as at 31 December 2018 to OMR 62.50 million as at 31 December 2019.

The total customer deposits of Maisarah increased to OMR 405.22 million, registering a growth of 14.67% compared to OMR 353.39 million at 31 December 2018, to support the strong financing growth. Maisarah total assets increased by 14.15% to OMR 584.93 million at December 2019 from OMR 512.43 million at 31 December 2018.

A brief analysis of diverse financing portfolio as at December 31, 2019 is as follows:

Particulars	OMR in Million	
	2019	2018
Murabaha & Other receivables	19.09	24.18
Mudaraba financing	18.90	26.59
Diminishing Musharaka financing	326.82	285.52
Ijarah Muntahia Bittamleek	46.02	46.00
Credit Card receivable	0.60	0.44
Wakala Finance	40.01	18.76
Gross Financing to customers	**451.44**	**401.49**
Less: Allowance for impairment	(5.43)	(4.40)
Net Financing	**446.01**	**397.09**

Customer deposits of Maisarah as at December 31, 2019 comprises of the following:

Particulars	OMR in Million	
	2019	2018
Current accounts	112.50	56.04
Equity of investment account holders	39.32	34.03
Wakala Deposits	253.40	263.32
Total customer deposits	**405.22**	**353.39**

MAISARAH GOALS & PLANS

Maisarah shall continue to stay focused on providing superior customer services, increase market share, enhance business growth and create value for its shareholders.

The key area of focus and initiatives for 2020 include:

- Reach out to more customers, segments and regions by expanding branch network across the country.
- Roll out new products and services to cater to ever growing customer needs.
- Investing in technology and operational infrastructure to stream line internal process and reduce operational risks.
- Improve and optimize current product and services to minimize the turnaround times.
- Organize seminars and corporate events locally and internationally to promote awareness of Maisarah Islamic banking products and services.
- Introducing more innovative channels and E platforms to customers for banking transactions.
- Develop stronger relationships with its existing and new customer and all other stakeholders by getting closer to them through regular meetups and workshops.

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II & III

Report of factual findings to the Board of Directors of Bank Dhofar SAOG (the "Bank") in respect of Basel II - Pillar III Disclosures and Basel III disclosures of Maisarah Islamic Banking Services - Window

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Maisarah Islamic Banking Services - Window (the Islamic window) of the Bank set out on pages 1 to 45 as at and for the year ended 31 December 2019. The Pillar III disclosures were prepared by the directors in accordance with the related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or a review of the disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than the CBO. This report relates only to the accompanying Islamic window's disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic window or the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Islamic window or the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Islamic window or the Bank.

PricewaterhouseCoopers

9 March 2020
Muscat, Sultanate of Oman

برايس وترهاوس كوبرز ش م م
س.ت ١٢٣٠٨٦٥
PricewaterhouseCoopers LLC
C.R. No 1230865

1. SCOPE OF APPLICATION

1.1. QUALITATIVE DISCLOSURE

1. Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of Bank Dhofar SAOG (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include taking saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudaraba or Wakala, providing commercial banking services and other investment activities.

2. A complete set of financial statements of Maisarah is included under Notes in the consolidated financial statements of the Bank. The disclosures in this document have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy.

3. There is no restriction on the transfer of funds from the Bank towards Maisarah. However, under the IBRF, Title 9, section 1.10.2, transfer of funds from Maisarah to the Bank is not permissible.

1.2. QUANTITATIVE DISCLOSURE

1. Maisarah does not own any interest in any entities including Takaful company.

2. CAPITAL STRUCTURE

2.1. QUALITATIVE DISCLOSURE

1. Islamic Windows of domestic conventional banks shall have and at all times maintain an allocated capital of not less than RO 10 million or such higher amount as may be determined from time to time by CBO. Islamic windows are also required to maintain the minimum capital adequacy ratio of 11% of the RWA at all times. The capital buffer requirement as per Basel III is imposed at the consolidated level and thus, is not applicable at the Islamic window level.

   Maisarah's regulatory capital is calculated as per the guidelines issued by the CBO. The regulatory capital is broadly classified into two categories – Tier I and Tier II capital. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, retained earnings (available on a long-term basis) and reduced by unrealized losses on investments categorized as fair value through other comprehensive income. Within 11% Capital adequacy ratio, Islamic Window need to maintain minimum of 9% of Risk Weighted Assets (RWA) as Tier 1 Capital ratio.

   Tier II (supplementary capital) consists of undisclosed reserves, revaluation reserves / cumulative fair value gains on instruments classified as other comprehensive income and impairment provision subject to certain conditions.

   Deposits of Unrestricted Investment Account Holders (URIA) is not considered as part of regulatory capital and Maisarah is not reducing its risk weighted assets for jointly financed assets.

2. CAPITAL STRUCTURE (CONTINUED)

2.2. QUANTITATIVE DISCLOSURE

1. The details of capital structure are provided as under:

ELEMENTS OF CAPITAL	RO 000
Common Equity Tier I Capital (CET1)	
Paid up capital	55,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	19,587
Proposed Stock Dividend	-
Common Equity Tier I Capital (CET1)	**74,587**
Prudential valuation adjustments	-
Additional Tier I Capital (AT1)	-
Total Tier I Capital (TI=CET1+AT1)	**74,587**
Tier 2 Capital (T2): Instruments and provisions	
Subordinated Debt	-
Impairment provision (upto 1.25% of risk-weighted assets) *	3,501
Profit Equalization Reserve (PER) & Investment Risk Reserve (IRR)	20
Total Tier 2 Capital (T2)	**3,521**
TOTAL REGULATORY CAPITAL (TC=CET1+AT1+ T2)	**78,108**

* As per CBO Circular BSD/CB/FLC/2018/17 dated 26 November 2018, Expected Credit Loss under Stage 1 and 60% of Stage 2 (2019: RO 3,501k) shall be considered for Tier II capital provided such amount should not exceed 1.25% of the credit risk weighted assets or the general provision considered for Tier 2 capital as on 31 December 2017 (RO 3,747k).

2. The elements of equity of Unrestricted Investment Account Holders (URIA) are provided as under:

ELEMENTS OF EQUITY OF URIA	RO 000
Total URIA Funds	39,319
Profit Equalization Reserve (PER) - Shareholders' Component	8
Profit Equalization Reserve (PER) - Investment Account Holders' Component)	8
Investment Risk Reserve (IRR)	4

3. CAPITAL ADEQUACY

3.1. QUALITATIVE DISCLOSURE

1. The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

   Maisarah capital adequacy ratio is **15.13%** as against the CBO requirement of 11%. The Bank's policy is to manage and maintain its window's capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that it always remains adequately capitalized.

2. In principle, Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA), in principle, are excluded in the calculation of the denominator of the capital ratio, insofar as the commercial risk of these assets do not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed in the same way as in conventional banking, therefore, PSIA is not deducted. Assets funded by PSIA are also assigned same risk weights as the assets funded by own equity.

3.2. QUANTITATIVE DISCLOSURE

1. Capital Requirement

Details	Risk Weighted Assets RO 000	Capital Requirements * RO 000
Credit Risk	447,345	49,208
Market Risk	18,625	2,049
Operational Risk	50,340	5,537
Total Risk Weighted Assets	**516,310**	**56,794**

* calculated as 11% of risk weighted assets as per the CBO requirement.

2. Capital Adequacy Ratio

Sr. No.	Details	RO 000
1	Tier I Capital (after supervisory deductions)	74,587
2	Tier II Capital (after supervisory deductions and up to eligible limits)	3,521
3	Of which, Total Eligible Tier III Capital	-
4	Risk weighted assets – banking book	447,345
5	Risk weighted assets – operational risk	50,340
6	Total risk weighted assets – Banking Book + Operational risk	497,685
7	Minimum required capital to support RWAs of banking book and operational risk	54,745
7 (1)	Minimum required Tier I capital for banking book and operational risk	51,224
7 (2)	Tier II capital required for banking book and operational risk	3,521
8	Tier I capital available for supporting trading book	23,363
9	Tier II capital available for supporting trading book	-
10	Risk weighted assets – trading book	18,625
11	Total capital required to support trading book	2,049
12	Minimum Tier I capital required for supporting trading book	584
13	Used Eligible Tier III Capital	-
14	**Total regulatory capital**	**78,108**
15	**Total risk weighted assets**	**516,310**
16	**BIS capital adequacy ratio**	**15.13%**

3. CAPITAL ADEQUACY (CONTINUED)

3.2. QUANTITATIVE DISCLOSURE (CONTINUED)

3. Ratio of Total and Tier I Capital to RWA

Details	RO 000
Tier I capital	74,587
Total capital	78,108
Total RWA	516,310
Ratio of total capital to RWA (%)	**15.13%**
Ratio of tier I capital to RWA (%)	**14.45%**

4. Ratio of Total Capital to Total Assets

Details	RO 000
Total capital	78,108
Total assets	584,932
Ratio of total capital to total assets (%)	**13.35%**

5. Capital Requirement for Each Category of Shari'a Compliant Financing Contracts

Details	Credit Risk		Market Risk	
	RWA	Capital Requirement	RWA	Capital Requirement
	RO 000	RO 000	RO 000	RO 000
Murabaha and other Receivables	19,845	2,183	-	-
Mudaraba Financings	58,145	6,396	-	-
Ijarah Assets	17,533	1,929	-	-
Diminishing Musharaka Financing	261,556	28,771	-	-
Wakala Financing	40,013	4,401	-	-
Total	**397,092**	**43,680**	**-**	**-**

6. Disclosure of Displaced Commercial Risk

Details	RO 000
Total profits available for distribution	**26,240**
Profit sharing	
- Shareholders	25,104
- IAH's	1,136
Mudarib fee charged by Maisarah	(232)
Profits for IAH's before smoothening	**904**
Amount adjustment for profit smoothening	(6)
Profits paid out to IAH after smoothening	**898**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH)

4.1.1. QUALITATIVE DISCLOSURE

1. Policy for profit and loss distribution is in place which governs the management of unrestricted funds. The policy includes the management and investment of fund strictly in Shari'a compliant investments and financing opportunities.

2. Currently, Maisarah offers following types of unrestricted Mudaraba deposits to customers:

   - Savings accounts;
   - Prize Saving accounts; and
   - Term deposits of various maturities.

   These products are made available to the investors through Maisarah branches. Further, the products are also listed on Maisarah's website with detailed product information.

3. Asset and Liability Committee (ALCO) is the governing body responsible for the determination of assets to form the pool of assets. Basis for allocation of expenses and profit is provided in detail under disclosure 4.2.1.

4. The policy [identified in point (i) of this disclosure] is in place which governs the management of both unrestricted and restricted IAH funds, approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.

4.1.2. QUANTITATIVE DISCLOSURE

1. **PER to IAH Ratio**

   Represents the amount of total PER / Amount of PSIA by type of IAH

Details	RO 000 / %
Profit Equalization Reserve	16
Unrestricted Investment Account Holders funds	39,319
PER to IAH ratio	**0.041%**

2. **IRR to IAH Ratio**

   Represents the amount of total IRR / Amount of PSIA by type of IAH

Details	RO 000 / %
Investment Risk Reserve	4
Unrestricted Investment Account Holders funds	39,319
IRR to IAH ratio	**0.010%**

3. **Return on Assets (RoA)**

   Represent the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH, and current accounts and other liabilities).

Details	RO 000 / %
Total net income (before distribution to IAHs)	7,868
Total assets	584,932
RoA	**1.345%**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.1. INVESTMENT ACCOUNTS (BOTH RESTRICTED AND UNRESTRICTED IAH) (CONTINUED)

4.1.2. QUANTITATIVE DISCLOSURE (CONTINUED)

4. Return on Equity (RoE)

Represents the amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.

Details	RO 000 / %
Total net income (after distribution to IAHs)	6,970
Total shareholder's equity	74,675
RoE	**9.334%**

5. Ratios of Profit Distributed to PSIA by type of IAH

Details	%
Savings deposit	100
Term deposit	-
Total	**100**

6. Ratios of Financing to PSIA by type of IAH

Details	RO 000 / Ratio
Total Financing	450,841
Saving deposits	39,319
Financing to PSIA	**11.47**

4.2. UNRESTRICTED INVESTMENT ACCOUNTS

4.2.1. QUALITATIVE DISCLOSURE

1. During the current year, there was no major change in the investment strategy of Maisarah which affects the investment accounts. Maisarah continued the commingling of IAH's funds with its own funds or with the funds which Maisarah has right to use.

2. Income from Mudaraba pool, comprising of Shari'a compliant assets, is reduced by direct expenses. PER is appropriated from the net income before allocating the Mudarib's share of income. Thereafter, Mudarib's fee is charged which shall not exceed 80% of the profit earned by Maisarah. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit. Net distributable income is distributed to different classes of investment accountholders in accordance with the weightages based on amount and tenor.

3. PER is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. PER will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. IRR is deducted from investment accountholders share after allocating the Mudarib's share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

4. ALCO determines the category of expenses that should be deducted from the total return (gross returns) of the investment pools as direct expenses. Direct expenses such as depreciation, pre-paid expenses, commission of direct investments (such as Sukuk) or any other direct related expenses shall be charged to the relevant pool. Maisarah does not charge any operating expenses against the profits from the joint pool other than the aforementioned direct expenses.

5. The administration expenses are only charged to Maisarah.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

4.2.2. QUANTITATIVE DISCLOSURE

1. Unrestricted IAH Funds and Sub-Total by Asset Category

Details	RO 000
Assets	
- Murabaha	1,399
- Diminishing Musharaka	23,951
- Ijarah Muntahia Bittamleek	3,373
- Wakala financing	2,932
- Mudaraba financing	1,385
- Investment in Sukuk	4,587
- Wakala placement	1,693
Total Unrestricted IAH Funds (allocated based on proportion)	**39,319**

2. Share of Profit to IAH before and after transfer of funds

Details	RO 000	%
Share of profit of IAHs before PER and IRR for the year	**904**	**2.30%**
Transfers To:		
PER	(5)	-0.01%
IRR	(1)	-0.00%
Share of profit of IAHs after PER and IRR for the year	**898**	**2.29%**

3. Movement of PER and IRR

Details	PER	IRR
	RO 000	**RO 000**
Balance as at 1 January 2019	11	3
Add: Amount apportioned from income allocated	5	1
Less: Amount utilized during the year	-	-
Balance as at 31 December 2019	**16**	**4**

4. Utilization of PER and IRR

PER and IRR has not been utilized during the year.

5. 5 Years Profits Earned and Profits Paid

Deposit Category	Average rate over 5 years	Position as at				
		Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
Saving accounts (RO)	0.97%	0.60%	0.66%	0.95%	1.67%	0.98%
Saving accounts (USD)	0.58%		0.22%	0.19%	1.03%	0.89%
Prize Saving Account	0.83%	0.61%	0.64%	0.99%	0.0106	
Mudaraba 3-M	1.18%				1.25%	1.10%
Mudaraba 12-M	1.48%					1.48%

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.2. UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

4.2.2. QUANTITATIVE DISCLOSURE (CONTINUED)

6. **Administrative Expenses**

   Maisarah does not charge any administrative expenses to unrestricted IAH.

7. **Asset Allocation During Last Six Months**

   There have been no material changes in asset allocation during the last six months.

8. **Off Balance Sheet Exposures**

   No off-balance sheet exposure is allocated to the pool.

9. **Limits Imposed on Investment Amount**

   Maisarah has not imposed any limits on the amount that can be invested in any one type of asset.

4.3. RESTRICTED INVESTMENT ACCOUNTS

1. The Bank does not have any restricted investment accounts as at the reporting date.

5. RETAIL INVESTOR-ORIENTED DISCLOSURES FOR IAH

Disclosures for IAHs, mentioned in section 4, is equally applicable for the retail investors. Below are some of the salient features for retails investors:

1. The deposits being accepted by the Bank under URIA are structured according to Mudaraba contracts. Under the Mudaraba, the Bank acts as a Manager (Mudarib) of the depositor / Investor (Rab ul Maal).
2. Under the arrangement of URIA, the Bank is authorized to invest the IAHs' funds strictly in Shari'a compliant investment and financing opportunities. Under this arrangement, the Bank can mix the IAHs funds with its own funds. Accordingly, IAHs, and the Bank share in the returns on the invested funds in proportion to their respective investments.
3. Different categories of deposits are assigned variable weights / utilization rates based on the investment amount and tenor. The higher the investment amount and the longer the investment tenor, the higher shall be the weights / utilization rates.
4. In case of premature withdrawals, the bank may apply a lower weights / utilization rate. Where a deposit is withdrawn by the IAH before the completion of its term, the effective weight / utilization rate for the highest tenor completed by the investment shall be applied on the actual investment days for profit calculation.
5. Profit on the investment jointly financed by the Bank and IAHs, shall be allocated between them according to their respective investment portions. Any loss due to negligence or misconduct on the part of the Bank shall be deducted from the Bank's share in the profits of the jointly financed investment.
6. The profit from URIA accounts shall be calculated and allocated based on the profit calculation frequency and the weights / utilization rates assigned to each category of deposits.
7. The banks shall charge only direct expense to the pool income such as depreciation on Ijarah assets; and will not deduct any indirect expenses such as salary, admin costs etc.
8. To cater the situation where actual profit rate is less than the market rate (known as Displaced Commercial Risk) and to cater the future losses, the Bank maintains a certain percentage of profits as Profit Equalization Reserve and Investment Risk Reserve respectively.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION

6.1. GENERAL DISCLOSURE

6.1.1. QUALITATIVE DISCLOSURE

1. Bank has well established risk management function which commonly serves the Conventional and Islamic window entity. The objective of the risk management function is to identify, measure, monitor and manage its risk exposures to ensure that:

   - risks are understood;
   - risks are within tolerances set by the Board of Directors;
   - decisions having inherent risks are consistent with strategic business objectives;
   - risk taking decisions are explicit and clear;
   - the expected return compensates for the risk taken; and
   - bank's performance incentives are aligned with risk tolerances or risk reward relationship.

   Risk management is a continuous, forward-looking process that should address issues that could endanger achievement of critical objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business.

   Bank's risk management strategy statement has been provided under Chapter on Management Discussion and Analysis. Bank has formulated various policies in various areas of operations of the Bank which are duly approved by the Board of Directors. Bank also has developed various procedures for smooth functioning and mitigating/ controlling risks.

2. The overall risk management has been delegated to an independent Board Risk Management Committee (BRMC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The BRMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, BRMC relies on an independent Risk Management Division within the Bank.

   The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

3. Depending on the type of risk, Bank has placed internal systems and models to measure various risks. The risk measurement system has been made effective by strengthening the Management Information System (MIS) to report about various to Senior Management and Board on periodical basis. The measurement of risk takes into account the nature of the risk, exposure, profile, existence of mitigants and the impact.

4. Bank has defined various policies to define the collaterals and processes to mitigate various risks. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impact on the business. Bank has defined three lines of defense system for monitoring the risks. The Three Lines of Defense Framework defines roles and responsibilities of various entities in the Bank in addressing risks and controls; the aspect for which each entity is accountable, and how the efforts between entities are coordinated at the Bank-wide level. The framework addresses how specific duties related to risk and control could be assigned and coordinated within an organization and monitors the implementation of effective risk management practices.

6.1.2. QUANTITATIVE DISCLOSURE

1. Risks Measures for Restricted IAH Funds and Assets Funded by Restricted IAH

The Bank does not have any restricted investment accounts as at the reporting date.

2. Assets Financed by Unrestricted IAH in RWA Calculation

Maisarah applies same treatment for calculation of RWA for assets financed by unrestricted IAH and shareholders.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.1. GENERAL DISCLOSURE (CONTINUED)

6.1.2. QUANTITATIVE DISCLOSURE (CONTINUED)

3. Financing by Contract Type

Details	RO 000	%age of total financing
Murabaha and other receivables	19,686	4.36%
Mudaraba Financings	18,896	4.19%
Ijarah Assets	46,021	10.19%
Diminishing Musharaka Financing	326,824	72.40%
Wakala Financing	40,010	8.86%
Total	**451,437**	**100.00%**

4. Financing by Counterparty Category

Details	RO 000	%age of total financing
Corporate and SME	276,476	61.24%
Retail	174,961	38.76%
Total	**451,437**	**100.00%**

5. Assets Pledged as Collateral

As of the reporting date, Maisarah has not pledged any of its assets as collateral (2018: no assets were pledged).

6. Guarantees or Pledges by Islamic Window

As of the reporting date, Maisarah has not extended any guarantees or pledges (2018: no guarantees or pledges).

6.2. CREDIT RISK

6.2.1. QUALITATIVE DISCLOSURE

1. Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

2. Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

   Board Executive Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) 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 of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customer in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.2. CREDIT RISK (CONTINUED)

6.2.1. QUALITATIVE DISCLOSURE (CONTINUED)

RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency. However, the customers who do not publish audited financials are treated as unrated.

Retail financing is strictly in accordance with the CBO guidelines.

In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis.

3. In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

   The Bank's conventional entity has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

   The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail (except house finance, where valuation of the property is not older than 3 years; have a maximum of 2 dwelling units per borrower; and LTV is less than or equal to 80%, are assigned 35% risk weight and 75% for SME borrowers) are assigned 100% risk weight.

4. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 01 January 2018.

6.2.2. QUANTITATIVE DISCLOSURE

1. Total Gross Credit and Average Gross Credit Exposure

31 December 2019	Total Gross Credit RO 000	Average Gross Credit RO 000
Murabaha and other receivables	19,686	22,100
Mudaraba financing	18,896	21,955
Diminishing Musharaka financing	326,824	302,720
Wakala financing	40,010	30,960
Ijarah Muntahia Bittamleek	46,021	45,806
Total	**451,437**	**423,541**

31 December 2018	Total Gross Credit RO 000	Average Gross Credit RO 000
Murabaha and other receivables	24,625	22,370
Mudaraba financing	26,585	21,601
Diminishing Musharaka financing	285,515	282,678
Wakala financing	18,762	8,990
Ijarah Muntahia Bittamleek	45,998	45,301
Total	**401,485**	**380,940**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.2. CREDIT RISK (CONTINUED)

6.2.2. QUANTITATIVE DISCLOSURE (CONTINUED)

Murabaha and other receivable includes Credit Card receivables which are funded exclusively by shareholders while all other financing exposures are funded jointly by shareholders and IAH. Percentage of funding of financing assets as at 31 December 2019 is as below:

Shareholders **91.29%**

IAH **8.71%**

2. Total Gross Credit Exposure – Geographical Area

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Sultanate of Oman	19,686	18,896	326,824	40,010	46,021	**451,437**
Other GCC Countries	-	-	-	-	-	**-**
Europe and North America	-	-	-	-	-	**-**
Africa and Asia	-	-	-	-	-	**-**
Total	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**

3. Total Gross Credit Exposure – Counterparty

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Corporate & SME	7,441	18,896	209,895	40,010	234	**276,476**
Retail	12,245	-	116,929	-	45,787	**174,961**
Total	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**

4. Total Gross Credit Exposure – Industry

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Retail personal finances	12,245	-	116,929	-	45,787	**174,961**
Construction	2,672	7,648	142,022	11,525	-	**163,867**
Manufacturing	2,093	6,789	7,345	8,744	-	**24,971**
Services	-	43	45,410	2,486	-	**47,939**
Others	2,676	4,416	15,118	17,255	234	**39,699**
Total	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**

5. Total Gross Credit Exposure – Residual Contractual Maturity

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Upto 1 month	1,080	18,896	41	4,251	-	**24,268**
1 – 3 months	681	-	39	10,279	1	**11,000**
3 – 6 months	2,199	-	107	21,355	10	**23,671**
6 – 9 months	134	-	370	4,125	3	**4,632**
9 – 12 months	74	-	168	-	7	**249**
1 – 3 years	874	-	6,776	-	163	**7,813**
3 – 5 years	1,833	-	26,892	-	459	**29,184**
Over 5 years	12,811	-	292,431	-	45,378	**350,620**
Total	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.2. CREDIT RISK (CONTINUED)

6.2.2. QUANTITATIVE DISCLOSURE (CONTINUED)

6. Total Gross Credit Exposure – Rating Category

Ratings	2019	2018
	RO 000	RO 000
Rating grade 1 – 3	243,889	92,671
Rating grade 4 – 5	151,227	270,437
Rating grade 6 – 7	53,443	36,373
Non – performing financing	2,878	2,004
Total Financing	**451,437**	**401,485**

7. Total Gross Credit Exposure – Equity Based Financing

Equity based financing	31 December 2019		31 December 2018	
	Total Gross Credit	Average Gross Credit	Total Gross Credit	Average Gross Credit
	RO 000	RO 000	RO 000	RO 000
Mudaraba financing	18,896	21,955	26,585	21,601
Wakala financing	40,010	30,960	18,762	8,990
Total	**58,906**	**52,915**	**45,347**	**30,591**

8. Past Due and Impaired Financing Assets – Counterparty

Details	Murabaha and other receivables	Mudaraba financing	Diminishing Musharaka financing	Wakala financing	Ijarah Muntahia Bittamleek	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Corporate & SME						
- Neither past due nor impaired	7,047	18,896	143,255	39,391	234	**208,823**
- Past due but not impaired	387	-	64,063	549	-	**64,999**
- Non-performing	7	-	2,577	70	-	**2,654**
- **Total financing**	**7,441**	**18,896**	**209,895**	**40,010**	**234**	**276,476**
- Stage 1 & 2 ECL	41	181	3,876	73	2	**4,173**
- Stage 3 ECL	2	-	795	18	-	**815**
- **Total ECL**	**43**	**181**	**4,671**	**91**	**2**	**4,988**
Retail						
- Neither past due nor impaired	11,943	-	114,630	-	44,403	**170,976**
- Past due but not impaired	272	-	2,185	-	1,304	**3,761**
- Non-performing	30	-	114	-	80	**224**
- **Total financing**	**12,245**	**-**	**116,929**	**-**	**45,787**	**174,961**
- Stage 1 & 2 ECL	68	-	170	-	93	**331**
- Stage 3 ECL	14	-	54	-	43	**111**
- **Total ECL**	**82**	**-**	**224**	**-**	**136**	**442**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.2. CREDIT RISK (CONTINUED)

6.2.2. QUANTITATIVE DISCLOSURE (CONTINUED)

9. Past Due and Impaired Financing Assets – Industry

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Retail personal finances						
- Neither past due norimpaired	11,943	-	114,630	-	44,403	**170,976**
- Past due but not impaired	272	-	2,185	-	1,304	**3,761**
- Non-performing	30	-	114	-	80	**224**
- **Total financing**	**12,245**	**-**	**116,929**	**-**	**45,787**	**174,961**
- Stage 1 & 2 ECL	68	-	170	-	93	**331**
- Stage 3 ECL	14	-	54	-	43	**111**
- **Total ECL**	**82**	**-**	**224**	**-**	**136**	**442**
Construction						
- Neither past due nor impaired	2,370	7,648	104,539	11,150	-	**125,707**
- Past due but not impaired	302	-	35,648	375	-	**36,325**
- Non-performing	-	-	1,835	-	-	**1,835**
- **Total financing**	**2,672**	**7,648**	**142,022**	**11,525**	**-**	**163,867**
- Stage 1 & 2 ECL	11	100	3,299	27	-	**3,437**
- Stage 3 ECL	-	-	610	-	-	**610**
- **Total ECL**	**11**	**100**	**3,909**	**27**	**-**	**4,047**
Manufacturing						
- Neither past due nor impaired	2,093	6,789	4,624	8,744	-	**22,250**
- Past due but not impaired	-	-	2,721	-	-	**2,721**
- Non-performing	-	-	-	-	-	**-**
- **Total financing**	**2,093**	**6,789**	**7,345**	**8,744**	**-**	**24,971**
- Stage 1 & 2 ECL	10	48	155	8	-	**221**
- Stage 3 ECL	-	-	-	-	-	**-**
- **Total ECL**	**10**	**48**	**155**	**8**	**-**	**221**
Services						
- Neither past due nor impaired	-	43	24,308	2,486	-	**26,837**
- Past due but not impaired	-	-	21,102	-	-	**21,102**
- Non-performing	-	-	-	-	-	**-**
- **Total financing**	**-**	**43**	**45,410**	**2,486**	**-**	**47,939**
- Stage 1 & 2 ECL	-	-	286	4	-	**290**
- Stage 3 ECL	-	-	-	-	-	**-**
- **Total ECL**	**-**	**-**	**286**	**4**	**-**	**290**
Others						
- Neither past due nor impaired	2,584	4,416	9,784	17,011	234	**34,029**
- Past due but not impaired	85	-	4,592	174	-	**4,851**
- Non-performing	7	-	742	70	-	**819**
- **Total financing**	**2,676**	**4,416**	**15,118**	**17,255**	**234**	**39,699**
- Stage 1 & 2 ECL	21	32	137	35	2	**227**
- Stage 3 ECL	2	-	185	18	-	**205**
- **Total ECL**	**23**	**32**	**322**	**53**	**2**	**432**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.2. CREDIT RISK (CONTINUED)

6.2.2. QUANTITATIVE DISCLOSURE (CONTINUED)

10. Past Due and Impaired Financing Assets – Geographical Area

Details	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Sultanate of Oman						
- Neither past due nor impaired	18,990	18,896	257,885	39,391	44,637	379,799
- Past due but not impaired	659	-	66,248	549	1,304	68,760
- Non-performing	37	-	2,691	70	80	2,878
- **Total financing**	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**
- Stage 1 & 2 ECL	109	181	4,046	73	95	4,504
- Stage 3 ECL	16	-	849	18	43	926
- **Total ECL**	**125**	**181**	**4,895**	**91**	**138**	**5,430**

11. Loss Provisions

Details	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000
As at 1 January 2019	1,255	3,228	907
Provided / Added during the year	75	391	466
Written back during the year	-	-	(55)
Written off during the year	-	-	-
As at 31 December 2019	**1,330**	**3,619**	**1,318**

12. Penalties on Customers and Donation Payment

Details	RO 000
Undistributed charity funds as at 1 January 2019	17
Shari'a non-compliant income	5
Disposition of charity funds	(17)
Undistributed charity funds as at 31 December 2019	**5**

6.3. CREDIT RISK MITIGATION

6.3.1. QUALITATIVE DISCLOSURE

1. Assets leased under Ijarah Muntahiyah Bittamleek is governed by the relevant product schemes of Corporate Ijarah and Home Finance. Asset under Ijarah is owned by Maisarah by registering it in its name throughout the period of Ijarah. Further, the asset is also secured through Takaful (Islamic Insurance), to cover Maisarah's exposure in case of loss.

2. Hamish Jiddiyah / Urbun is a down payment is taken from the customer as part of his contribution in the asset. With respect to pledge of asset, an asset in case of Ijarah remains in Maisarah's ownership during the term of financing, however, in case of Diminishing Musharaka the pledge is a primary collateral.

3. Maisarah has well defined policies in place for the valuation and re-valuation of the collateral and it's enforceability. It is principally governed through the Credit Risk Policy, combined with related product schemes such as Corporate Ijarah, Corporate Diminishing Musharaka, Home Finance and Property Finance. Further to this the mechanism of disposing of such assets is also discussed in the policy and Instruction Manual Wholesale Banking and Instruction Manual Credit Administration.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.3. CREDIT RISK MITIGATION (CONTINUED)

6.3.1. QUALITATIVE DISCLOSURE (CONTINUED)

4. The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

   The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

   Bank has also implemented Risk Adjusted Return on Capital (RAROC) methodology for Maisarah which provides the risk-based pricing. The RAROC system enables Maisarah to price its facilities after considering the cost and risk involved in a facility.

6.3.2. QUANTITATIVE DISCLOSURE

1. **Total Carrying Amount by Type of Collateral**

   Total carrying amounts of collateral of non-performing corporate assets by type of collateral held by the window is as follows:

Collateral Type	Collateral Value	Haircut Applied	Total Collateral After Haircut Applied
	RO 000	RO 000	RO 000
Mortgage	1,000	25%	750
Mortgage	2,725	35%	1,771
Total	**3,725**		**2,521**

2. **Assets Owned and Leased under Ijarah Muntahiyah Bittamleek**

   Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2019 is RO (000) 46,021/-.

6.4. LIQUIDITY RISK

6.4.1. QUALITATIVE DISCLOSURE

1. Maisarah's Liquidity Risk Management is governed by the Asset Liability Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

   Overall, Bank follows CBO circular BM955 for liquidity risk management of Current Accounts and URIA, which requires the monitoring and managing based on the cashflow approach for liquidity risk profile. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah 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 above five years. The mismatches in various time buckets indicate liquidity gap and Maisarah 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, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

   Treasury department of Maisarah controls and monitors 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 also monitors the liquidity position of Maisarah.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.4. LIQUIDITY RISK (CONTINUED)

6.4.2. QUANTITATIVE DISCLOSURE

1. **Indicators of Exposure to Liquidity Risk**

Ratios	%
Liquid asset ratios	20.72%
Liquid assets to short term liabilities	86.33%
Liquidity coverage ratio	191.26%
Net stable funding ratios	117.46%

2. **Maturity Analysis / Maturity Profile**

	2019					
	Due on demand and up to 30 days RO 000	More than 1 month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	Total RO 000
Cash and balances with Central Bank of Oman	43,881	-	-	-	-	**43,881**
Due from banks and financial institutions	24,745	-	-	-	-	**24,745**
Murabaha and other receivables	4,090	2,623	2,931	8,021	1,893	**19,558**
Mudaraba financing	945	1,890	1,890	9,448	4,543	**18,716**
Diminishing Musharaka financing	4,401	33,865	40,014	147,397	96,252	**321,929**
Investments at FVOCI	-	-	6,363	25,748	20,350	**52,461**
Investment at amortised cost	-	-	10,000	-	-	**10,000**
Wakala financing	39,919	-	-	-	-	**39,919**
Ijarah Muntahia Bittamleek	454	1,836	2,196	17,049	24,348	**45,883**
Property and equipment	-	-	-	-	1,147	**1,147**
Other asset	3,693	678	37	-	2,285	**6,693**
Total assets	**122,128**	**40,892**	**63,431**	**207,663**	**150,818**	**584,932**
Current accounts	25,810	37,926	21,672	-	27,090	**112,498**
Due to banks	26,550	42,350	-	-	-	**68,900**
Qard Hasan from Head Office	1,181	-	-	25,000	-	**26,181**
Customer Wakala Deposit	33,537	58,052	33,051	108,786	19,978	**253,404**
Other liabilities	8,951	678	37	-	269	**9,935**
Equity of unrestricted investment accountholders	1,966	3,932	3,932	19,659	9,850	**39,339**
Owner's equity	-	-	-	-	74,675	**74,679**
Total liabilities and accountholders & owners' equity	**976,995**	**142,938**	**58,692**	**153,445**	**131,862**	**584,932**

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.5. MARKET RISK

6.5.1. QUALITATIVE DISCLOSURE

1. Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

   Maisarah has a comprehensive Asset Liability Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

6.5.2. QUANTITATIVE DISCLOSURE

1. Breakdown of Market Risk RWA

Details	RWA RO 000
Profit rate related instrument	-
Equity	-
Foreign exchange & gold position	18,625
Commodities position	-
Total	**18,625**

2. Foreign Exchange Net Open Positions to Capital

Details	RWA RO 000
Foreign exchange net open position	2,440
Total capital	78,108
Foreign exchange net open position to total capital	0.031

99.71% of the net open position is in pegged currencies.

3. Commodity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to commodity positions.

4. Equity Net Open Positions to Capital

As at reporting date, Maisarah does not have an exposure to equity positions.

5. Assets Subject to Market Risk by Type of Assets

Type of Assets	Gross Amount RO 000
Total Sukuk	62,586
Net open position foreign currency	2,440

6. Sensitivity analysis for different types of Market Risk

Impact on earnings due to profit rate risk in the banking book is as follows:

Currencies	+ or – 1%		+ or – 2%	
	2019	2018	2019	2018
	RO 000	RO 000	RO 000	RO 000
Omani Rials	0.915	0.957	1.83	1.915
US Dollars	0.533	0.156	1.06	0.311
Other currencies	-	-	-	-

Impact on earnings due to foreign exchange risk:

Impact of 10% valuation, on earnings due to foreign exchange risk in the banking book is RO (000) 244.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.6. OPERATIONAL RISK

6.6.1. QUALITATIVE DISCLOSURE

1. The Operational risk policy of the Bank sets out the loss mitigation tools. Bank has established a disaster comprehensive recovery and business continuity plan, considering various plausible scenarios in accordance with the 'Business Continuity Plan (BCP). Bank has implemented IT Security Policy and guidelines to mitigate the information technology security related risks.

   The Bank has developed a comprehensive operational risk management framework comprising of the Risk Control and Self-Assessment, Key Risk Indicator and Loss Data Management (LDM) Framework. The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. Bank has created a comprehensive risk register which includes inherent risk events, control effectiveness and residual risks. The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks at various levels. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees.

2. Bank has set up Management Risk Committee to identify, manage, measure, monitor, mitigate and report operational risks.

   Bank has the process of collecting and collating data on operational risk events to build a strong loss data base and to improve the control effectiveness. The loss data are being captured using Operational Risk Management system. Further, other operational risk tools like Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) are also implemented.

   Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines.

3. Maisarah has in place the policies and procedures to increase the banking as well as the Islamic financing knowledge within its staff. During the year, Maisarah has conducted 50 training programs including both in-house as well as external training programs. These programs were conducted mainly in the areas of concepts of Islamic banking and the products and services of Islamic banking.

6.6.2. QUANTITATIVE DISCLOSURE

1. RWA Equivalent for Quantitative Operational Risk

Details	RWA RO 000
Operational risk	50,340

2. Gross Income

Details	2019 RO 000	2018 RO 000	2017 RO 000	Total RO 000
Gross income	30,946	26,877	22,721	**80,544**

3. Amount of Shari'a Non-Compliant Income

Amount of Shari'a non-compliant income transferred to charity was RO(000) 5.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.7. RATE OF RETURN RISK

6.7.1. QUALITATIVE DISCLOSURE

1. Rate of return risk refers to the possible impact on the net income of Maisarah arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH's having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Maisarah.

2. The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Maisarah is not subject to any significant profit rate risk. However, the profit-sharing agreements will result in Displaced Commercial Risk (DCR) when Maisarah results do not allow to distribute profits in line with the market rates. To cater against DCR, Maisarah creates Profit Equalisation Reserve as explained in section 4.2.1.

6.7.2. QUANTITATIVE DISCLOSURE

1. Indicators of exposures to rate of return risk

31 December 2019	Effective average profit rate	Due on demand and within 30 days	Due wmarket riskithin 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	43,881	**43,881**
Due from banks and financial institutions	2.85%	23,098	-	-	-	-	1,647	**24,745**
Murabaha and other receivables	5.84%	3,494	2,623	2,931	8,021	1,893	596	**19,558**
Mudaraba financing	5.96%	18,716	-	-	-	-	-	**18,716**
Diminishing Musharaka Financing	5.71%	4,401	33,865	40,014	147,397	96,252	-	**321,929**
Investments at FVOCI	5.28%	-	-	6,363	25,748	20,350	-	**52,461**
Investment at amortised cost	3.50%	-	-	10,000	-	-	-	**10,000**
Wakala financing	5.62%	39,919	-	-	-	-	-	**39,919**
Ijara Muntahia Bittamleek	5.30%	454	1,836	2,196	17,049	24,348	-	**45,883**
Property and equipment		-	-	-	-	-	1,147	**1,147**
Other asset		-	-	-	-	-	6,693	**6,693**
Total assets		90,082	38,324	61,504	198,215	142,843	53,964	**584,932**
Current accounts	4.30%	18,263	31,960	9,132	9,132	22,829	21,182	**112,498**
Due to banks	2.75%	26,550	42,350	-	-	-	-	**68,900**
Qard Hasan from Head office		-	-	-	-	-	26,181	**26,181**
Customer Wakala deposit	4.30%	33,537	58,052	33,051	108,786	19,978	-	**253,404**
Other liabilities		-	-	-	-	-	9,935	**9,935**
Equity of unrestricted investment accountholders	2.43%	39,919	-	-	-	-	20	**39,339**
Owner's equity		-	-	-	-	-	74,675	**74,675**
Equity of accountholders & Total liabilities and shareholders' equity		117,669	132,362	42,183	117,918	42,807	131,993	**584,932**
On-balance sheet gap		(27,587)	(94,038)	19,321	80,297	100,036	(78,029)	**-**
Cumulative profit sensitivity gap		(27,587)	(121,625)	(102,304)	(22,007)	78,029	-	**-**

2. Sensitivity Analysis

The sensitivity analysis profit rate movement by 200 basis points on the rate sensitive assets and liabilities reflect a negative impact, on overall currencies, on the income of Maisarah by RO (000) 2,176.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.8. DISPLACED COMMERCIAL RISK

6.8.1. QUALITATIVE DISCLOSURE

1. Displaced Commercial Risk (DCR) refers to the market pressure to pay returns which exceed the rate that has been actually earned on each category of deposit. Reason may be underperforming assets as compared to market rates or commitment to retain customers by giving higher returns. To cater for DCR, to avoid fluctuations in the profits and to cater the risk of future losses, Maisarah maintains a certain percentage of the profits as PER and IRR in accordance with the detailed profit and loss distribution policy.

6.8.2. QUANTITATIVE DISCLOSURE

1. Disclosure of Historical Data Over the Past Years

Details	Position as at				
	Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
	RO 000	RO 000	RO 000	RO 000	RO 000
Total profits available for sharing	26,240	23,498	20,070	13,857	8,283
Profit available for IAH before smoothing	1,136	405	376	200	139
Profit paid to IAH after smoothing	898	202	201	119	83

Details	Position as at				
	Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
	RO 000	RO 000	RO 000	RO 000	RO 000
PER	16	11	7	4	2
IRR	4	3	2	1	-

2. Five-Year Comparison of Historical Rate of Return with Market Benchmark Rate

No market benchmark rate is available for comparison purpose.

3. Five-Year Comparison Between Return to IAHs and Return to Shareholders

Deposit Category	Position as at				
	Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
Investment Account Holders					
Saving accounts (RO)	0.60%	0.66%	0.95%	1.67%	0.98%
Saving accounts (USD)		0.22%	0.19%	1.03%	0.89%
Prize Saving Account	0.61%	0.64%	0.99%	1.06%	
Mudaraba 1-M					
Mudaraba 3-M				1.25%	1.10%
Mudaraba 6-M					
Mudaraba 12-M					1.48%
Equity	5.82%	5.90%	4.23%	4.89%	4.31%

4. Profit Appropriated to PER and IRR

Appropriation of profit to PER and IRR is provided under disclosure (ii) of 4.2.2.

6. RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION (CONTINUED)

6.8. DISPLACED COMMERCIAL RISK (CONTINUED)

6.8.1. QUALITATIVE DISCLOSURE (CONTINUED)

5. **Analysis of difference between aggregate Mudaraba earned profits and profits distributed**

Details	RO 000
Total profits available for distribution to IAH	1,136
- Mudarib fee charged by Maisarah	(232)
- PER	(5)
- IRR	(1)
Profit distributed to IAH	**898**

6. **Analysis of the proportion of the RWA funded by IAH**

Details	RWA RO 000	RWA %
Assets		
- Murabaha	1,403	4.55%
- Diminishing Musharaka	19,168	62.13%
- Ijarah Muntahia Bittamleek	1,285	4.16%
- Wakala financing	2,932	9.50%
- Mudaraba financing	4,261	13.81%
- Investment in Sukuk	1,466	4.75%
- Wakala placement	339	1.10%
Total assets funded by IAH (allocated based on proportion)	**30,854**	**100%**

6.9. CONTRACT-SPECIFIC RISKS

6.9.1. QUALITATIVE DISCLOSURE

1. For the purpose of various types of Shari'a compliant financing contracts, the Bank assigns the risk-weightage based on the purpose of financing as well as the risk profile of the customer as prescribed in IBRF.

6.9.2. QUANTITATIVE DISCLOSURE

1. **RWA Classified by Shari'a Compliant Financing Contracts**

Sr.	Details	RWA RO 000
1	Murabaha and other receivables	19,845
2	Mudaraba Financings	58,145
3	Ijarah Assets	17,533
4	Diminishing Musharaka Financing	261,556
5	Wakala Financing	40,013
Total		**397,092**

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES

7.1. GENERAL GOVERNANCE DISCLOSURES

7.1.1. QUALITATIVE DISCLOSURE

1. Maisarah follows Financial Accounting Standard issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman. There had been no departure from the financial reporting framework of AAOIFI during the year.

2. Being the Islamic window operation of the Bank, Maisarah is managed under the same governance structure as the Bank. The details of which are disclosed in the main Pillar III document of the Bank. In addition, Maisarah's operations are governed and monitored by the Shari'a Supervisory Board (SSB) details of which is provided under disclosure 7.2.

3. In the ordinary course of business, Maisarah conducts transactions with some of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

Related parties' transactions	2019 RO 000	2018 RO 000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**822**	664
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**35,463**	43,930
Other transactions		
Rental payment to a related party	**306**	237
Income from finance to related parties	**37**	25
Profit expense on deposits from related parties	**1,811**	2,007
Key management compensation		
Salaries and other benefits	**267**	261
End of service benefits	**10**	9

4. During the year Maisarah has conducted following investor / consumer education programs on Islamic banking principles and Maisarah products:

   - VIP gathering in Muscat Hayat Regency Hotel.
   - VIP gathering in Salalah Millennium Hotel.
   - Awareness program in Free Zone Company, Salalah.
   - Awareness program in Sohar University.
   - Participating in banks exhibition at Daleel petroleum company.
   - Participating in banks exhibition at British Petroleum company.

5. Complaint management of Maisarah customers is handled at the parent entity level through the Guest Relation Department. The department has a written procedures and process whereby it handles the complaints receive through branches, emails, call centers. The complaints are lodged and a proper resolution mechanism in place including escalations as well as follow up with concerned departments and customers.

6. During the year, Maisarah has played an important role in fulfilling its responsibility towards the society by having events such as visiting hospitals, conducting Quran recitation events, and extending support for local events. During the year, four (4) events were organized.

7. GENERAL GOVERNANCE AND SHARI'A GOVERNANCE DISCLOSURES (CONTINUED)

7.2. SHARI'A GOVERNANCE DISCLOSURES

7.2.1. QUALITATIVE DISCLOSURE

1. The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

   The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board (SSB) of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2019, the department has conducted 16 audits as compared to the target of 15. The Unit comes under the direct supervision of SSB. The SSB met 5 times (including 1 meeting with Board of Directors) in the year 2019.

2. Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3. Shari'a rulings issued by the Shari'a Supervisory Board is binding on Maisarah.

7.2.2. QUANTITATIVE DISCLOSURE

1. Violation of Shari'a Compliance During the Year

During the year, Maisarah recorded and transferred to charity the Non Shari'a compliant income of RO 5k in respect of rebate received on nostro accounts, late payments from customers and income from placement with Central Bank.

2. Zakat Contributions of the Islamic Window

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

3. Remuneration of Shari'a Board Members

Details	2019	2018
	RO 000	RO 000
Chairman		
- Remuneration proposed	9	8
- Sitting fees paid	2	2
Other Members		
- Remuneration proposed	29	24
- Sitting fees paid	8	6

8. BASEL III

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

8.1. CAPITAL DISCLOSURE

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus [Note 1]	55,000	
2	Retained Earnings	19,587	
3	Accumulated other comprehensive income (and other reserves)	-	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public Sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	74,587	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability) *	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability) *	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash Flow hedge reserve	-	
12	Shortfall of provisions to expected loss	-	
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold)	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to common equity Tier 1**	-	
29	**Common Equity Tier 1 capital (CET 1)**	74,587	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 capital before regulatory adjustments**	-	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1**	-	
44	**Additional Tier 1 capital (CET 1)**	-	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	74,587	
Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions and Cumulative fair value gains on available for sale instruments	3,521	
51	**Tier 2 capital before regulatory adjustments**	3,521	
Tier 2 capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-Basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
57	**Total Regulatory Adjustments to Tier 2 capital**	-	
58	**Tier 2 Capital (T 2)**	3,521	
59	**Total Capital (TC = T 1 + T 2)**	78,108	
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment		
	of which: (insert name of adjustment)		
	of which: (insert name of adjustment)		
60	**Total Risk Weighted Assets (60a + 60b + 60c)**	516,310	
60a	of which: Credit Risk Weighted Assets	447,345	
60b	of which: Market Risk Weighted Assets	18,625	
60c	of which: Operational Risk Weighted Assets	50,340	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.45%	

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

	Basel III common disclosure template to be used during the transition of regulatory adjustments	(RO '000)	Amount Subject to Pre-Basel III treatment
62	Tier 1 (as a percentage of risk weighted assets)	14.45%	
63	Total capital (as a percentage of risk weighted assets)	15.13%	
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%	
65	of which: capital conservation buffer requirement	1.25%	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/ G-SIB buffer requirements	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.20%	
National Minima (if different from Basel III)			
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA	
71	National total capital minimum ratio (if different from Basel III minimum)	NA	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	3,521	
77	Cap on inclusion of provisions in Tier 2 under standardized approach	5,592	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET 1 instruments subject to phase out arrangements	NA	
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA	
82	Current cap on AT 1 instruments subject to phase out arrangements	NA	
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA	
84	Current cap on T 2 instruments subject to phase out arrangements	NA	
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA	

Note 1 – Board of Directors of Bank Dhofar, in its meeting held on 28 January 2020, resolved to approve the following:

- Proposed dividend to Bank Dhofar Head Office of RO 15 million from Maisarah; and
- Capital increase of RO 15 million for Maisarah, taking the capital from current RO 55 million to RO 70 million, subject to CBO approval.

Summarized Capital Adequacy is as follows:

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

Sr. No.	CA Report 1 (For CBO Use only)	RO 000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	74,587
2	Regulatory Adjustments to CET1	-
3	CET1	74,587
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	-
5	Regulatory Adjustments to AT1	-
6	AT1	-
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	74,587
8	Tier 2 Capital before Regulatory Adjustments	3,521
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	3,521
11	Total Capital (11=7+10)	78,108
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	516,310
13	Credit Risk Weighted Assets	447,345
14	Market Risk Weighted Assets	18,625
15	Operational Risk Weighted Assets	50,340
16	CET1 (as a percentage of TRWA) (in %)	14.45
17	Tier 1 (as a percentage of TRWA) (in %)	14.45
18	Total capital (as a percentage of TRWA) (in %)	15.13

Reconciliation of reported balance sheet and the regulatory scope of consolidation:

	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2019	As at Period End - 31.12.2019	
Assets			
Cash & Balances with CBO	**43,881**		
Balances with bank and money at call and short notice	**24,747**		
Investments:	**62,586**		
Of which **Held to Maturity**	10,000		
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which **Available for Sale**	52,586		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2019	As at Period End - 31.12.2019	
Of which **Held for Trading**			
Loans & Advances	**451,437**		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non-Resident Banks			
Loans & Advances to domestic customers	437,495		
Loans & Advances to Non-Resident Customers for domestic operations			
Loans & Advances to Non-Resident Customers for operations abroad			
Loans & Advances to SMEs	13,942		
Financing from Islamic Banking Window			
Fixed Assets	**1,147**		
Other Asset	**7,132**		
Of which,			
Goodwill & Intangible Assets			a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	**590,930**	**-**	
Capital & Liabilities			
Paid up capital	**55,000**		
of which:			
Amount eligible for CET 1	55,000		h
Amount eligible for AT1	-		if
Reserves & Surplus			j
Share Premium	-		k
Legal Reserve	-		l
Subordinated loan reserve	-		m
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	88	-	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	19,587	19,587	o
Total Capital	**74,675**		
Deposits	**405,221**		
Of which,			

8. BASEL III (CONTINUED)

8.1. CAPITAL DISCLOSURE (CONTINUED)

	Balance Sheet as in Published Financial Statement	Under regulatory scope of consolidation	Reference
	As at Period End - 31.12.2019	As at Period End - 31.12.2019	
Deposit from Banks			
Customer Deposits	405,221		
Deposit of Islamic Banking Window	-		
Other deposits - (Please specify)			
Borrowings	**95,081**		
Of which,			
From CBO			
From Banks (includes borrowing from HO)	95,081		
From other Institutions & Agencies			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Please specify) (Subordinated Loans)			
Other liabilities & provisions	**15,953**		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	**590,930**	**19,587**	

Common Equity Tier 1 capital: instruments and reserves

Sr. No.		Component of regulatory capital reported by bank	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus 'Allocated Capital to Window from Core Capital'	55,000	h
2	Retained earnings	19,587	k,l,m,o
3	Accumulated other comprehensive income (and other reserves)		
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	74,587	
7	Prudential valuation adjustments	-	n
8	Goodwill (net of related tax liability)	-	a

8. BASEL III (CONTINUED)

8.2. LIQUIDITY COVERAGE RATIO

MIBS has also adopted Basel III liquidity standards and is estimating the liquidity coverage ratio (LCR). The LCR is defined as the proportion of high-quality liquid assets to total net cash outflows over the next 30 days. The high-quality liquid assets include cash; reserves held with CBO; investment in CBO Certificate of Deposits, CBO Treasury Bills, Government Development Bonds; Sovereign Treasury Bills; and investment in equity listed on Muscat Securities Market. LCR is a measure of adequacy of liquid assets that will enable the Bank to survive an acute stress scenario lasting for 30 days.

The disclosure for 12-months monthly arithmetic average Liquidity Coverage Ratio for Maisarah is as follows:

		Total Unweighted Value (annual average) RO 000	Total Weighted Value (annual average) RO 000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		68,268
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	55,059	4,037
3	Stable deposits	27,288	1,260
4	Less stable deposits	27,771	2,777
5	Unsecured wholesale funding, of which:	90,635	51,468
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	90,635	51,468
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	38,411	3,650
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	38,411	3,650
14	Other contractual funding obligations	7,276	7,276
15	Other contingent funding obligations	19,538	977
16	**TOTAL CASH OUTFLOWS**		67,408
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	81,058	14,608
19	Other cash inflows	3,208	3,208
20	**TOTAL CASH INFLOWS**	84,266	17,816
	Total Adjusted Value		
21	**TOTAL HQLA**		69,144
22	**TOTAL NET CASH OUTFLOWS**		49,592
23	**LIQUIDITY COVERAGE RATIO (%)**		139.43

As stated above, 12-months monthly arithmetic average LCR for the year ended 31 December 2019 is 139.43%. The LCR position for Maisarah as at 31 December 2019 is 191.26% (2018: 146.61%).

Further to the above, LCR is also monitored for US Dollar book of the Bank as a Consolidated entity and Maisarah on standalone basis. The exposure in US Dollar assets as a proportion of total assets (all currencies) at the Maisarah level is at 13.41% as at 31 December 2019 as compared to 13.53% as at 31 December 2018.

8. BASEL III (CONTINUED)

8.3. NET STABLE FUNDING RATIO

In terms of CBO guidelines, the standard for NSFR has become effective from 1 January 2018, with a minimum ratio of 100%. Bank has adopted Basel III liquidity standards and is reporting the Net Stable Funding Ratio to the Central Bank of Oman (CBO) with effect from March 2013. The NSFR is defined as the proportion of total Available Stable Funding to total Required Stable funding over the next 1 year.

12-months monthly average NSFR for the year ended 31 December 2019 is 114.35%. The NSFR position for Maisarah as at 31 December 2019 was at 117.46% (2018: 117.55%).

The disclosure for 12-months monthly arithmetic average Net Stable Funding Ratio for Maisarah is as follows:

Sr. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	227,392	227,392	-	-	227,392
2	*Regulatory capital*	89,766				89,766
3	*Other capital instruments*	137,626				137,626
4	Retail deposits and deposits from small business customers:	46,348	8,241	19,254	-	73,843
5	*Stable deposits*	25,691	365	1,060		27,116
6	*Less stable deposits*	20,657	7,876	18,194		46,727
7	Wholesale funding:	-	-	154,994	77,497	77,497
8	*Operational deposits*	-				-
9	*Other wholesale funding*			154,994		77,497
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*	68,191				-
14	**Total ASF**					**378,732**
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					62,091
16	Deposits held at other financial institutions for operational purposes	955				477
17	Performing loans and securities:	-	18,199	109,215	161,314	197,993
18	Performing loans to financial institutions secured by Level 1 HQLA		-			-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions			-		-

8. BASEL III (CONTINUED)

8.3. NET STABLE FUNDING RATIO (CONTINUED)

Sr. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which		18,199	109,215		60,876
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:				161,314	137,117
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				151,765	98,647
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				-	-
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		7,722	7,722
27	Physical traded commodities, including gold					-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					-
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories				7,722	7,722
32	Off-balance sheet items					62,916
33	**TOTAL RSF**					**331,199**
34	**NET STABLE FUNDING RATIO (%)**					**114.35%**

MAISARAH INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31st DECEMBER 2019

Independent auditor's report to the shareholders of Bank Dhofar SAOG

Report on the carve-out financial statements

We have audited the accompanying carve-out statement of financial position of the Maisarah Islamic Banking Services - Window ('the Window') of Bank Dhofar SAOG ('the Bank') as of 31 December 2019, and the related carve-out statement of comprehensive income, carve-out statement of changes in owners' equity, statement of sources and uses of charity funds and carve-out statement of cash flows for the year then ended. These carve-out financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these carve-out financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Window as of 31 December 2019, the carve-out results of its operations, cash flows and changes in owners' equity for the year then ended in accordance with the Shari'a rules and principles as determined by the Shari'a Board of the Window and the Financial Accounting Standards issued by AAOIFI.

Other legal and regulatory requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

a) received all required information and explanations to prepare the report; and
b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Emphases of matter

We draw attention to the fact that, as described in note 1, the Window is not a separate legal entity. These carve-out financial statements, therefore, represent the Maisarah Islamic Banking Services - Window and not as a stand-alone legal entity. We also draw attention to note 3.20 that sets out the accounting policy adopted with respect to taxation in the context of the Window not being a separate legal entity. Our opinion is not qualified with respect to these matters.

PricewaterhouseCoopers

9 March 2020
Muscat, Sultanate of Oman

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PricewaterhouseCoopers LLC
C.R. No 1230865

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Statement of Financial Position

at 31 December 2019

2019 USD 000	2018 USD 000		Note	2019 RO 000	2018 RO 000
		Assets			
113,977	100,805	Cash and balances with Central Bank of Oman	5	**43,881**	38,810
64,273	78,860	Due from banks and financial institutions	6	**24,745**	30,361
50,800	63,670	Murabaha and other receivables	7	**19,558**	24,513
48,613	68,314	Mudaraba financing	8	**18,716**	26,301
836,179	731,556	Diminishing Musharaka financing	9	**321,929**	281,649
136,262	81,623	Investments	10	**52,461**	31,425
25,974	25,974	Investment at amortised cost	11	**10,000**	10,000
103,686	48,657	Wakala financing	12	**39,919**	18,733
119,177	119,190	Ijarah Muntahia Bittamleek	13	**45,883**	45,888
2,979	3,400	Property and equipment	14	**1,147**	1,309
17,384	8,930	Other assets	15	**6,693**	3,438
1,519,304	1,330,979	**Total assets**		**584,932**	512,427
		Liabilities, equity of investment accountholders and owners' equity			
		Liabilities			
292,203	145,558	Current accounts		**112,498**	56,040
178,961	146,558	Due to banks	16	**68,900**	56,425
68,003	67,922	Qard Hasan from Head office	17	**26,181**	26,150
658,192	683,946	Customer Wakala deposits		**253,404**	263,319
25,805	24,377	Other liabilities	18	**9,935**	9,385
1,223,164	1,068,361	**Total liabilities**		**470,918**	411,319
102,179	88,416	**Equity of investment accountholders**	19	**39,339**	34,040
		Owners' equity			
142,857	142,857	Allocated share capital	20	**55,000**	55,000
229	(1,426)	Investment revaluation reserve		**88**	(549)
50,875	32,771	Retained earnings		**19,587**	12,617
193,961	174,202	**Total owners' equity**		**74,675**	67,068
1,519,304	1,330,979	**Total liabilities, equity of investment Accountholders and owners' equity**		**584,932**	512,427
69,140	43,042	**Contingent liabilities and commitments**	28	**26,619**	16,571

The financial statements were approved by the Board of Directors on 28 January 2020 for issue in accordance with a resolution of Board of Directors and signed on their behalf by

Chairman

Chief Executive Islamic Banking

The attached notes on pages 272 to 325 form an integral part of these financial statements.

Independent auditors report – Page 265

Statement of Comprehensive Income

For the year ended 31 December 2019

2019 USD 000	2018 USD 000		Note	2019 RO 000	2018 RO 000
		Income			
67,759	60,252	Income from Islamic finances and investments	22	26,087	23,197
397	782	Income on Wakala placements		153	301
68,156	61,034			26,240	23,498
		Less:			
(2,935)	(2,234)	Return on equity of investment accountholders before Maisarah's share as Mudarib		(1,130)	(860)
603	515	Maisarah's share as Mudarib		232	198
(29,727)	(27,964)	Return on customer Wakala deposits	23	(11,445)	(10,766)
(3,842)	(1,608)	Return on inter bank Wakala deposit		(1,479)	(619)
(35,901)	(31,291)			(13,822)	(12,047)
		Maisarah's share in income from investment as a Mudarib and Rabul Maal		12,418	11,451
4,696	3,670	Revenue from banking services		1,808	1,413
1,075	628	Foreign exchange gain – net		414	242
413	60	Other revenues		159	23
38,439	34,101	**Total revenue**		14,799	13,129
(12,821)	(12,060)	Staff costs	24	(4,936)	(4,643)
(4,306)	(4,080)	General and administrative expenses	25	(1,658)	(1,571)
(1,294)	(1,195)	Depreciation	14	(498)	(460)
(18,421)	(17,335)	**Total expenses**		(7,092)	(6,674)
(1,906)	(1,340)	Net impairment on financial instruments		(734)	(516)
(8)	-	Bad debts written off		(3)	-
18,104	15,426	**Profit for the year**		6,970	5,939
		Other comprehensive income / (loss) for the year			
		Items that are or may not be reclassified to profit or loss			
1,655	(1,956)	Gain / (loss) from change in fair value of Debt instrument at FVOCI	10	637	(753)
1,655	(1,956)	**Other comprehensive income / (loss) for the year**		637	(753)
19,759	13,470	**Total comprehensive income for the year**		7,607	5,186

The attached notes on pages 272 to 325 form an integral part of these financial statements.

Independent auditors report – Page 265.

Statement of changes in owners' equity

For the year ended 31 December 2019

	31 December 2019			
	Allocated share capital RO 000	Investment revaluation reserve RO 000	Retained earnings RO 000	Total RO 000
Balance at 31 December 2018	**55,000**	**(549)**	**12,617**	**67,068**
Total comprehensive income for the year				
Net profit for the year	-	-	6,970	**6,970**
Other comprehensive income for the year				
Fair value change on FVOCI debt investments	-	637	-	**637**
Total comprehensive income	-	637	6,970	**7,607**
Balance as at 31 December 2019	**55,000**	**88**	**19,587**	**74,675**

	31 December 2019			
	Allocated share capital USD 000	Investment revaluation reserve USD 000	Retained earnings USD 000	Total USD 000
Balance at 31 December 2018	**142,857**	**(1,426)**	**32,771**	**174,202**
Total comprehensive income for the year				
Net profit for the year	-	-	18,104	**18,104**
Other comprehensive income for the year				
Fair value change on FVOCI debt investments	-	1,655	-	**1,655**
Total comprehensive income	-	1,655	18,104	**19,759**
Balance as at 31 December 2019	**142,857**	**229**	**50,875**	**193,961**

Statement of changes in owners' equity

For the year ended 31 December 2019

	31 December 2018			
	Allocated share capital RO 000	Investment revaluation reserve RO 000	Retained earnings RO 000	Total RO 000
Balance at 31 December 2017	55,000	204	6,967	62,171
Adjustment on initial adoption of IFRS 9	-	-	(289)	(289)
Restated balance at 1 January 2018	55,000	204	6,678	61,882
Total comprehensive income for the year				
Net profit for the year	-	-	5,939	5,939
Other comprehensive income for the year				
Fair value adjustment against available for sale instruments	-	(753)	-	(753)
Total comprehensive income	-	(753)	5,939	5,186
Balance as at 31 December 2018	55,000	(549)	12,617	67,068

	31 December 2018			
	Allocated share capital USD 000	Investment revaluation reserve USD 000	Retained earnings USD 000	Total USD 000
Balance at 31 December 2017	142,857	530	18,096	161,483
Adjustment on initial adoption of IFRS 9	-	-	(751)	(751)
Restated balance at 1 January 2018	142,857	530	17,345	160,732
Total comprehensive income for the year				
Net profit for the year	-	-	15,426	15,426
Other comprehensive income for the year				
Fair value adjustment against available for sale instruments	-	(1,956)	-	(1,956)
Total comprehensive income	-	(1,956)	15,426	13,470
Balance as at 31 December 2018	142,857	(1,426)	32,771	174,202

The attached notes on pages 272 to 325 form an integral part of these financial statements.

Independent auditors report – Page 265.

Statement of sources and uses of charity fund

For the year ended 31 December 2019

2019 USD 000	2018 USD 000		2019 RO 000	2018 RO 000
		Sources of charity funds		
43	521	Undistributed charity funds at beginning of the year	**17**	201
13	43	Shari'a non-compliant income	**5**	17
56	564	Total sources of funds during the year	**22**	218
		Uses of charity funds		
(43)	(521)	Distributed to charity organizations	**(17)**	(201)
(43)	(521)	Total uses of funds during the year	**(17)**	(201)
13	43	Undistributed charity funds at end of the year	**5**	17

The attached notes on pages 272 to 325 form an integral part of these financial statements.

Independent auditors report – Page 265.

Statement of cash flows

For the year ended 31 December 2019

2019 USD 000	2018 USD 000		2019 RO 000	2018 RO 000
18,104	15,426	Profit for the year	6,970	5,939
		Adjustments for:		
1,294	1,195	Depreciation	498	460
8,727	4,969	Depreciation on Ijarah assets	3,360	1,913
-	(8)	Gain on sale of property and equipment	-	(3)
1,906	1,340	Net impairment on financial instruments	734	516
8	-	Bad debts written off	3	-
21	-	Amortisation of premium on investment	8	-
16	13	Profit equalisation reserve and Investment risk reserve	6	5
30,076	22,935	**Operating profit before changes in operating assets and liabilities**	11,579	8,830
		Operating assets and liabilities:		
12,831	6,784	Murabaha and other receivables	4,940	2,612
(9,281)	(10,886)	Ijarah Muntahia Bittamleek assets	(3,573)	(4,191)
494	1,592	Proceeds from sale of Ijarah Muntahia Bittamleek assets	190	613
(107,296)	18,743	Diminishing Musharaka financing	(41,309)	7,216
19,971	(8,062)	Mudaraba financing	7,689	(3,104)
(55,190)	(48,732)	Wakala financing	(21,248)	(18,762)
(7,774)	(553)	Other asset	(2,993)	(213)
1,258	1,278	Other liabilities	484	492
(699)	4,210	Qard Hasan from Head Office	(269)	1,621
(115,610)	(12,691)	**Net cash used in operating activities**	(44,510)	(4,886)
		Cash flows from investing activities		
(112,987)	(51,974)	Purchase of investments	(43,500)	(20,010)
60,109	25,974	Sale proceed from maturity of investments at FVOCI	23,142	10,000
(52,878)	(26,000)	**Net cash used in investing activities**	(20,358)	(10,010)
		Cash flows from financing activities		
146,644	(41,857)	Current account	56,458	(16,115)
110,000	-	Due to banks	42,350	-
(25,753)	(39,042)	Customer Wakala deposit	(9,915)	(15,031)
13,748	20,125	Unrestricted investment accountholders	5,293	7,748
244,639	(60,774)	**Net cash generated from / used in financing activities**	94,186	(23,398)
76,151	(99,465)	**Increase / (Decrease) in cash and cash equivalents**	29,318	(38,294)
33,143	132,608	**Cash and cash equivalents at the beginning of the year**	12,760	51,054
109,294	33,143	**Cash and cash equivalents at the end of the year**	42,078	12,760
		Cash and cash equivalents at the end of the year comprise:		
113,977	100,805	Cash and balances with CBO	43,881	38,810
64,278	78,896	Due from banks and financial institutions	24,747	30,375
(68,961)	(146,558)	Due to banks	(26,550)	(56,425)
109,294	33,143		42,078	12,760

The attached notes on pages 272 to 325 form an integral part of these financial statements.

Independent auditors report – Page 265.

Notes to the financial statements

For the year ended 31 December 2019

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in the Sultanate of Oman as window of Bank Dhofar SAOG ("the Bank"). Maisarah's operations commenced on 3 March 2013 and it currently operates through 10 (2018: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking Shari'a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework issued by CBO.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB").

These financial statements pertains to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations. Complete set of financial statements of the Bank is presented separately.

2.2 BASIS OF MEASUREMENT

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through other comprehensive income.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2.4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

Notes to the financial statements

For the year ended 31 December 2019

2. BASIS OF PREPARATION (CONTINUED)

2.5 CHANGE IN ACCOUNTING POLICY

The accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.6 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

For the year ended 31 December 2019, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2019.

The adoption of these standards has not resulted in changes to the Islamic Window accounting policy and has not affected the amounts reported for the current and prior periods.

Standards issued and effective from 01 January 2019

FAS 28 Murabaha and Other Deferred Payment Sales

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS No. 2 “Murabaha and Murabaha to the Purchase Orderer” and FAS No. 20 “Deferred Payment Sale”. The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. This standard is effective for the financial periods beginning on or after 1 January 2019 with early adoption permitted.

Maisarah has applied the standard prospectively from its mandatory adoption date, and the impact is immaterial on the financial information of Maisarah.

Standards issued but not effective from 01 January 2019

FAS 30 Impairment, Credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions.

The standard will be effective from financial periods beginning on or after 1 January 2020 with early adoption permitted.

CBO earlier issued its circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued . Maisarah had adopted the IFRS 9, which are similar to FAS 30, with effect from 1 January 2018 and as permitted by IFRS 9, Maisarah elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period.

Since the window already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 is not expected to result in significant changes.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not expected to have a material impact on the on Maisarah’s financial statements.

2. BASIS OF PREPARATION (CONTINUED)

2.6 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

FAS 32 Ijara

AAOIFI has issued FAS 32 Ijara in 2020. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted.

Maisarah is currently evaluating the impact of this standard.

FAS 33 Investment in Sukuk, shares and similar instruments

AAOIFI has issued FAS 33 Investment in Sukuk, shares and similar instruments in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

Maisarah is currently evaluating the impact of this standard.

FAS 34 Financial reporting for Sukuk-holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

Maisarah is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs / the institutions). The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

Maisarah is currently evaluating the impact of this standard.

Notes to the financial statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 FOREIGN CURRENCY TRANSLATIONS

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from and due to banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 OFFSETTING

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.4 MURABAHA AND OTHER RECEIVABLES

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a Murabaha transaction by buying goods (which represents the object of the Murabaha) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Other receivables include credit card receivable which is based on the Islamic financial principle of profit-free Qard Hasan, and travel and education finance which is based on the on Islamic financial principle of Ujrah.

3.5 MUDARABA

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 DIMINISHING MUSHARAKA

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 WAKALA

Wakala is a contract where the Bank (the Muwakil) will enter into Wakala Agreement with the customer (the Wakil) and will establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skills to manage the business.

3.8 IJARAH MUNTAHIA BITTAMLEEK ASSETS

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.9 IFRS 9 – FINANCIAL INSTRUMENTS

Classification and measurement of financial assets and financial liabilities

Financial assets are classified into one of the following three categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- Amortised cost; and
- Fair value through profit or loss (FVTPL).

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Islamic window's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

Maisarah makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Islamic window's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Islamic window's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the financial statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 IFRS 9 – FINANCIAL INSTRUMENTS (CONTINUED)

Assessment whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Islamic window considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Islamic window recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Fair Value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

Impairment

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with Central Bank of Oman
- Bue from banks
- Financial assets that are debt-type instruments;
- Financing receivables;
- Financial guarantee contracts issued
- Financing commitments issued; and
- Other assets (acceptances and accrued profit).

No impairment loss is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Notes to the financial statements
For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.9 IFRS 9 – FINANCIAL INSTRUMENTS (CONTINUED)

The Islamic window considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Islamic window does not apply the low credit risk exemption to any other financial instruments.

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Impairment provision is measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Maisarah expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

- undrawn financing commitments: at the present value of the difference between the contractual cash flows that are due to the Maisarah if the commitment is drawn down and the cash flows that the Islamic window expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Maisarah expects to recover.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 IFRS 9 – FINANCIAL INSTRUMENTS (CONTINUED)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, Maisarah assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data regarding the following events:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing by Maisarah on terms that Maisarah would not consider otherwise; or
- it is becoming probable that the customer will enter bankruptcy or other financial reorganisation.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. Maisarah assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, Maisarah considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A financing is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer's financial condition, unless there is an evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (refer below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Notes to the financial statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 IFRS 9 – FINANCIAL INSTRUMENTS (CONTINUED)

Macroeconomic factors

In its models, the Islamic window relies on a broad range of forward-looking information as economic inputs, such as: real gross domestic product (GDP) growth and oil revenue (as % of GDP). The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Assessment of significant increase in credit risk

Maisarah assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers counterparty-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR on financial assets include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors is a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the counterparty and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of counterparties; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

Definition of default

Maisarah considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Islamic window in full without recourse by the Islamic window to actions such as realising security held (if any); or
- The counterparty is past due more than 90 days on any material credit obligation to the Islamic window.

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty is in default, the Islamic window considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Islamic window follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent).

Notes to the financial statements
For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.10 PROPERTY AND EQUIPMENT

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	Years
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of profit or loss as an expense when incurred.

3.11 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.12 PROFIT EQUALISATION RESERVE

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

3.13 INVESTMENT RISK RESERVE

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib's share, to cater against future losses for equity of investment accountholders.

3.14 PROVISIONS

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

Notes to the financial statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 EARNINGS PROHIBITED BY SHARI'A

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari'a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.16 ZAKAH

The responsibility of payment of zakah is on individual shareholders and investment accountholders.

3.17 JOINT AND SELF-FINANCED

Investments, financing and receivables that are jointly owned by Maisarah and the equity of investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.18 FUNDS FOR MAISARAH

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.19 REVENUE RECOGNITION

3.19.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

3.19.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised when Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

3.19.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.19.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.19.5 Wakala financing

Wakala profit is estimated reliably and recognized on time-apportioned basis so as to yield the expected rate of return based on the Wakala capital outstanding. In case of default, negligence or violation of any of the terms and conditions of Wakala agreement, the Wakil would bear the loss, otherwise the loss would be borne by the Muwakil.

3.19.6 Dividends

Dividends are recognised when the right to receive payment is established.

3.19.7 Fee and Commission income

Fee and commission income is recognised when earned.

Notes to the financial statements
For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 REVENUE RECOGNITION (CONTINUED)

3.19.8 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.19.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

3.20 TAXATION

Maisarah is an Islamic banking window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah's result for the year at the statutory effective tax rate would amount to RO 1,046 thousand (2018: RO 890 thousand).

3.21 EMPLOYEES' BENEFITS

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of profit or loss as incurred.

The obligation is calculated using the projected unit credit method and is discounted to its present value.

3.22 SHARI'A SUPERVISORY BOARD

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Abdullah bin Mubarak Al Abri	Deputy Chairman
3	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
4	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

Notes to the financial statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 TRADE DATE ACCOUNTING

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.24 SEGMENT REPORTING

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.25 FIDUCIARY ASSETS

Assets held in trust or in a fiduciary capacity are not treated as assets of Maisarah in the statement of financial position.

4. Critical Accounting Judgment and Key Sources Of Estimation Uncertainty

(a) Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(b) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Resegmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

(c) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Notes to the financial statements
For the year ended 31 December 2019

4. Critical Accounting Judgment and Key Sources Of Estimation Uncertainty (CONTINUED)

(d) Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Islamic window's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

(e) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5. Cash and balances with Central Bank of Oman

	2019 RO 000	2018 RO 000
Cash in hand	**2,773**	2,356
Balances with Central Bank of Oman	**41,108**	36,454
	43,881	38,810

6. Due from banks and financial institutions

	2019 RO 000	2018 RO 000
Wakala placement – jointly financed	**23,100**	27,335
Current clearing account – self financed	**1,647**	3,040
	24,747	30,375
Less: Impairment allowance for ECL (note 26)	**(2)**	(14)
	24,745	30,361

At 31 December 2019, placement with two overseas banks individually represented 20% or more of the Islamic window's placements (2018: Three banks represented 20%).

Notes to the financial statements

For the year ended 31 December 2019

7. Murabaha and other receivables

	2019 RO 000	2018 RO 000
Gross Murabaha receivables – jointly financed	**22,673**	27,199
Gross Ujrah receivables – jointly financed	**19**	2
	22,692	27,201
Less: Deferred income – jointly financed	**(3,602)**	(3,018)
	19,090	24,183
Credit card receivables – self financed	**596**	442
Less: Profit suspended	**(2)**	(1)
Less: Impairment allowance for ECL (note 26)	**(126)**	(111)
	19,558	24,513

Murabaha and other receivables past due but not impaired amounts to RO 659 thousand (2018: RO 657 thousand).

Deferred income at 1 January 2019	**3,018**
Sales revenue during the year	**17,147**
Cost of sales during the year	**(15,295)**
Profit recognised in income	**(1,254)**
Profit waived off	**(12)**
Profit amortized during the year	**(1,266)**
Profit suspended	**(2)**
Deferred income at 31 December 2019	**3,602**

8. Mudaraba financing

	2019 RO 000	2018 RO 000
Mudaraba financing – jointly financed	**18,896**	26,585
Less: Impairment allowance for ECL (note 26)	**(180)**	(284)
	18,716	26,301

At reporting date, there were Mudaraba financing cases which were past due but not impaired.

Notes to the financial statements

For the year ended 31 December 2019

9. Diminishing Musharaka financing

	2019 RO 000	2018 RO 000
Diminishing Musharaka – jointly financed	**326,824**	285,515
Less: Impairment allowance for ECL (note 26)	**(4,895)**	(3,866)
	321,929	281,649

Diminishing Musharaka past due but not impaired amounts to RO 66,248 thousand (2018: RO 36,567 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10. Investments

	2019 RO 000	2018 RO 000
Fair value through other comprehensive income:		
Local listed Sukuk – jointly financed	**10,000**	10,000
International listed Sukuk – jointly financed	**15,873**	10,010
Sovereign Sukuk – jointly financed	**26,713**	11,589
	52,586	31,599
Less: Impairment provision for ECL (note 26)	**(125)**	(174)
Total Sukuk – jointly financed	**52,461**	31,425

During the year movement in investments at fair value through other comprehensive income:

	2019 RO 000	2018 RO 000
Debt type instruments		
At 1 January	**31,599**	22,342
Additions	**43,500**	20,010
Disposals and redemptions	**(23,142)**	(10,000)
Gain / (Loss) from change in fair value	**637**	(753)
Amortisation of discount / premium	**(8)**	-
At 31 December	**52,586**	31,599

11. Investment at amortised cost

	2019 RO 000	2018 RO 000
Sovereign Sukuk – jointly financed	**10,000**	10,000

Being Sovereign Sukuk, no impairment allowance for ECL has been recognised.

Notes to the financial statements

For the year ended 31 December 2019

12. Wakala financing

	2019 RO 000	2018 RO 000
Wakala financing – jointly financed	**40,010**	18,762
Less: Impairment allowance for ECL (note 26)	**(91)**	(29)
	39,919	18,733

Wakala financing past due but not impaired amounts to RO 549 thousand (2018: RO Nil).

13. Ijarah Muntahia Bittamleek

	2019 RO 000	2018 RO 000
Cost – jointly financed		
at 1 January	**52,766**	49,622
Additions	**3,573**	4,191
Disposals	**(1,762)**	(1,047)
at 31 December	**54,577**	52,766
Accumulated depreciation – jointly financed		
at 1 January	**6,768**	5,289
Charge for the period	**3,360**	1,913
Disposals	**(1,572)**	(434)
at 31 December	**8,556**	6,768
Net book value at 31 December	**46,021**	45,998
Less: Impairment allowance for ECL (note 26)	**(138)**	(110)
Net Ijarah Muntahia Bittamleek	**45,883**	45,888

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,304 thousand (2018: RO 994 thousand).

Notes to the financial statements

For the year ended 31 December 2019

14. Property and equipment

	2019				
	Furniture, fixtures & equipment RO 000	Motor vehicles RO 000	Computer equipment RO 000	Capital work in progress RO 000	Total RO 000
Cost					
at 1 January	**1,224**	**78**	**1,817**	**2**	**3,121**
Additions	**81**	**-**	**186**	**120**	**387**
Disposals / Transfers	**(25)**	**-**	**-**	**(51)**	**(76)**
at 31 December	**1,280**	**78**	**2,003**	**71**	**3,432**
Accumulated depreciation					
at 1 January	**(702)**	**(60)**	**(1,050)**	**-**	**(1,812)**
Charge for the year	**(196)**	**(10)**	**(292)**	**-**	**(498)**
Disposal	**25**	**-**	**-**	**-**	**25**
at 31 December	**(873)**	**(70)**	**(1,342)**	**-**	**(2,285)**
Net book amount at 31 December	**407**	**8**	**661**	**71**	**1,147**

	2018				
	Furniture, fixtures & equipment RO 000	Motor vehicles RO 000	Computer equipment RO 000	Capital work in progress RO 000	Total RO 000
Cost					
at 1 January	1,039	61	1,600	55	2,755
Additions	187	17	217	204	625
Disposals / Transfers	(2)	-	-	(257)	(259)
at 31 December	1,224	78	1,817	2	3,121
Accumulated depreciation					
at 1 January	(522)	(47)	(785)	-	(1,354)
Charge for the year	(182)	(13)	(265)	-	(460)
Reversal of depreciation	2	-	-	-	2
at 31 December	(702)	(60)	(1,050)	-	(1,812)
Net book amount at 31 December	522	18	767	2	1,309

As of 31 December 2019, cost of computer equipment includes software cost of RO 1,651 thousand (31 December 2018: RO 1,520 thousand). Accumulated depreciation against these software is RO 1,076 thousand (31 December 2018: RO 835 thousand).

15. Other assets

	2019 RO 000	2018 RO 000
Ijarah rental receivables	**64**	84
Other profit receivables	**3,918**	1,933
Prepayments	**314**	350
Murabaha and Musawama inventory	**946**	-
Advances	**909**	713
Others	**116**	171
Acceptances	**865**	537
	7,132	3,788
Less: Reserve for suspended profit (note 26)	**(390)**	(248)
Less: Allowance against other assets	**-**	(80)
Less: Impairment allowance for ECL on accrued profit (note 26)	**(49)**	(22)
Total	**6,693**	3,438

Notes to the financial statements
For the year ended 31 December 2019

16. Due to banks

	2019 RO 000	2018 RO 000
Due to the Bank (Bank Dhofar SAOG)	**33,100**	17,550
Due to banks	**35,800**	38,875
Total	**68,900**	56,425

Due to Head Office and banks comprises of Wakala deposits.

At 31 December 2019, inter bank borrowings with 2 banks including Bank Dhofar SAOG individually represented 20% or more of the Islamic window's due to banks (2018: Three banks including Bank Dhofar SAOG represented 20%).

17. Qard Hasan from Head Office

	2019 RO 000	2018 RO 000
Qard Hasan from Head Office (17.1)	**25,000**	25,000
Current clearing account (17.2)	**1,181**	1,150
Total	**26,181**	26,150

17.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

17.2 This amount represents the vostro account of Head Office opened with Maisarah.

18. Other liabilities

	2019 RO 000	2018 RO 000
Payables	**518**	939
Accrued expenses	**1,277**	1,118
Profit payables	**6,960**	6,215
Others	**41**	28
Charity payable	**5**	17
Acceptances	**865**	537
Impairment allowance for ECL on non-funded exposure (note 26)	**269**	531
Total	**9,935**	9,385

19. Equity of investment accountholders

	2019 RO 000	2018 RO 000
Saving account	**39,319**	34,026
Profit equalisation reserve	**16**	11
Investment risk reserve	**4**	3
Total	**39,339**	34,040

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2019 and 2018 as follows:

	2019	2018
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

Notes to the financial statements

For the year ended 31 December 2019

19. Equity of investment accountholders (CONTINUED)

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

19.1 MOVEMENT IN PROFIT EQUALISATION RESERVE

	2019 RO 000	2018 RO 000
Balance as at 1 January	11	7
Apportioned during the year	5	4
Balance as at 31 December	16	11

19.2 MOVEMENT IN INVESTMENT RISK RESERVE

	2019 RO 000	2018 RO 000
Balance as at 1 January	3	2
Apportioned during the year	1	1
Balance as at 31 December	4	3

20. Allocated share capital

During 2018 and 2019, there was no increase in assigned capital to Maisarah from the core paid up capital of the shareholders.

21. Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

22. Income from Islamic finances and investments

	2019 RO 000	2018 RO 000
Murabaha receivables	1,254	1,278
Mudaraba	1,333	1,351
Ijarah muntahia bittamleek – net*	2,429	2,395
Diminishing Musharaka	17,110	15,769
Wakala financing	1,707	462
Musawama	17	-
Ujrah fees	1	-
Profit on investments at FVOCI	1,886	1,592
Profit on investment at amortised cost	350	350
	26,087	23,197

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 3,360 thousand (2018: RO 1,913 thousand).

Notes to the financial statements

For the year ended 31 December 2019

23. Return on customer Wakala deposits

	2019 RO 000	2018 RO 000
Return allocated to Wakala depositors	11,444	10,737
Hiba for Wakala depositors	1	29
	11,445	10,766

24. Staff costs

	2019 RO 000	2018 RO 000
Salaries and allowances	4,195	3,929
Other personnel cost	695	660
Non-Omani employee terminal benefits	46	54
	4,936	4,643

25. General and administrative expenses

	2019 RO 000	2018 RO 000
Occupancy cost	622	602
Operating and administration cost	1,036	969
	1,658	1,571

26. Allowance for expected credit losses

26.1 THE FOLLOWING TABLE CONTAINS AN ANALYSIS OF STAGE-WISE RISK EXPOSURES WHICH ARE SUBJECT TO ECL PROVISION AS AT 31 DECEMBER 2019 AND 2018:

31 December 2019	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Gross exposure				
Balances with Central Bank of Oman	41,108	-	-	41,108
Due from banks and financial institutions	24,747	-	-	24,747
Murabaha and other receivables	17,382	2,266	38	19,686
Mudaraba financing	4,347	14,549	-	18,896
Diminishing Musharaka financing	264,433	59,701	2,690	326,824
Investments at FVOCI	52,586	-	-	52,586
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	21,957	17,983	70	40,010
Ijarah Muntahia Bittamleek	45,822	119	80	46,021
Accrued profit	2,277	1,315	390	3,982
Acceptances	656	209	-	865
Total funded gross exposure	485,315	96,142	3,268	584,725
Letter of credit / guarantee	5,353	21,266	-	26,619
Financing commitment / unutilised limits	20,424	3,526	-	23,950
Total non-funded gross exposure	25,777	24,792	-	50,569
	511,092	120,934	3,268	635,294

Notes to the financial statements
For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)
26.1 THE FOLLOWING TABLE CONTAINS AN ANALYSIS OF STAGE-WISE RISK EXPOSURES WHICH ARE SUBJECT TO ECL PROVISION AS AT 31 DECEMBER 2019 AND 2018 (CONTINUED)

31 December 2019 (continued)	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(88)	(22)	(18)	(128)
Mudaraba financing	(24)	(156)	-	(180)
Diminishing Musharaka financing	(846)	(3,200)	(849)	(4,895)
Investments at FVOCI	(125)	-	-	(125)
Investment at amortised cost	-	-	-	-
Wakala financing	(36)	(37)	(18)	(91)
Ijarah Muntahia Bittamleek	(73)	(22)	(43)	(138)
Accrued profit	(9)	(40)	(390)	(439)
Acceptances	-	(1)	-	(1)
Total funded	(1,203)	(3,478)	(1,318)	(5,999)
Letter of credit / guarantee	(18)	(93)	-	(111)
Financing commitment / unutilised limits	(109)	(48)	-	(157)
Total non-funded	(127)	(141)	-	(268)
	(1,330)	(3,619)	(1,318)	(6,267)
Net exposure				
Balances with Central Bank of Oman	41,108	-	-	41,108
Due from banks and financial institutions	24,745	-	-	24,745
Murabaha and other receivables	17,294	2,244	20	19,558
Mudaraba financing	4,323	14,393	-	18,716
Diminishing Musharaka financing	263,587	56,501	1,841	321,929
Investments at FVOCI	52,461	-	-	52,461
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	21,921	17,946	52	39,919
Ijarah Muntahia Bittamleek	45,749	97	37	45,883
Accrued profit	2,268	1,275	-	3,543
Acceptances	656	208	-	864
Total funded net exposure	484,112	92,664	1,950	578,726
Letter of credit / guarantee	5,335	21,173	-	26,508
Financing Commitment / unutilised limits	20,315	3,478	-	23,793
Total non-funded net exposure	25,650	24,651	-	50,301
	509,762	117,315	1,950	629,027

Notes to the financial statements
For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)
26.1 THE FOLLOWING TABLE CONTAINS AN ANALYSIS OF STAGE-WISE RISK EXPOSURES WHICH ARE SUBJECT TO ECL PROVISION AS AT 31 DECEMBER 2019 AND 2018 (CONTINUED)

31 December 2018	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Gross exposure				
Balances with Central Bank of Oman	36,454	-	-	36,454
Due from banks and financial institutions	30,375	-	-	30,375
Murabaha and other receivables	23,990	605	30	24,625
Mudaraba financing	13,472	13,113	-	26,585
Diminishing Musharaka financing	239,823	43,799	1,893	285,515
Investments at FVOCI	31,599	-	-	31,599
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	12,287	6,475	-	18,762
Ijarah Muntahia Bittamleek	45,720	197	81	45,998
Accrued profit	1,238	531	248	2,017
Acceptances	230	307	-	537
Total funded gross exposure	445,188	65,027	2,252	512,467
Letter of credit / guarantee	7,682	8,889	-	16,571
Financing commitment / unutilised limits	39,603	9,849	-	49,452
Total non-funded gross exposure	47,285	18,738	-	66,023
	492,473	83,765	2,252	578,490
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(14)	-	-	(14)
Murabaha and other receivables	(77)	(19)	(16)	(112)
Mudaraba financing	(39)	(245)	-	(284)
Diminishing Musharaka financing	(660)	(2,601)	(605)	(3,866)
Investments at FVOCI	(174)	-	-	(174)
Investment at amortised cost	-	-	-	-
Wakala financing	(10)	(19)	-	(29)
Ijarah Muntahia Bittamleek	(50)	(22)	(38)	(110)
Accrued profit	(5)	(17)	(248)	(270)
Acceptances	-	(2)	-	(2)
Total funded	(1,029)	(2,925)	(907)	(4,861)
Letter of credit / guarantee	(36)	(68)	-	(104)
Financing commitment / unutilised limits	(190)	(235)	-	(425)
Total non-funded	(226)	(303)	-	(529)
	(1,255)	(3,228)	(907)	(5,390)

Notes to the financial statements
For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)
26.1 THE FOLLOWING TABLE CONTAINS AN ANALYSIS OF STAGE-WISE RISK EXPOSURES WHICH ARE SUBJECT TO ECL PROVISION AS AT 31 DECEMBER 2019 AND 2018 (CONTINUED)

31 December 2018 (continued)	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Net exposure				
Balances with Central Bank of Oman	36,454	-	-	36,454
Due from banks and financial institutions	30,361	-	-	30,361
Murabaha and other receivables	23,913	586	14	24,513
Mudaraba financing	13,433	12,868	-	26,301
Diminishing Musharaka financing	239,163	41,198	1,288	281,649
Investments at FVOCI	31,425	-	-	31,425
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	12,277	6,456	-	18,733
Ijarah Muntahia Bittamleek	45,670	175	43	45,888
Accrued profit	1,233	514	-	1,747
Acceptances	230	305	-	535
Total funded net exposure	444,159	62,102	1,345	507,606
Letter of credit / guarantee	7,646	8,821	-	16,467
Financing Commitment / unutilised limits	39,413	9,614	-	49,027
Total non-funded net exposure	47,059	18,435	-	65,494
	491,218	80,537	1,345	573,100

26.2 In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant of CBO norms, including those on restructuring of accounts for regulatory reporting purposes.

Notes to the financial statements

For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)

26.2.1 COMPARISON OF PROVISIONS HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, and reserve profit required as per CBO are given below based on CBO circular BM 1149:

31 December 2019									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)= 3-4-10	(8)=3-5	(9)	(10)
Standard	Stage 1	353,941	3,691	1,067	2,624	350,250	352,874	-	-
	Stage 2	52,507	524	939	(415)	51,983	51,568	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**406,448**	**4,215**	**2,006**	**2,209**	**402,233**	**404,442**	**-**	**-**
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	42,111	417	2,498	(2,081)	41,694	39,613	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**42,111**	**417**	**2,498**	**(2,081)**	**41,694**	**39,613**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	58	14	19	(5)	44	39	-	-
Subtotal		**58**	**14**	**19**	**(5)**	**44**	**39**	**-**	**-**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	154	45	59	(14)	107	95	-	2
Subtotal		**154**	**45**	**59**	**(14)**	**107**	**95**	**-**	**2**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,666	1,008	850	158	1,658	1,816	-	-
Subtotal		**2,666**	**1,008**	**850**	**158**	**1,658**	**1,816**	**-**	**-**
Other items	Stage 1	157,151	-	263	(263)	157,151	156,888	-	-
	Stage 2	26,316	-	182	(182)	26,316	26,134	-	-
	Stage 3	390	-	390	(390)	-	-	-	390
Subtotal		**183,857**	**-**	**835**	**(835)**	**183,467**	**182,022**	**-**	**390**
Total	**Stage 1**	**511,092**	**3,691**	**1,330**	**2,361**	**507,401**	**509,762**	**-**	**-**
	Stage 2	**120,934**	**941**	**3,619**	**(2,678)**	**119,993**	**117,315**	**-**	**-**
	Stage 3	**3,268**	**1,067**	**1,318**	**(251)**	**1,809**	**1,950**	**-**	**392**
	Total	**635,294**	**5,699**	**6,267**	**(568)**	**629,203**	**629,027**	**-**	**392**

Notes to the financial statements
For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)

26.2.1 COMPARISON OF PROVISIONS HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS (CONTINUED)

31 December 2018									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO 000	Provision required as per CBO Norms RO 000	Provision held as per IFRS 9 RO 000	Difference between CBO provision required and provision held RO 000	Net Amount as per CBO norms* RO 000	Net Amount as per IFRS 9 RO 000	Profit recognized as per IFRS 9 RO 000	Reserve profit as per CBO norms RO 000
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8)=3-5	(9)	(10)
Standard	Stage 1	335,214	3,454	835	2,619	331,760	334,379	-	-
	Stage 2	47,344	468	1,410	(942)	46,876	45,934	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		382,558	3,922	2,245	1,677	378,636	380,313	-	-
Special Mention	Stage 1	78	2	1	1	76	77	-	-
	Stage 2	16,845	156	1,496	(1,340)	16,689	15,349	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		16,923	158	1,497	(1,339)	16,765	15,426	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	53	13	18	(5)	40	35	-	-
Subtotal		53	13	18	(5)	40	35	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	82	27	43	(16)	54	39	-	1
Subtotal		82	27	43	(16)	54	39	-	1
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,869	794	598	(196)	1,075	1,271	-	-
Subtotal		1,869	794	598	(196)	1,075	1,271	-	-
Other items	Stage 1	157,181	-	419	(419)	157,181	156,762	-	-
	Stage 2	19,576	-	322	(322)	19,576	19,254	-	-
	Stage 3	248	-	248	(248)	-	-	-	248
Subtotal		177,005	-	989	(989)	176,757	176,016	-	248
Total	Stage 1	492,473	3,456	1,255	2,201	489,017	491,218	-	-
	Stage 2	83,765	624	3,228	(2,604)	83,141	80,537	-	-
	Stage 3	2,252	834	907	(73)	1,169	1,345	-	249
	Total	578,490	4,914	5,390	(476)	573,327	573,100	-	249

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at FVOCI and other assets.

26. Allowance for expected credit losses (CONTINUED)

26.2.2 RESTRUCTURED FINANCING

31 December 2019									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS	Reserve profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8)=3-5	(9)	(10)
Classified as performing	Stage 1	526	3	12	(9)	523	514	-	-
	Stage 2	14,785	141	1,251	(1,110)	14,644	13,534	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**15,311**	**144**	**1,263**	**(1,119)**	**15,167**	**14,048**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**Stage 1**	**526**	**3**	**12**	**(9)**	**523**	**514**	**-**	**-**
	Stage 2	**14,785**	**141**	**1,251**	**(1,110)**	**14,644**	**13,534**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Total	**15,311**	**144**	**1,263**	**(1,119)**	**15,167**	**14,048**	**-**	**-**

31 December 2018									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS	Reserve profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8)=3-5	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	480	2	93	(91)	478	387	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		480	2	93	(91)	478	387	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	480	2	93	(91)	478	387	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Total	480	2	93	(91)	478	387	-	-

* Net of provisions and reserve profit as per CBO norms.

Notes to the financial statements
For the year ended 31 December 2019

26. Allowance for expected credit losses (CONTINUED)
26.2.2 RESTRUCTURED FINANCING (CONTINUED)

Asset Classification as per IFRS 9	31 December 2019		
	As per CBO Norms RO 000	As per IFRS 9 RO 000	Difference RO 000
Impairment loss charged to statement of profit or loss	785	734	51
Provision required as per CBO norms including reserve profit/held as per IFRS 9	6,091	6,267	(176)
Gross non-performing financing (percentage)	0.64%	0.64%	0.00%
Net non-performing financing (percentage)	0.40%	0.43%	0.03%

Asset Classification as per IFRS 9	31 December 2018		
	As per CBO Norms RO 000	As per IFRS 9 RO 000	Difference RO 000
Impairment loss charged to statement of profit or loss	578	516	62
Provision required as per CBO norms including reserve profit/held as per IFRS 9	5,163	5,390	(227)
Gross non-performing financing (percentage)	0.50%	0.50%	0.00%
Net non-performing financing (percentage)	0.29%	0.34%	0.05%

27. Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2019 RO 000	2018 RO 000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	822	664
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	35,463	43,930
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	9	8
– sitting fees paid	2	2
Other Members		
– remuneration proposed	29	24
– sitting fees paid	8	6
	48	40
Other transactions		
Rental payment to a related party	306	237
Income from finance to related parties	37	25
Profit expense on deposits from related parties	1,811	2,007
Key management compensation		
Salaries and other benefits	267	261
End of service benefits	10	9
	277	270

At 31 December 2019, profit rate for finances range from 2.00% to 5.50% (2018: 2.00% to 5.25%), and profit rate for deposits range from 0.0% to 4.5% (2018: 0.00% to 4.25%).

Notes to the financial statements
For the year ended 31 December 2019

28. Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2019 RO 000	2018 RO 000
Letters of credit	**10,532**	5,678
Guarantees	**16,087**	10,893
Total	**26,619**	16,571

(b) Capital and investment commitments

	2019 RO 000	2018 RO 000
Contractual commitments for property and equipment	**73**	19

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended **31 December 2019** amounts to **RO 45,631 thousand** (2018: 90,004 thousand).

29. Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	Contract / Notional Amount	
	2019 RO 000	2018 RO 000
Forward exchange contracts		
Currency forward - purchase contracts	**38,500**	38,635
Currency forward - sale contracts	**38,511**	38,505

During 2018 and 2019, all the foreign exchange contracts have a maturity of less than one month.

30. Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements
For the year ended 31 December

30. Fair value information (Continued)

Fair value information	2019			
	Level 1	Level 2	Level 3	Total
	RO 000	RO 000	RO 000	RO 000
Investments at FVOCI	**52,586**	**-**	**-**	**52,586**

Fair value information	2018			
	Level 1	Level 2	Level 3	Total
	RO 000	RO 000	RO 000	RO 000
Investments at FVOCI	31,599	-	-	31,599

31. Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah 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 Maisarah's committees are among the factors which reflect the independence of the Risk Management Division's working and the key role it plays within Maisarah.

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. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto 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. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. 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 Moody's, S&P and Fitch 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. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below.

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)

(a) Geographical concentrations (Gross)

	2019				
	Due from banks and financial institutions RO 000	Due to banks and financial institutions RO 000	Current accounts RO 000	Customer wakala deposits RO 000	Equity of investment accountholders RO 000
Sultanate of Oman	-	57,350	112,492	253,354	39,251
Other GCC Countries	23,346	11,550	6	50	88
Europe and North America	1,401	-	-	-	-
Africa and Asia	-	-	-	-	-
	24,747	68,900	112,498	253,404	39,339

All other assets and liabilities are geographically concentrated in the Sultanate of Oman.

	2018				
	Due from banks and financial institutions RO 000	Due to banks and financial institutions RO 000	Current accounts RO 000	Customer wakala deposits RO 000	Equity of investment accountholders RO 000
Sultanate of Oman	13,860	27,550	56,037	263,269	33,951
Other GCC Countries	13,710	28,875	3	50	50
Europe and North America	2,805	-	-	-	-
Africa and Asia	-	-	-	-	39
	30,375	56,425	56,040	263,319	34,040

(b) Customer concentrations on assets (Gross)

	2019						
	Due from banks and financial institutions RO 000	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Retail	-	12,245	-	116,929	-	45,787	174,961
Corporate	24,747	7,441	18,896	209,895	40,010	234	301,223
	24,747	19,686	18,896	326,824	40,010	46,021	476,184

	2018						
	Due from banks and financial institutions RO 000	Murabaha and other receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total RO 000
Retail	-	10,822	-	112,845	-	45,758	169,425
Corporate	30,375	13,803	26,585	172,670	18,762	240	262,435
	30,375	24,625	26,585	285,515	18,762	45,998	431,860

Notes to the financial statements

For the year ended 31 December 2019

30. Fair value information (Continued)

(c) Industry type distribution of exposures by major types of credit exposures:

	2019						
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total financing RO 000	Off balance sheet exposures RO 000
Import trade	415	973	2,660	12,667	-	16,715	664
Wholesale & retail trade	2,177	856	2,130	695	-	5,858	558
Mining & quarrying	-	648	1,146	2,864	-	4,658	-
Construction	2,672	7,648	142,022	11,525	-	163,867	12,351
Manufacturing	2,093	6,789	7,345	8,744	-	24,971	12,174
Electricity, gas and water	-	-	1,823	-	-	1,823	-
Transport & communication	84	-	124	-	-	208	-
Financial institutions	-	985	-	-	-	985	-
Services	-	43	45,410	2,486	-	47,939	58
Retail	12,245	-	116,929	-	45,787	174,961	361
Agriculture and allied Activites	-	954	-	1,029	-	1,983	-
Others	-	-	7,235	-	234	7,469	453
	19,686	18,896	326,824	40,010	46,021	451,437	26,619

	2018						
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total financing RO 000	Off balance sheet exposures RO 000
Import trade	5,579	780	1,283	9,509	-	17,151	6,649
Wholesale & retail trade	2,242	775	3,039	31	-	6,087	1
Mining & quarrying	-	2,840	861	418	-	4,119	-
Construction	2,924	10,743	109,416	5,934	240	129,257	5,438
Manufacturing	2,952	9,478	6,590	1,514	-	20,534	3,649
Electricity, gas and water	-	-	513	-	-	513	-
Transport & communication	106	-	221	-	-	327	-
Financial institutions	-	981	-	-	-	981	-
Services	-	35	45,757	1,356	-	47,148	727
Retail	10,822	-	112,845	-	45,758	169,425	-
Agriculture and allied Activities	-	953	-	-	-	953	-
Others	-	-	4,990	-	-	4,990	107
	24,625	26,585	285,515	18,762	45,998	401,485	16,571

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)

(d) Residual contractual maturities of the portfolio by major types of credit exposures:

	2019						
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total financing RO 000	Off Balance sheet exposures RO 000
Upto 1 month	1,080	18,896	41	4,251	-	24,268	4,284
1 - 3 months	681	-	39	10,279	1	11,000	15,670
3 - 6 months	2,199	-	107	21,355	10	23,671	1,317
6 - 9 months	134	-	370	4,125	3	4,632	2,432
9 - 12 months	74	-	168	-	7	249	857
1 - 3 years	874	-	6,776	-	163	7,813	2,059
3 – 5 years	1,833	-	26,892	-	459	29,184	-
Over 5 years	12,811	-	292,431	-	45,378	350,620	-
	19,686	18,896	326,824	40,010	46,021	451,437	26,619

	2018						
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Total financing RO 000	Off Balance sheet exposures RO 000
Upto 1 month	1,646	26,585	1	394	-	28,626	1,169
1 - 3 months	4,847	-	83	3,051	-	7,981	7,482
3 - 6 months	4,434	-	5	11,364	-	15,803	1,926
6 - 9 months	894	-	209	3,953	9	5,065	1,806
9 - 12 months	37	-	784	-	-	821	817
1 - 3 years	807	-	10,565	-	107	11,479	2,896
3 – 5 years	1,480	-	18,338	-	419	20,237	475
Over 5 years	10,480	-	255,530	-	45,463	311,473	-
	24,625	26,585	285,515	18,762	45,998	401,485	16,571

(e) Maximum exposure to credit risk without consideration of collateral held:

	2019 RO 000	2018 RO 000
Due from banks and financial institutions (Gross)	24,747	30,375

30. Fair value information (Continued)

(f) Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers customer-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward-looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Bank uses an internal risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the customer. Both customer specific and non-customer specific (i.e. macroeconomic) forward-looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing financing (NPFs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2019 including the projections used is presented as under:

		2019	2018			2019	2018
Real GDP growth (%)	Present	**2.10%**	2.0%	Oil revenue (%GDP)	Present	**31.08%**	21.1%
	Year 1 Projection	**1.10%**	2.0%		Year 1 Projection	**27.07%**	24.3%
	Year 2 Projection	**6.20%**	3.6%		Year 2 Projection	**25.43%**	24.7%
	Year 3 Projection	**2.80%**	1.9%		Year 3 Projection	**27.74%**	23.8%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 15 years.

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000
Balances with CBO								
High investment grade	-	41,108	-	-	-	-	-	41,108
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	41,108	-	-	-	-	-	41,108
Banks								
High investment grade	2	24,747	-	-	-	-	2	24,747
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	2	24,747	-	-	-	-	2	24,747
Financing to customers								
Corporate and SME								
High investment grade	115	52,523	91	17,114	-	-	206	69,637
Moderate investment grade	634	125,619	494	25,177	-	-	1,128	150,796
Sub investment grade	12	1,218	2,827	52,171	-	-	2,839	53,389
Non-performing	-	-	-	-	815	2,654	815	2,654
Total	761	179,360	3,412	94,462	815	2,654	4,988	276,476
Retail (Personal)								
High investment grade	55	11,257	-	-	-	-	55	11,257
Moderate investment grade	5	329	1	29	-	-	6	358
Sub investment grade	-	-	2	8	-	-	2	8
Non-performing	-	-	-	-	16	30	16	30
Total	60	11,586	3	37	16	30	79	11,653
Retail (Housing and credit card receivables)								
High investment grade	246	162,995	-	-	-	-	246	162,995
Moderate investment grade	-	-	9	73	-	-	9	73
Sub investment grade	-	-	13	46	-	-	13	46
Non-performing	-	-	-	-	97	194	97	194
Total	246	162,995	22	119	97	194	365	163,308
Total financing	1,067	353,941	3,437	94,618	928	2,878	5,432	451,437
Investments								
High investment grade	-	42,576	-	-	-	-	-	42,576
Moderate investment grade	125	20,010	-	-	-	-	125	20,010
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	125	62,586	-	-	-	-	125	62,586

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Letter of credit / Guarantees								
Corporate and SME	17	4,992	93	21,266	-	-	**110**	**26,258**
Retail	1	361	-	-	-	-	**1**	**361**
Total	**18**	**5,353**	**93**	**21,266**	**-**	**-**	**111**	**26,619**
Others								
Unutilised	109	20,424	48	3,526	-	-	**157**	**23,950**
Acceptances	-	656	1	209	-	-	**1**	**865**
Accrued profit	9	2,277	40	1,315	390	390	**439**	**3,982**
Total	**118**	**23,357**	**89**	**5,050**	**390**	**390**	**597**	**28,797**
Total portfolio	**1,330**	**511,092**	**3,619**	**120,934**	**1,318**	**3,268**	**6,267**	**635,294**

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Balances with CBO								
High investment grade	-	36,454	-	-	-	-	-	36,454
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	36,454	-	-	-	-	-	36,454
Banks								
High investment grade	1	6,004	-	-	-	-	1	6,004
Moderate investment grade	4	22,061	-	-	-	-	4	22,061
Sub investment grade	9	2,310	-	-	-	-	9	2,310
Non-performing	-	-	-	-	-	-	-	-
Total	14	30,375	-	-	-	-	14	30,375
Financing to customers								
Corporate and SME								
High investment grade	195	79,189	38	3,353	-	-	233	82,542
Moderate investment grade	397	83,068	923	28,313	-	-	1,320	111,381
Sub investment grade	19	4,267	1,869	32,034	-	-	1,888	36,301
Non-performing	-	-	-	-	577	1,836	577	1,836
Total	611	166,524	2,830	63,700	577	1,836	4,018	232,060
Retail (Personal)								
High investment grade	48	10,129	-	-	-	-	48	10,129
Moderate investment grade	3	153	-	-	-	-	3	153
Sub investment grade	-	-	14	72	-	-	14	72
Non-performing	-	-	-	-	15	30	15	30
Total	51	10,282	14	72	15	30	80	10,384

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Retail (Housing and credit card receivables)								
High investment grade	-	-	-	-	-	-	-	-
Moderate investment grade	174	158,486	62	417	-	-	236	158,903
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	67	138	67	138
Total	174	158,486	62	417	67	138	303	159,041
Total financing	836	335,292	2,906	64,189	659	2,004	4,401	401,485
Investments								
High investment grade	-	21,589	-	-	-	-	-	21,589
Moderate investment grade	174	20,010	-	-	-	-	174	20,010
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	174	41,599	-	-	-	-	174	41,599
Letter of credit / Guarantees								
Corporate and SME	33	7,228	68	8,889	-	-	101	16,117
Retail	3	454	-	-	-	-	3	454
Total	36	7,682	68	8,889	-	-	104	16,571
Others								
Unutilised	190	39,603	235	9,849	-	-	425	49,452
Acceptances	-	230	2	307	-	-	2	537
Accrued profit	5	1,238	17	531	248	248	270	2,017
Total	195	41,071	254	10,687	248	248	697	52,006
Total portfolio	1,255	492,473	3,228	83,765	907	2,252	5,390	578,490

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

The gross exposure of the financial assets as at 31 December 2019 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000
Balances with CBO								
Opening balance	-	36,454	-	-	-	-	-	**36,454**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	**-**
- Transfer to Stage 2	-	-	-	-	-	-	-	**-**
- Transfer to Stage 3	-	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	-	**-**
Re-measurement of outstanding	-	(3,046)	-	-	-	-	-	**(3,046)**
Financial asset originated during the year	-	7,700	-	-	-	-	-	**7,700**
Financial asset matured during the year	-	-	-	-	-	-	-	**-**
Closing balance	**-**	**41,108**	**-**	**-**	**-**	**-**	**-**	**41,108**
Banks								
Opening balance	14	30,375	-	-	-	-	**14**	**30,375**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(13)	(17,178)	-	-	-	-	**(13)**	**(17,178)**
Financial asset originated during the year	1	11,550	-	-	-	-	**1**	**11,550**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**2**	**24,747**	**-**	**-**	**-**	**-**	**2**	**24,747**
Total financing								
Opening balance	836	335,292	2,906	64,189	658	2,004	**4,400**	**401,485**
Transfer between stages								
- Transfer to Stage 1	218	2,173	(218)	(2,173)	-	-	**-**	**-**
- Transfer to Stage 2	(110)	(28,280)	110	28,280	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	(23)	(742)	23	818	**-**	**-**
	108	26,183	(131)	25,365	23	818	**-**	**-**
Re-measurement of outstanding	(173)	(8,314)	(3)	(13,372)	227	(14)	**51**	**(21,700)**
Financial asset originated during the year	373	87,234	2,070	51,324	18	70	**2,461**	**138,628**
Financial asset matured during the year	(77)	(34,088)	(1,405)	(32,888)	-	-	**(1,482)**	**(66,976)**
Closing balance	**1,067**	**353,941**	**3,437**	**94,618**	**926**	**2,878**	**5,430**	**451,437**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Corporate and SME								
Opening balance	611	166,524	2,830	63,700	577	1,836	**4,018**	**232,060**
Transfer between stages								
- Transfer to Stage 1	151	1,752	(151)	(1,752)	-	-	**-**	**-**
- Transfer to Stage 2	(110)	(28,182)	110	28,182	-	-	**-**	**-**
- Transfer to Stage 3	-	(18)	(23)	(742)	23	760	**-**	**-**
	41	(26,448)	(64)	25,688	23	760	**-**	**-**
Re-measurement of outstanding	(157)	(2,804)	(19)	(13,362)	197	(12)	**21**	**(16,178)**
Financial asset originated during the year	336	71,634	2,070	51,324	18	70	**2,424**	**123,028**
Financial asset matured during the year	(70)	(29,546)	(1,405)	(32,888)	-	-	**(1,475)**	**(62,434)**
Closing balance	**761**	**179,360**	**3,412**	**94,462**	**815**	**2,654**	**4,988**	**276,476**
Retail								
Opening balance	225	168,768	76	489	81	168	**382**	**169,425**
Transfer between stages								
- Transfer to Stage 1	67	421	(67)	(421)	-	-	**-**	**-**
- Transfer to Stage 2	-	(98)	-	98	-	-	**-**	**-**
- Transfer to Stage 3	-	(58)	-	-	-	58	**-**	**-**
	67	265	(67)	(323)	-	58	**-**	**-**
Re-measurement of outstanding	(16)	(5,510)	16	(10)	30	(2)	**30**	**(5,522)**
Financial asset originated during the year	37	15,600	-	-	-	-	**37**	**15,600**
Financial asset matured during the year	(7)	(4,542)	-	-	-	-	**(7)**	**(4,542)**
Closing balance	**306**	**174,581**	**25**	**156**	**111**	**224**	**442**	**174,961**
Investments								
Opening balance	174	41,599	-	-	-	-	**174**	**41,599**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(49)	637	-	-	-	-	**(49)**	**637**
Financial asset originated during the year	-	20,350	-	-	-	-	**-**	**20,350**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**125**	**62,586**	**-**	**-**	**-**	**-**	**125**	**62,586**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Letter of credit / Guarantees								
Opening balance	36	7,682	68	8,889	-	-	**104**	**16,571**
Transfer between stages								
- Transfer to Stage 1	-	194	-	(194)	-	-	**-**	**-**
- Transfer to Stage 2	(2)	(235)	2	235	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(2)	(41)	2	41	-	-	**-**	**-**
Re-measurement of outstanding	(13)	(1,182)	(28)	(224)	-	-	**(41)**	**(1,406)**
Financial asset originated during the year	12	2,464	63	15,326	-	-	**75**	**17,790**
Financial asset matured during the year	(15)	(3,570)	(12)	(2,766)	-	-	**(27)**	**(6,336)**
Closing balance	**18**	**5,353**	**93**	**21,266**	**-**	**-**	**111**	**26,619**
Acceptances								
Opening balance	-	230	2	307	-	-	**2**	**537**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	-	656	1	209	-	-	**1**	**865**
Financial asset matured during the year	-	(230)	(2)	(307)	-	-	**(2)**	**(537)**
Closing balance	**-**	**656**	**1**	**209**	**-**	**-**	**1**	**865**
Unutilised limits								
Opening balance	190	39,603	235	9,849	-	-	**425**	**49,452**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	181	-	(181)	-	-	**-**	**-**
- Transfer to Stage 3	(11)	(6,798)	11	6,798	-	-	**-**	**-**
	(11)	(6,617)	11	6,617	-	-	**-**	**-**
Re-measurement of outstanding	26	1,106	(12)	(6,521)	-	-	**14**	**(5,415)**
Financial asset originated during the year	49	9,753	-	1	-	-	**49**	**9,754**
Financial asset matured during the year	(145)	(23,421)	(186)	(6,420)	-	-	**(331)**	**(29,841)**
Closing balance	**109**	**20,424**	**48**	**3,526**	**-**	**-**	**157**	**23,950**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Accrued profit								
Opening balance	5	1,238	17	531	248	248	**270**	**2,017**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	(14)	(14)	14	14	-	-
	-	-	(14)	(14)	14	14	-	-
Re-measurement of outstanding	4	1,039	37	798	128	128	**169**	**1,965**
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	**9**	**2,277**	**40**	**1,315**	**390**	**390**	**439**	**3,982**

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Balances with CBO								
Opening balance	-	79,374	-	-	-	-	-	**79,374**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	(42,920)	-	-	-	-	-	**(42,920)**
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	-	**36,454**	-	-	-	-	-	**36,454**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Banks								
Opening balance	47	8,881	-	-	-	-	**47**	**8,881**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	14	30,375	-	-	-	-	**14**	**30,375**
Financial asset matured during the year	(47)	(8,881)	-	-	-	-	**(47)**	**(8,881)**
Closing balance	**14**	**30,375**	**-**	**-**	**-**	**-**	**14**	**30,375**
Total financing								
Opening balance	2,051	345,144	2,010	40,708	451	1,929	**4,512**	**387,781**
Transfer between stages								
- Transfer to Stage 1	216	3,571	(216)	(3,571)	-	-	**-**	**-**
- Transfer to Stage 2	(485)	(24,196)	485	24,196	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	-	-	-	76	**-**	**-**
	(269)	(20,701)	269	20,625	-	76	**-**	**-**
Re-measurement of outstanding	(932)	(2,285)	170	(6,190)	205	(6)	**(557)**	**(8,481)**
Financial asset originated during the year	187	67,869	531	11,282	2	5	**720**	**79,156**
Financial asset matured during the year	(201)	(54,735)	(74)	(2,236)	-	-	**(275)**	**(56,971)**
Closing balance	**836**	**335,292**	**2,906**	**64,189**	**658**	**2,004**	**4,400**	**401,485**
Corporate and SME								
Opening balance	1,827	188,306	1,989	40,367	443	1,838	**4,259**	**230,511**
Transfer between stages								
- Transfer to Stage 1	198	3,277	(198)	(3,277)	-	-	**-**	**-**
- Transfer to Stage 2	(483)	(23,765)	483	23,765	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(285)	(20,488)	285	20,488	-	-	-	-
Re-measurement of outstanding	(890)	597	103	(6,180)	134	(2)	**(653)**	**(5,585)**
Financial asset originated during the year	153	49,055	527	11,261	-	-	**680**	**60,316**
Financial asset matured during the year	(194)	(50,946)	(74)	(2,236)	-	-	**(268)**	**(53,182)**
Closing balance	**611**	**166,524**	**2,830**	**63,700**	**577**	**1,836**	**4,018**	**232,060**

Notes to the financial statements

For the year ended 31 December 2019

30. Fair value information (Continued)

(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Retail								
Opening balance	224	156,838	21	341	8	91	**253**	**157,270**
Transfer between stages								
- Transfer to Stage 1	18	294	(18)	(294)	-	-	**-**	**-**
- Transfer to Stage 2	(2)	(431)	2	431	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	-	-	-	76	**-**	**-**
	16	(213)	(16)	137	-	76	**-**	**-**
Re-measurement of outstanding	(42)	(2,882)	67	(10)	71	(4)	**96**	**(2,896)**
Financial asset originated during the year	34	18,814	4	21	2	5	**40**	**18,840**
Financial asset matured during the year	(7)	(3,789)	-	-	-	-	**(7)**	**(3,789)**
Closing balance	**225**	**168,768**	**76**	**489**	**81**	**168**	**382**	**169,425**
Investments								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	174	41,599	-	-	-	-	**174**	**41,599**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**174**	**41,599**	**-**	**-**	**-**	**-**	**174**	**41,599**
Letter of credit / Guarantees								
Opening balance	63	12,682	1	98	-	-	**64**	**12,780**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	(14)	(5,758)	14	5,758	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(14)	(5,758)	14	5,758	-	-	**-**	**-**
Re-measurement of outstanding	(25)	3,229	50	2,452	-	-	**25**	**5,681**
Financial asset originated during the year	22	2,903	3	616	-	-	**25**	**3,519**
Financial asset matured during the year	(10)	(5,374)	-	(35)	-	-	**(10)**	**(5,409)**
Closing balance	**36**	**7,682**	**68**	**8,889**	**-**	**-**	**104**	**16,571**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(f) Amounts arising from Expected Credit Loss (ECL) (Continued)

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000	ECL RO 000	Exposure RO 000
Acceptances								
Opening balance	2	582	-	-	-	-	**2**	**582**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(1)	(20)	-	-	-	-	**(1)**	**(20)**
Financial asset originated during the year	-	215	2	307	-	-	**2**	**522**
Financial asset matured during the year	(1)	(547)	-	-	-	-	**(1)**	**(547)**
Closing balance	**-**	**230**	**2**	**307**	**-**	**-**	**2**	**537**
Unutilised limits								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	190	39,603	235	9,849	-	-	**425**	**49,452**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**190**	**39,603**	**235**	**9,849**	**-**	**-**	**425**	**49,452**
Accrued profit								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-			**-**	**-**
Financial asset originated during the year	5	1,238	17	531	248	248	**270**	**2,017**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**5**	**1,238**	**17**	**531**	**248**	**248**	**270**	**2,017**

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)

(g) Distribution of performing and non-performing financing by type of industry:

	2019								
	Performing Murabaha and other receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Wakala financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	Non-performing Financing RO 000	Total financing RO 000	Stage 1&2 ECL as of Year End RO 000	Stage 3 ECL as of Year End RO 000
Import trade	415	973	2,660	12,667	-	-	16,715	(91)	-
Wholesale & retail trade	2,169	856	1,389	625	-	819	5,858	(32)	(205)
Mining & quarrying	-	648	1,146	2,864	-	-	4,658	(10)	-
Construction	2,672	7,648	140,187	11,525	-	1,835	163,867	(3,437)	(610)
Manufacturing	2,093	6,789	7,345	8,744	-	-	24,971	(221)	-
Electricity, gas and water	-	-	1,823	-	-	-	1,823	(6)	-
Transport & communication	84	-	124	-	-	-	208	(7)	-
Financial institutions	-	985	-	-	-	-	985	(5)	-
Services	-	43	45,410	2,486	-	-	47,939	(290)	-
Retail	12,215	-	116,815	-	45,707	224	174,961	(331)	(111)
Agriculture and allied activities	-	954	-	1,029	-	-	1,983	(2)	-
Others	-	-	7,235	-	234	-	7,469	(72)	-
	19,648	18,896	324,134	39,940	45,941	2,878	451,437	(4,504)	(926)

	2018								
	Performing Murabaha and other receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Wakala financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	Non-performing Financing RO 000	Total financing RO 000	Stage 1&2 ECL as of Year End RO 000	Stage 3 ECL as of Year End RO 000
Import trade	5,579	780	1,283	9,509	-	-	17,151	(80)	-
Wholesale & retail trade	2,242	775	3,039	31	-	-	6,087	(64)	-
Mining & quarrying	-	2,840	861	418	-	-	4,119	(9)	-
Construction	2,924	10,743	107,580	5,934	240	1,836	129,257	(2,855)	(577)
Manufacturing	2,952	9,478	6,590	1,514	-	-	20,534	(173)	-
Electricity, gas and water	-	-	513	-	-	-	513	(2)	-
Transport & communication	106	-	221	-	-	-	327	(3)	-
Financial institutions	-	981	-	-	-	-	981	(2)	-
Services	-	35	45,757	1,356	-	-	47,148	(223)	-
Retail	10,791	-	112,789	-	45,677	168	169,425	(301)	(81)
Agriculture and allied activities	-	953	-	-	-	-	953	(1)	-
Others	-	-	4,990	-	-	-	4,990	(29)	-
	24,594	26,585	283,623	18,762	45,917	2,004	401,485	(3,742)	(658)

Notes to the financial statements

For the year ended 31 December 2019

30. Fair value information (Continued)

(g) Distribution of performing and non-performing financing by type of industry: (Continued)

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah'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. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah 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 Maisarah 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, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(g) Distribution of performing and non-performing financing by type of industry: (Continued)

Maturity profile of assets (net of impairment allowance for ECL) and liabilities

	2019					
	Due on demand and up to 30 days RO 000	More than 1 month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	Total RO 000
Cash and balances with Central Bank of Oman	43,881	-	-	-	-	43,881
Due from banks and financial institutions	24,745	-	-	-	-	24,745
Murabaha and other receivables	4,090	2,623	2,931	8,021	1,893	19,558
Mudaraba financing	945	1,890	1,890	9,448	4,543	18,716
Diminishing Musharaka financing	4,401	33,865	40,014	147,397	96,252	321,929
Investments at FVOCI	-	-	6,363	25,748	20,350	52,461
Investment at amortised cost	-	-	10,000	-	-	10,000
Wakala financing	39,919	-	-	-	-	39,919
Ijarah Muntahia Bittamleek	454	1,836	2,196	17,049	24,348	45,883
Property and equipment	-	-	-	-	1,147	1,147
Other asset	3,693	678	37	-	2,285	6,693
Total assets – funded	122,128	40,892	63,431	207,663	150,818	584,932
Total assets – non funded (Forwards)	38,500	-	-	-	-	38,500
Total assets – funded and non funded	160,628	40,892	63,431	207,663	150,818	623,432
Future profit cash inflows	1,893	13,933	14,814	60,035	35,526	126,201
Current accounts	25,810	37,926	21,672	-	27,090	112,498
Due to banks	26,550	42,350	-	-	-	68,900
Qard Hasan from Head Office	1,181	-	-	25,000	-	26,181
Customer Wakala Deposit	33,537	58,052	33,051	108,786	19,978	253,404
Other liabilities	8,951	678	37	-	269	9,935
Equity of unrestricted investment accountholders	1,966	3,932	3,932	19,659	9,850	39,339
Owner's equity	-	-	-	-	74,675	74,679
Total liabilities and accountholders & owners' equity	97,995	142,938	58,692	153,445	131,862	584,932
Total liabilities non funded (Forwards)	38,511	-	-	-	-	38,511
Total liabilities funded and non funded; and accountholders & owners' equity	136,506	142,938	58,692	153,445	131,862	623,443
Future profit cash outflows	2,458	5,621	4,015	8,113	-	20,207
Gap	24,122	(102,046)	4,739	54,218	18,956	(11)
Cumulative gap	24,122	(77,924)	(73,185)	(18,967)	(11)	-

Notes to the financial statements

For the year ended 31 December 2019

30. Fair value information (Continued)

(g) Distribution of performing and non-performing financing by type of industry: (Continued)

	2018					
	Due on demand and up to 30 days RO 000	More than 1 month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	Total RO 000
Cash and balances with Central Bank of Oman	38,810	-	-	-	-	38,810
Due from banks and financial institutions	30,361	-	-	-	-	30,361
Murabaha and other receivables	12,086	1,773	2,009	6,990	1,655	24,513
Mudaraba financing	1,329	2,658	2,658	13,293	6,363	26,301
Diminishing Musharaka financing	4,354	27,713	31,805	129,405	88,372	281,649
Investments at fair value through equity	-	-	-	16,277	15,148	31,425
Investment at amortised cost	-	-	-	10,000	-	10,000
Wakala financing	18,733	-	-	-	-	18,733
Ijarah Muntahia Bittamleek	518	1,782	2,143	16,620	24,825	45,888
Property and equipment	-	-	-	-	1,309	1,309
Other asset	1,834	403	47	-	1,154	3,438
Total assets	108,025	34,329	38,662	192,585	138,826	512,427
Total assets – non funded (Forwards)	**19,250**	**-**	**19,385**	**-**	**-**	**38,635**
Total assets – funded and non funded	**127,275**	**34,329**	**58,047**	**192,585**	**138,826**	**551,062**
Current accounts	12,833	18,902	10,801	-	13,504	56,040
Due to banks	56,425	-	-	-	-	56,425
Qard Hasan from Head Office	1,150	-	-	25,000	-	26,150
Customer Wakala Deposit	38,794	65,039	45,331	66,194	47,961	263,319
Other liabilities	8,404	403	47	-	531	9,385
Equity of unrestricted investment accountholders	1,701	3,403	3,403	17,013	8,520	34,040
Owner's equity	-	-	-	-	67,068	67,068
Total liabilities and accountholders & owners' equity	119,307	87,747	59,582	108,207	137,584	512,427
Total liabilities non funded (Forwards)	**19,255**	**-**	**19,250**	**-**	**-**	**38,505**
Total liabilities funded and non funded; and accountholders & owners' equity	**138,562**	**87,747**	**78,832**	**108,207**	**137,584**	**550,932**
Gap	**(11,287)**	**(53,418)**	**(20,785)**	**84,378**	**1,242**	**130**
Cumulative gap	**(11,287)**	**(64,705)**	**(85,490)**	**(1,112)**	**130**	**-**

Notes to the financial statements

For the year ended 31 December 2019

30. Fair value information (Continued)

(g) Distribution of performing and non-performing financing by type of industry: (Continued)

Market risk

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

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

	2019			2018		
	Assets RO 000	Liabilities RO 000	Net RO 000	Assets RO 000	Liabilities RO 000	Net RO 000
US Dollars	**73,392**	**75,582**	**2,190**	70,355	68,403	1,952
Euro	**6**	**1**	**5**	4	-	4
UAE Dirham	**193**	**1**	**192**	193	-	193
Others	**53**	**-**	**53**	42	-	42
Total	**73,644**	**75,584**	**2,440**	70,594	68,403	2,191

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

Notes to the financial statements
For the year ended 31 December 2019

30. Fair value information (Continued)
(g) Distribution of performing and non-performing financing by type of industry: (Continued)

Market risk (Continued)
(b) Profit rate risk (Continued)

	2019							
	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	43,881	43,881
Due from banks and financial institutions	2.85%	23,098	-	-	-	-	1,647	24,745
Murabaha and other receivables	5.84%	3,494	2,623	2,931	8,021	1,893	596	19,558
Mudaraba financing	5.96%	18,716	-	-	-	-	-	18,716
Diminishing Musharaka Financing	5.71%	4 ,401	33,865	40,014	147,397	96,252	-	321,929
Investments at FVOCI	5.28%	-	-	6,363	25,748	20,350	-	52,461
Investment at amortised cost	3.50%	-	-	10,000	-	-	-	10,000
Wakala financing	5.62%	39,919	-	-	-	-	-	39,919
Ijara Muntahia Bittamleek	5.30%	454	1,836	2,196	17,049	24,348	-	45,883
Property and equipment	-	-	-	-	-	-	1,147	1,147
Other asset	-	-	-	-	-	-	6,693	6,693
Total assets		90,082	38,324	61,504	198,215	142,843	53,964	584,932
Current accounts	4.30%	18,263	31,960	9,132	9,132	22,829	21,182	112,498
Due to banks	2.75%	26,550	42,350	-	-	-	-	68,900
Qard Hasan from Head office		-	-	-	-	-	26,181	26,181
Customer Wakala deposit	4.30%	33,537	58,052	33,051	108,786	19,978	-	253,404
Other liabilities		-	-	-	-	-	9,935	9,935
Equity of unrestricted investment accountholders	2.43%	39,319	-	-	-	-	20	39,339
Owner's equity	-	-	-	-	-	-	74,675	74,675
Equity of accountholders & Total liabilities and shareholders' equity		117,669	132,362	42,183	117,918	42,807	131,993	584,932
On-balance sheet gap		(27,587)	(94,038)	19,321	80,297	100,036	(78,029)	-
Cumulative profit sensitivity gap		(27,587)	(121,625)	(102,304)	(22,007)	78,029	-	-

Notes to the financial statements

For the year ended 31 December 2019

	2018							
	Effective average profit rates	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	38,810	38,810
Due from banks and financial institutions	1.86%	27,322	-	-	-	-	3,039	30,361
Murabaha and other receivables	5.75%	11,644	1,773	2,009	6,990	1,655	442	24,513
Mudaraba financing	6.27%	26,301	-	-	-	-	-	26,301
Diminishing Musharaka Financing	5.59%	4,354	27,713	31,805	129,405	88,372	-	281,649
Investments at fair value through equity	5.10%	-	-	-	16,277	15,148	-	31,425
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Wakala financing	5.49%	18,733	-	-	-	-	-	18,733
Ijara Muntahia Bittamleek	5.28%	518	1,782	2,143	16,620	24,825	-	45,888
Property and equipment	-	-	-	-	-	-	1,309	1,309
Other asset	-	-	-	-	-	-	3,438	3,438
Total assets	-	88,872	31,268	35,957	179,292	130,000	47,038	512,427
Current accounts	2.47%	5,464	9,562	12,294	-	-	28,720	56,040
Due to banks	2.20%	56,425	-	-	-	-	-	56,425
Qard Hasan from Head office	-	-	-	-	-	-	26,150	26,150
Customer Wakala deposit	3.91%	38,794	65,039	45,331	66,194	47,961	-	263,319
Other liabilities	-	-	-	-	-	-	9,385	9,385
Equity of unrestricted investment accountholders	0.63%	34,026	-	-	-	-	14	34,040
Owner's equity	-	-	-	-	-	-	67,068	67,068
Equity of accountholders & Total liabilities and shareholders' equity		134,709	74,601	57,625	66,194	47,961	131,337	512,427
On-balance sheet gap		(45,837)	(43,333)	(21,668)	113,098	82,039	(84,299)	-
Cumulative profit sensitivity gap		(45,837)	(89,170)	(110,838)	2,260	84,299	-	-

(c) Equity risk

Presently Maisarah is not exposed to any equity price risk as window does not have any investment in equity instruments.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

Notes to the financial statements

For the year ended 31 December 2019

32. Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through other comprehensive income; and retained earnings; and
- Tier II capital, which includes the impairment provision and PER / IRR.

	2019 RO 000	2018 RO 000
Types of capital		
Tier I capital	**74,587**	67,068
Tier II capital	**3,521**	3,761
Total Regulatory Capital	**78,108**	70,829
Risk weighted assets (RWA)		
Credit risk weighted assets	**447,345**	418,114
Market risk weighted assets	**18,625**	4,438
Operational risk weighted assets	**50,340**	41,043
Total risk weighted assets	**516,310**	463,595
Capital ratios		
Tier I capital ratio (%)	**14.45%**	14.47%
Total capital as a % of RWA	**15.13%**	15.28%

33. Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, diminishing musharaka financing and ijarah muntahia bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba and diminishing musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

Notes to the financial statements
For the year ended 31 December 2019

33. Segmental information (Continued)

	2019			
	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	Total RO 000
Segment operating revenues	9,073	14,778	2,389	26,240
Other revenues	223	1,465	693	2,381
Total segment operating revenues	9,296	16,243	3,082	28,621
Profit expenses	(1,777)	(10,566)	(1,479)	(13,822)
Net operating income	7,519	5,677	1,603	14,799
Segment cost				
Operating expenses including depreciation	(3,676)	(2,446)	(970)	(7,092)
Provision for impairment	(58)	(737)	61	(734)
Bad Debts Written	(3)	-	-	(3)
Net profit for the year before tax	3,782	2,494	694	6,970
Segment assets	175,778	282,474	132,286	590,538
Less: Provision for impairment	(442)	(5,037)	(127)	(5,606)
Total segment assets	175,336	277,437	132,159	584,932
Segment liabilities	25,502	349,808	95,608	470,918

	2018			
	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	Total RO 000
Segment operating revenues	8,531	12,724	2,243	23,498
Other revenues	234	786	658	1,678
Total segment operating revenues	8,765	13,510	2,901	25,176
Profit expenses	(1,047)	(10,381)	(619)	(12,047)
Net operating income	7,718	3,129	2,282	13,129
Segment cost				
Operating expenses including depreciation	(2,633)	(3,114)	(927)	(6,674)
Provision for impairment	(133)	(242)	(141)	(516)
Net profit for the year before tax	4,952	(227)	1,214	5,939
Segment assets	170,063	235,315	111,659	517,037
Less: Provision for impairment	(382)	(4,040)	(188)	(4,610)
Total segment assets	169,681	231,275	111,471	512,427
Segment liabilities	28,432	300,004	82,883	411,319

Notes to the financial statements
For the year ended 31 December 2019

34. Proposed dividend to BankDhofar

Board of Directors of Bank Dhofar, in its meeting held on 28 January 2020, resolved to approve the following:

- Proposed dividend to Bank Dhofar Head Office of RO 15 million from Maisarah; and
- Capital increase of RO 15 million for Maisarah, taking the capital from current RO 55 million to RO 70 million, subject to CBO approval.

35. Comparative figures

Certain comparative figures have been reclassified in order to conform the presentation for the current year. These have no impact on the profit for the year or total equity. The details are as follows:

	2019	2018	2018
		Revised	
	RO 000	RO 000	RO 000
Return on equity of investment accountholders before Maisarah's share as Mudarib	**1,130**	860	400
General and administrative expenses	**1,658**	1,571	2,031

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