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ANNUAL REPORT 2018

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BANK DHOFAR

HIS MAJESTY
SULTAN QABOOS BIN SAID

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THE **BOARD OF DIRECTORS' REPORT** FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2018

Dear Shareholders,

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 2018.

Financial overview in year 2018

Despite the current challenging economic and financial situation driven by volatile oil prices and rising interest rates, the bank continued to grow its net profit in 2018 achieving 5.57% growth year-on year from RO 47.63 million (USD 123.71 million) as of 31st of December 2017 to RO 50.28 million (USD 130.60 million) as of 31st of December 2018. The Net Loans, Advances and Financing to customers reached RO 3.16 billion (USD 8.21 billion) at December 2018, compared to RO 3.25 billion (USD 8.44 billion) at the end of 2017. In line with a decline in Loans and Financing book, Customer deposits, including Islamic deposits, also decreased by 4.88% from RO 3.07 billion (USD 7.97 billion) at the end of 2017 to reach RO 2.92 billion (USD 7.58 billion) at the end of 2018. Total assets reached RO 4.21 billion (USD 10.94 billion) in December 2018 as compared to RO 4.25 billion (USD 11.04 billion) at end of 2017, a marginal decline of 0.94%.

The key profitability indicators showed a positive growth with net interest and financing income to achieve a growth of 7.05% to reach RO 99.70 million (USD 258.96 million) for the year 2018 as compared to RO 93.13 million (USD 241.90 million). Non-funded income increased by 1.86% year-on-year reaching RO 34.43 million (USD 89.43 million) in 2018 as against RO 33.80 million (USD 87.79 million) during the same period of last year. The total operating income is RO 134.12 million (USD 348.36 million) for the year 2018 as compared to RO 126.93 million (USD 329.69 million) for the year 2017.

Total Operating Expenses is RO 67.27 million (USD 174.73 million) for the year 2018 as compared to RO 58.99 million (USD 153.22 million) for the year 2017. The Cost to Income ratio as of 31st of December 2018 stood at 50.50% as compared to 46.48% in 2017. The provision for loan impairment, net of recovery, during the year 2018 decreased to RO 6.65 million (USD 17.27 million) as against RO 11.90 million (USD 30.91 million) for the year 2017. The impairment allowance on investments during the year decreased to RO 0.20 million (USD 0.52 million) from RO 0.36 million (USD 0.94 million) in 2017.

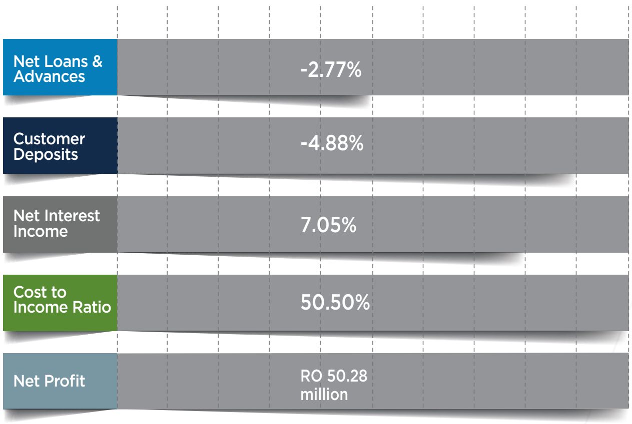
Gross NPL (Non-performing Loans) is 3.68% and Net NPL is 0.74% based on funded non-performing exposure over funded exposure (Net NPL exclude interest reserve and ECL Provision).

Maisarah- Islamic Banking Services

Maisarah Islamic Banking Services has achieved a strong growth in profitability of 86.21% net profit before tax of RO 5.94 million (USD 15.43 million) compared to a net profit before tax of RO 3.19 million (USD 8.29 million) in 2017.

The gross financing income from Financing, Placement and Investment increased by 17.09% to RO 23.50 million (USD 61.04 million) from RO 20.07 million (USD 52.13 million). The net financing income increased to RO 11.91 million (USD 30.94 million) for the year 2018 compared to RO 9.75 million (USD 25.32 million) achieved in the previous year of 2017, a growth of 22.15%. Non Funded income has also increased by 48.67% to RO 1.68 million (USD 4.36 million) in 2018 from RO 1.13 million (USD 2.94 million) in 2017.

The gross financing portfolio has grown 3.54% from RO 387.78 million (USD 1.07 billion) as at 31st December 2017 to RO 401.49 (USD 1.04 billion) million as 31st of at December 2018. The Sukuk investment portfolio increased by 28.63% from RO 32.34 million (USD 84 million) as at 31st of December 2017 to RO 41.60 million (108.05) as at 31st of December 2018.



As at December 2018 the total customer deposit stood at RO 353.39 million (USD 917.90 million), compared to RO 376.78 million (USD 978.88 million) at same period last year. The total assets is at RO 512.43 million (USD 1.33 billion) at December 2018 compared to RO 543.28 million (USD 1.41 billion) at December 2017.

Funding and Capital Raising initiatives

In continuation of its capital augmentation to strengthen the capital base, the Bank has successfully raised capital of RO 95 million in the following forms:

a) a rights issue of its ordinary shares by RO 55 million which forms part of the Bank's Core Equity Tier 1 Capital (CET1);

b) Additional Tier 1 Perpetual Bond of RO 40 million which forms part of Tier 1 Capital.

This takes the CET-1 Ratio to healthy 11.88% and total Capital Adequacy Ratio (CAR) to 17.33% compared to the Regulatory requirements of 8.875% and 12.875% as at 31st December 2018

Top Management Changes

As part of Bank's long term strategy, the following senior management changes took place during the year 2018:

- Dhofar International Development & Investment Holding Co. SAOG has replaced their representative in Bank Dhofar Board of Directors' Mr. Shiekh Qais Mustahil Al Mashani by their new member Mr. Faisal Mohammed Moosa Al Yousef.
- Appointment of Mr. Jose K. Joseph as Deputy General Manager & Chief Risk Officer
- Appointment of Mr. Duraid Taher Ali Jamali as Deputy General Manager & Head of Legal

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 2018.

In compliance with Article (101) 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 2018 as sitting fees was RO 76,200 and the proposed remuneration & sitting fees is RO 123,800 complying with total cap of RO 200,000.

Proposed Dividends

The Board of Directors in their meeting held on 29th January 2019 proposed a cash dividend of 10% (2017: 12%) for the year ended 31st December 2018 amounting to RO 28.00 million (2017: RO 27.09 million) and a bonus share issue of 7% (2017: 8%) amounting to 196,022,990 shares (2017: 180,268,618 shares) of RO 0.100 each subject to Regulatory and Shareholders Approvals.

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

Year	2013	2014	2015	2016	2017
Cash Dividends	14%	5%	15%	13.5%	12%
Bonus Shares	11%	15%	10%	7.5%	8%

Corporate Social Responsibility (CSR) initiatives

During the year 2018 Bank Dhofar Board of Directors contributed RO 1 million in a demonstration of Bank's support to the citizens in Dhofar and Wusta governorates to support the repair and restoration efforts for the damages caused by Cyclone Mekunu that hit southern part of the country, particularly Dhofar region in May 2018. Moreover, the bank has also participated in supporting Football National team, Conference of Geographic Information, and other CSR initiatives.

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Awards and Accolades during 2018

Bank Dhofar won the following rewards during the year 2018 and those awards are testimony to the continued efforts put in by the Bank:

- No. 1 in Large Sized Banks Category at Best Banks Report by Oman Economic Review (OER)
- Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2017 (EMEA Finance)
- Best Corporate Banking Institution – Oman in The Business Awards 2017 by MEA Markets
- Best Islamic Retail Bank Oman 2017 – Maisarah Islamic Banking by Global Banking & Finance Review
- The Business Excellence Award from the BIZZ AWARDS (World Confederation of Business) 2018
- Best mobile app from Pan Arab Web Awards 2018
- Best Private Bank Oman 2017 – Bank Dhofar by Global Banking & Finance Review
- Best Bank for Human Resources Oman 2017 by the Global Business Outlook Award 2017
- Straight-Through-Processing (STP) Excellence Award from CITI bank
- Best Digital Bank Oman 2018 from International Business Magazine Award
- Best Business Leaders award to CEO for Bank Dhofar at the prestigious MENA awards 2018

The Year Ahead (2019)

State National 2019 budget has been announced by the government of Oman projecting a deficit of approximately RO 2.8 billion i.e. 9% of GDP as compared to RO 2.9 billion projected in 2018 budget. The 2019 deficit is expected to be financed from domestic and international borrowings (86%) the remainder from internal reserves. The 2019 budget aims at achieving fiscal sustainability so as to enable the national economy in achieving economic growth, diversification, and targeted rates of domestic and foreign investment. Average price per barrel of oil assumed in the State Budget is USD 58 per barrel. Aggregate revenue is estimated at RO 10.1 billion, increasing by 6% as compared to estimated revenue for 2018 with Oil and gas revenue to represent 74% of total revenue and remained from non-oil revenue. Total public spending is budgeted at about RO 12.9 billion, increasing by RO 400 million i.e. 3% compared with the budgeted figures of 2018 Budget focusing on investment spending needed mainly for development and infrastructure projects.

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 2018.

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

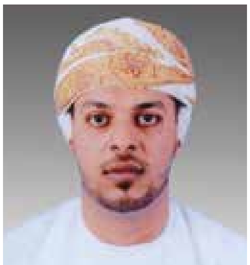
Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

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:
Sheikh Hamoud Mustahail Ahmed Al Mashani

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

No. of other directorships held: 2

Name of Director:
Faisal Mohammed Moosa Al Yousef

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

No. of other directorships held: 2

Name of Director:
Ahmed Said Mohammed Al Mahrezi

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

No. of other directorships held: 1

Name of Director:
Tarik Abdul Hafidh Salim Al Aujaili

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

No. of other directorships held: 3

Name of Director:
Mohammed Yousuf Alawi Al Ibrahim

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

No. of other directorships held: 1

Name of Director:
Eng. Abdul Sattar Mohammed Abdullah Al Murshidi

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

No. of other directorships held: 0

Name of Director:
Zakariya Bin Mubarak Bin Ismail Al-Zidjali

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

No. of other directorships held: 0

Name of Director:
Hamdan Bin Abdul Hafidh Al Farsi

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

Kamal Hassan Al Murazza
General Manager & Chief Wholesale Banking Officer

Ahmed Said Al Ibrahim
General Manager & Chief Corporate Services Officer

Faisal Hamad Al Wahaibi
General Manager & Chief Retail Banking Officer

Nasser Said Al Bahantah
Chief Human Resources Officer

Mohammed Hilal Al Reyami
DGM & Head of Internal Audit

Sohail Niazi
Chief Executive
Maisarah Islamic Banking Services

Shankar Krishnan Sharma
Chief Financial Officer

Jose K. Joseph
DGM & Chief Risk Officer

THE
EXECUTIVE TEAM

Osama Fathi Al Mansoor
DGM & Head of Transformation

Shaleen Chugh
DGM & Head of Corporate Banking

Duraid Al Jamali
DGM & Head of Legal

Tariq Saleh Taha
AGM & Chief Digital Banking and Information Officer

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

Mohammed Iqbal Al Balushi
AGM & Head of Retail Banking Division

Hussain Ali Al Lawati
AGM & Head of Business Banking

Hani Habib Macki
AGM & Head of Strategy & Planning

Amina Nasser Al Falahi
AGM & Head of Government Relations

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED
31st DECEMBER 2018

KPMG

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Sultanate of Oman
Tel +968 24749600
Fax +968 24700839

Report to the Shareholders of Bank Dhofar SAOG ("the Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 3 to 24.

Our engagement was undertaken in accordance with the International Standard on Related Services No. 4400 applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist the Shareholders in evaluating the Bank's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2018; Audit Committee and Board minutes of meetings held during the year ended 31 December 2018; and relevant supporting Bank records.
2. Confirmed that the Report discloses matters discussed in the Board of Directors' report on review of the effectiveness of the Bank's system of internal controls and that these matters were reported by Bank's internal auditor to the Audit Committee during the year ended 31 December 2018.
3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.
4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2018 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Bank were also included in the Auditor's presentation to the Audit Committee.
5. Read the minutes of Board and Audit Committee meetings during the year ended 31 December 2018 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Bank's Corporate Governance Report included in the Bank's annual report for the year ended 31 December 2018 and does not extend to any financial statements or any other reports of the Bank, taken as a whole.

KPMG

11 March 2019

Kenneth Macfarlane

C.R. No. 1309366

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 enunciated 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 apex 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 five sub-committees, viz. the Board Executive Committee, the Board Audit Committee, the Board Risk Management Committee, the Board Nomination & Remuneration Committee, and the Board Merger 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 with all the requirements as laid down in the Code of Corporate Governance enunciated by the CMA. 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 2019.

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 by Capital Market Authority vide 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, five are non- Independent and four 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 five Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees are incorporated in their Charters, approved by the Board:

1. Board Executive Committee
2. Board Audit Committee
3. Board Risk Management Committee
4. Board Nomination & Remuneration Committee
5. Board Merger Committee (This Committee is formed as a temporary committee for the purpose of proposed merger with National Bank of Oman).

On 26 April 2018 the Board resolved to dissolve and merge the following committees of the Board under one single committee (i.e. the Board Executive Committee):

1. Board Credit Committee
2. Board Capital, Funding & Investment Committee
3. Board Strategy, Merger, IT & Transformation 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

Eng. Abdul Hafidh Salim Rajab Al Aujaili - Chairman

Eng. Abdul Hafidh Salim Rajab Al Aujaili is the Chairman of the Bank. He is also 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 and Oman Aviation Services Co. (SAOG). He holds Master Degree in Mechanical Engineering.

Sheikh Hamoud bin Mustahail Al Mashani – Vice Chairman

Sheikh Hamoud bin Mustahail Al Mashani is the Vice Chairman of the Board of Directors. He is also a member of the Board Executive Committee.

He is currently holding senior positions in various corporations in Oman and has undertaken leading roles. Other positions held by him include Chief Executive Officer of Qais Omani Establishment, Chairman of Dhofar Cattle Feed Co, and a Director of Dhofar International Development & Investment Holding Co. SAOG. Sheikh Hamoud holds a Diploma in Finance.

Mr. Ahmed bin Said Al Mahrezi- Director

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

Mr. Mohammed bin Yousuf Alawi 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 Nomination & Remuneration Committee and member of the Board Risk Management 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. Other positions held by him include Director of Dhofar University SAOC. 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 the Chairman of the Board Risk Management Committee, a member of the Board Nomination & Remuneration Committee and a member of the Board Merger 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 (DIDIC) and Director of Oman Investment & Finance Co. SAOG. Mr. Tariq holds Bachelor of Accountancy & Finance.

Eng. Abdul Sattar bin Mohammed Al Murshidi - Director

Eng. Abdul Sattar bin Mohammed Al Murshidi is a member of the Board of Directors. He is a member of the Board Executive Committee.

He has a successful career with Petroleum Development Oman (PDO) over a period of 25 years in the fields of Oil Well Drilling, Corporate Appraisal & Management Information, Corporate Technology Management and Business Support Management. Eng. Abdul Sattar holds a Bachelor of Civil Engineering.

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 27 years' experience in financial management, sourcing logistics, supply chain management and vendor development. He holds the position of Budget Controller in 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 has a wealth of experience extending for 21 years in Finance, Internal Audit and Risk Management. He has been a Director of National Gas Co SAOG. Mr. Hamdan Al Farsi holds a bachelor and master degrees in Accountancy.

Mr. Faisal Mohamed Moosa Al Yousef - Director

Mr. Faisal Mohamed Moosa Al Yousef is a member of the Board of Directors and a member of the Board Executive Committee. He is the Chief Operating Officer of Al Yousef Group. He is the Chairman of Muscat Finance SAOG and a member of the board of Dhofar International Development & Investment Holding Co. SAOG. Mr. Faisal holds a bachelor of Economics and is a Fellow Member of Association of Chartered Certified Accountants (ACCA), U.K.

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	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non-shareholder Director	2
3	Sheikh. Qais Mustahail Ahmed Al Mashani	Member Non-executive	Non-independent	Representative of Shareholder Director	-
4	Mr. Ahmed Said Mohammed Al Mahrezi	Member Non-executive	Non-independent	Representative of Shareholder Director	1
5	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	1
6	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	2
7	Eng. Abdul Sattar Mohammed Abdullah Al Murshdi	Member Non-executive	Non-independent	Representative of Shareholder Director	-
8	Mr. Zakariya Mubarak Al Zadjali	Member Non-executive	Independent	Representative of Shareholder Director	-
9	Mr. Hamdan Abdul Al Hafidh Al Farsi	Member Non-executive	Independent	Representative of Shareholder Director	1
10	Faisal Mohammed Moosa Al Yousef	Representative of Dhofar International Development & Investment Holding Company (SAOG)	Non-independent	Representative of Shareholder Director	2

* Sheikh. Qais Mustahail Ahmed Al Mashani, was replaced by Mr. Faisal Mohammed Moosa Al Yousef on 28th March 2018.

The Board of Directors held 10 meetings during 2018, as follows:

29 January 2018	6 February 2018	26 February 2018	15 March 2018
26 April 2018	4 June 2018	26 June 2018	29 July 2018
29 October 2018	25 December 2018		

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

S. No.	Name of Director	Capacity of membership	No. of meetings attended	Directors' benefits (Amount in OMR.)	
				Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	10	10,000	15,729
2	Sheikh. Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	3	3,000	12,730
3	Sheikh. Qais Mustahail Ahmed Al Mashani	Representative of Dhofar International Development & Investment Holding Company (SAOG)	0	-	3,034
4	Mr. Ahmed Said Mohammed Al Mahrezi	Representative of Civil Service Pension Fund	10	10,000	15,007
5	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	9	10,000	13,207
6	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	4	10,000	14,000
7	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi	Representative of Malatan Trading and Contracting LLC	6	8,000	13,207
8	Mr. Zakaria bin Mubarak Al Zadjali	Representative of Ministry of Defence Pension Fund	9	10,000	12,960
9	Mr. Hamdan Abdul Al Hafidh Al Farsi	Representative of Social Insurane Pension Fund	9	10,000	14,230
10	Faisal Mohammed Moosa Al Yousef	Representative of Dhofar International Development & Investment Holding Company (SAOG)	4	5,200	9,696
TOTAL				**76,200**	**123,800**

* Sheikh. Qais Mustahail Ahmed Al Mashani, was replaced by Mr. Faisal Mohammed Moosa Al Yousef on 28th March 2018.

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 meeting in 2018.

Name of SSB Members	Designation	No. of meetings attended	Honorarium (Amount in OMR.)	
			Fees Paid	Remuneration Proposed
Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman	4	2,000	8,000
Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	4	1,600	6,000
Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	4	1,600	6,000
Sheikh Dr. Abdullah bin Mubarak Al Abri	Member	3	1,200	6,000
Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	4	1,600	6,000

3. Board Executive Committee (BEC) (formed on 26/6/2018)

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

1. Approval of credit proposals - The BEC is responsible for approving certain credit approvals 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 then 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. Following the merger announcement with National Bank of Oman the relevant clauses relating to merger that are included in the Board Executive Committee Charter are now reflected in the Board Merger Committee Charter that relates to this particular transaction.
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	5
2.	Sheikh. Hamoud Mustahail Ahmed Al Mashani	Member	-
3.	Eng. Abdul Sattar Mohd Abdullah Al Murshidi	Member	5
4.	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	4
5.	Mr. Faisal Mohammed Moosa Al Yousef	Member	2

The members of the Committee were appointed by the Board on 26/6/2018, except Mr. Faisal Mohammed Moosa Al Yousef, who was appointed as member on 29/7/2018.

The BEC held 5 meetings during 2018.

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 for 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 fore-going 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.	Zakariya Mubarak Al Zadjali	Member	9

The (BAC) held 10 meetings in 2018.

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 to 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	7
2.	Mr. Ahmed Said Mohammed Al Mahrezi	Member	6
3.	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	6

* Mr. Tariq Abdul Hafidh Salim Al Aujaili has replaced Mr. Ahmed Said Mohammed Al Mahrezi as the Chairman of Risk Committee on 26/2/2018.

The (BRMC) held 7 meetings in 2018.

6. Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) was 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	7
2.	Mr. Mohammed Yousuf Alawi Al-Ibrahim	Member	4
3.	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	7

* This Committee was reconstituted on 26/2/2018. The ex-committee composed of Mr. Zakariya Mubarak Al Zadjali (Chairman), Sheikh Hamood Mustahail Ahmed Al Mashani (member), and Eng. Abdul Sattar Mohd Abdullah Al Murshidi (member).

The (BNRC) held 9 meetings in 2018. Two meetings were attended by the ex-members of the Committee, and 7 meetings were attended by the current members of the Committee. Meetings attended by the ex-committee members are as follows:

S. No.	Name of Director	No. of meetings attended
1.	Mr. Zakariya Mubarak Al Zadjali	2
2.	Sheikh. Hamoud Mustahail Ahmed Al Mashani	2
3.	Eng. Abdul Sattar Mohammed Abdullah Al Murshidia	2

7. Board Merger Committee (BMC)

The BMC comprises four members with three members of the Board of Directors and one Executive Member (i.e. Mr Abdul Hakeem Omar Al Ojaili, Chief Executive Officer). BMC is formed as a temporary committee for the proposed merger with National Bank of Oman. BME meets as and when there is a business need. The Board Merger Committee is responsible to discuss, negotiate with National Bank of Oman and finalize the proposed merger. The Board Merger Committee will meet Bi-monthly/ Fortnightly (once every two weeks) or at shorter intervals if deemed required.

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	6
2.	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Member	6
3.	Mr. Faisal Mohammed Moosa Al Yousef.	Member	5

Mr. Ahmed Said Mohammed Al Mahrezi, the Chairman of the Board Merger Committee for BankDhofar-NBO Merger discussions, is also the Chairman of the Board Nomination and Remuneration Committee. The Board Merger Committee is tasked only with the negotiation and finalization of the proposed merger with National Bank of Oman and this is not a permanent Committee, following which this specific-purpose Board Merger Committee will be dissolved as Strategy, Merger related matters are integral part of the Board Executive Committee (as described more in the Board Executive Committee description), this explains the reason for holding chair position of two Committees The (BMC) held 6 meetings in 2018.

8. Board Credit Committee (BCC) (dissolved on 26th April 2018 and merged with Board Executive Committee)

The Board Credit Committee consisted of members with proper experience, skills and initiative. The objectives of the Board Credit Committee were to discharge responsibilities on behalf of the Board in deciding on specific policy/Credit matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time.

The Members of the Board Credit Committee (BCC) were:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Eng. Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Board Credit Committee	4
2.	Sheikh. Hamoud Mustahail Ahmed Al Mashani	Member	1
3.	Eng. Abdul Sattar Mohd Abdullah Al Murshidi	Member	4
4.	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	4

The Board Credit Committee held 4 meetings during 2018. The Board Credit Committee (BCC) was merged with the Executive Committee on 26/4/2018. Since the members of the Executive Committee were only appointed on 26/6/2018 and its charter was approved on 29/7/2018, The BCC held a meeting on 22/5/2018.

9. Board Capital, Funding & Investment Committee (BCFI) (dissolved on 26th April 2018 and merged with Board Executive Committee)

The Board Capital, Funding & Investment Committee (BCFI) supervised management practices on Capital, Funding & Investment matters. The Committee, on behalf of the Board, monitored capital and funding requirements of the Bank, monitored investment activities, as well as compliance with policies and regulatory requirements. The Committee ensured that the management undertakes appropriate measures to recognize adverse trends, to identify possible bottleneck in capital and funding requirements of the Bank. The Committee also supervised management practices on investment matters. The Committee, on behalf of the Board, monitored investment activities, as well as compliance with policies and regulatory requirements. The Committee ensured that the management undertakes appropriate measures to recognize adverse trends, to identify problems in investment portfolio. The Committee also approved investments (in accordance with the authorities granted by the Board and as specified in the Authority Matrix) and wherever relevant, investment matters in business activities.

The members of the Capital, Funding & Investment Committee (BCFI) were:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Mr. Mohammed Yousuf Alawi Al Ibrahim	Chairman of the Capital, Investment and Funding Committee	1
2.	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	1
3.	Mr. Ahmed Said Al Mahrazi	Member	1
4.	Sheikh Hamood Mustahil Al Mashani	Member	-

BCFIC was merged with the Executive Committee on 26/4/2018. Since the members of the Executive Committee were only appointed on 26/6/2018 and its charter was approved on 29/7/2018, BCFIC held one meeting on 24/5/2018.

10. Board Strategy, Merger & Information and Transformation Committee (SMIT) (dissolved on 26th April 2018 and merged with Board Executive Committee)

The Board Strategy, Merger & Information and Transformation Committee (SMIT) supervised matters pertaining to Strategy, Mergers, Information Technology and Transformation, including but not limited to the following: -

- Review and set the direction on Bank Dhofar's potential merger/s on behalf of the Board of Directors (BOD) of Bank Dhofar in compliance with CBO and CMA and MOCI and other regulators guidelines and regulations.
- Conduct and finalize negotiations in relation to the potential merger on behalf of the BOD of Bank Dhofar. It is then to oversee the steps of the merger to its final potential conclusion.
- Review IT Strategy including emerging technologies and major technology decisions
- Review Transformation programs and projects.
- Consider matters raised in the Management's Information Technology Committee (ITC) and update the BOD, as appropriate

The members of the Board Strategy, Merger & Information and Transformation Committee were:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi	Chairman of the Strategy, Merger & Information and Transformation Committee	-
2.	Mr. Ahmed Said Al Mahrezi	Member	1
3.	Mr. Zakariya Mubarak Al Zadjali	Member	1

The SMIT held one meeting on 17/4/2018.

11. 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 2018 are as follows:

	Proposed Remuneration OMR.	Sitting Fees Paid OMR.	Total OMR.
Chairman of the Board	15,729	10,000	25,729
Board Members	108,071	66,200	174,271
Total OMR.	123,800	76,200	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 2018:

	Salaries , Performance Bonus & Others (OMR)
Top five Executives	1,611,855

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.

12. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years except the following instances of operational nature:

- Exceeded the regulatory limits in exposure to other countries falling in below investment grade and not categorizing some overdue accounts as Special Mention (penalized by CBO for OMR 20,000 in their 2015 Examination Report issued in April 2016).
- Not considering some operational guidelines on issuing debit cards to minors, oversight in coding economic sector for some exposures reported to CBO, and not establishing automated Fraud Monitoring System (penalized by CBO for OMR 12,000 in their 2016 Examination Report (issued in October 2016).
- No penalties were imposed in 2017 & 2018.

The Bank has taken all corrective and necessary measures to avoid similar instances in future.

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

13. 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 during the year 2017:

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.

14. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2018 compared with Muscat Securities Market Financial Sector Index is as follows:

2018	Bank Dhofar Share Price (OMR)			MSM financial sector Index
Month	High	Low	Closing	Closing
January	0.224	0.208	0.215	7375.74
February	0.215	0.205	0.209	7364.51
March	0.223	0.198	0.198	7121.43
April	0.196	0.185	0.185	7266.84
May	0.185	0.171	0.171	7184.28
June	0.172	0.170	0.170	7056.29
July	0.165	0.160	0.165	6737.5
August	0.167	0.161	0.162	6891.94
September	0.170	0.159	0.164	7032.54
October	0.163	0.153	0.160	6925.43
November	0.170	0.160	0.167	6890.27
December	0.180	0.160	0.166	6827.2

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2018:

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	23.34 %
3	Civil Service Pension Fund	10.35 %
4	H.E. Yousuf bin Alawi bin Abdullah & his Companies	9.80 %
5	Public Authority of Social Insurance	8.65 %
6	Qais Omani Establishment LLC	6.98%
7	Ministry of Defense Pension Fund	6.81 %
8	Others	9.69%
	Total	100%

15. Profile of the Statutory Auditors

The shareholders of the Bank appointed KPMG as its auditors for 2018. KPMG in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 180 people, amongst whom are five partners, six directors and 30 managers, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

The Professional fees paid or payable to KPMG for the financial year 2018 is OMR 60,000. This amount represents OMR 42,000 paid for audit services and OMR 18,000 paid for non-audit services. The total fees of OMR 60,000 include an amount of OMR 7,000 paid, or payable, as Audit fees and Sharia fees relating to the Bank's Islamic Banking Window.

16. Other Matters

The last Annual General Meeting was held on 27 March 2018. 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. Zakariya Mubarak Al Zadjali and Mr. Hamdan Abdul Hafidh Al Farsi.

17. Subordinated Loan (Outstanding and movements during 2018)

1. In January 2018, the Bank has repaid the unsecured subordinated loan amounting to RO 25 million upon maturity.
2. 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.
3. 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.
4. Details regarding subordinated loan reserve are set out in note 18(b) in the Notes of the financial statements.

18. 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.

19. 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

Abdul Hakeem Al Ojaili is a seasoned banker with over 28 years of progressive experience in all aspects of banking operations. With a strong track record of successful and inspirational leadership, Abdul Hakeem was appointed as the Chief Executive Officer of BankDhofar in April 2017, leading 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 rapid growth 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 and a Bachelor's Degree in Business Administration, Marketing & Management from New England College. He is also an alumnus of both Harvard and London Business Schools' Executive Education Programs, and he was cross posted on a number of assignments with a number of international banks.

Kamal Hassan Al Murazza

General Manager & Chief Wholesale Banking Officer

Kamal Al Marazza is an experienced banker with over 18 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, and he attended Harvard Advanced Management Program, in addition to several specialized banking programs locally and internationally.

Ahmed Said Al Ibrahim
General Manager & Chief Corporate Services Officer

Ahmed Al Ibrahim is BankDhofar's General Manager & Chief Corporate Services Officer, and brings in a wealth of experience accumulated throughout over 24 years in the banking and finance industry. During his tenure with BankDhofar, he has been a valuable asset across all functions and business units in which he operated, 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 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 & Chief Retail Banking Officer

Faisal Al Wahaibi is the General Manager & Chief Retail Banking Officer BankDhofar, overseeing Branch Network, SME Banking, Al Riadah 'Priority Banking', Corporate Centre, Enterprise Segmentation and Product Development, Enterprise Distribution Operations Support, Retail Credit, Enterprise Collection and Business Intelligence Departments.

Faisal has more than 25 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, Management Credit Committee, Management Risk Committee, Purchase 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.

Nasser Said Al Bahantah
Chief Human Resources Officer

Nasser is a seasoned entrepreneurial business and HR professional with over 25 years of experience in the field during which he led major restructuring and transformations of HR functions in the Financial Services, Telecommunications and Oil & Gas industries across the GCC.

Nasser has a diverse experience across industries in leadership roles in leading local, regional and multinational companies, including Shell, Schlumberger, Omantel, Bank Al Jazira, National Bank of Oman and Aon Hewitt prior to joining BankDhofar.

Nasser holds a Bachelor's Degree in Business Administration from Yarmouk University in Jordan and Global Executive Graduate Certificate in Human Resources Leadership from Rutgers University, USA.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

FOR THE YEAR ENDED
31st DECEMBER 2018

Economic Scenario and Outlook

State National 2019 budget has been announced by the government of Oman projecting a deficit of approximately OMR 2.8 billion i.e. 9% of GDP as compared to OMR 2.9 billion projected in 2018 budget. The 2019 deficit is expected to be financed from domestic and international borrowings (86%) the remainder from internal reserves. The 2019 budget aims at achieving fiscal sustainability so as to enable the national economy in achieving economic growth, diversification, and targeted rates of domestic and foreign investment. Average price per barrel of oil assumed in the State Budget is USD 58 per barrel. Aggregate revenue is estimated at OMR 10.1 billion, increasing by 6% as compared to estimated revenue for 2018 with Oil and gas revenue to represent 74% of total revenue and remained from non-oil revenue. Total public spending is budgeted at about OMR 12.9 billion, increasing by OMR 400 million i.e. 3% compared with the budgeted figures of 2018 Budget focusing on investment spending needed mainly for development and infrastructure projects.

Wholesale Banking Group

Through wholesale banking, BankDhofar endeavors to be the most preferred, professional and reliable corporate bank delivering superior service to its target customers through a team of motivated, skilled personnel in a cost-effective manner through building and strengthening corporate relationships with an acceptable risk and reward policy. In keeping with Bank's commitment to be the Best Bank in Gulf, Wholesale Banking department continued its operations in line with "Together 2020" journey.

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

The wholesale banking continues to pursuing its business strategy to focus on growth in non-interest income and strive to further improve the yield on assets by containing costs and improving the margins. Wholesale Banking has undertaken many initiatives by the consolidation of operations and also the integration of different activities with customer-centric approach.

In line with governmental economic diversification initiatives, bank has funded the major infrastructure projects and tourism related projects during the year.

Corporate Banking Department

Corporate Banking continues to play a vital role in WBG by concentrating on segments of top end customers, growing corporates and project finance & syndications (for infrastructure projects). The customer base is well spread out in large spectrum of various industries that includes trading, manufacturing, services and contracting. Similarly, the credit requirements of these high end customers are varied and dynamic, which continue to be catered by Wholesale banking through this department. In addition to that, regular communications with these customers are held to understand their business cycle and requirements.

The Government has declared a forward looking budget for 2019 which foresees improved economic scenario and growth opportunities. Wholesale banking is confident that private investment in the country will witness growth in tandem with the growth of country's economy, providing new opportunities for corporate banking. Wholesale banking as a strategy is concentrating on the growing companies which have potential to grow further. Thus, Wholesale banking endeavors to tap all the credit worthy opportunities in the coming year.

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 viz., Oil & Gas industry, Power & Water projects, Petro chemical projects, Roads etc., promoted by the Government /quasi Government and private sector companies. The strategy is to increase the mix of working capital, project finance & syndication exposures for such customers, so as to optimize the return on portfolio under this segment. The team is concentrating to tap the opportunities generated through the above Governmental initiatives.

The emphasis of the Bank continues to be on the development of tailor-made financial solutions that are suited to the particular needs of the customers. The Department conducts regular cooperation meetings among various departments of the Bank to ensure prompt delivery/sale of different products (viz. retail banking, treasury and personal banking products) to customers irrespective of the segment they belong to.
Trade Finance is part of the Corporate Banking and is a full-fledged specialized unit handling specific trade requirements of the Bank's Corporate, Institutional and Retail customers. The team liaises closely with the Wholesale Banking, Retail Banking, Government Relations and Treasury & Financial Institutions Banking Departments in providing various fund based credit facilities like Export Bills discounting, Import financing and non-fund based credit facilities like Letters of Credit, Guarantees, Availisation, Export and Import Bill collection (for local and overseas transactions) to the Bank's Corporate, Retail and Treasury customers.

To meet the challenges in a dynamic international market, the Bank's Trade Finance team is continuously trained internally and updated with the latest developments in the local and international markets.

Business Banking and Payments & Cash Management Services Department:

With the growing importance of the Small & Medium enterprises (SME) to the development of a vibrant economy, BankDhofar has formulated strategic initiatives to participate in the further development of SMEs in the country. This is in line with the requirement to increase SMEs' participation in Oman's Gross Domestic Product (GDP) through various Governmental initiatives. In tune with such national direction, the bank has a separate department headed by Assistant General Manager (AGM) level official who oversees the Business strategy. The Small & Medium Enterprises business requirements are different & specific in nature, and credit exposure to this segment is associated with different risk characteristics. The customers in this segment needs to be serviced by skilled and experienced resources to understand their specific business needs and to provide timely & adequate credit. In this regard, dedicated business relationship managers are deployed to provide appropriate financing solutions to the entrepreneurs in SME segment.

The Bank is extending the services by spreading out its delivery channels by leveraging the technology so as to reach out to customers across the country. In the coming years the focus on this segment will be in line with Governmental initiatives and the Bank's endeavor to play an active role in the promotion, development and financing of SME sector in the Sultanate.

Payment and Cash Management Services which is part of Business Banking department continues to enhance the existing suit of products by including Payments & Cash management services, so as to add value to customers' overall banking relationship. Cash Management services/products enable customers to manage all aspects of the financial cash flows i.e. collection of revenue, disbursements of expenses/ payables, tracking as well as the investment of surplus funds etc.

Corporate Advisory & Investment Banking Department:

Corporate advisory Services: Corporate Advisory & Investment banking department offers specialized services of strategic advisory to various industry sectors including Oil & Gas, Telecom, Financial Institutions, Steel, Power & Utilities, Textiles and SMEs by providing tailor-made solutions & products to corporate stakeholders and managements, identifying strengths, weaknesses, opportunities and threats in relation to their business, productivity & sustainability and assist them in identifying strategic growth opportunities. These solutions include corporate and asset level organic and inorganic growth, exit strategies, mergers & acquisitions , management buy-outs & buy-ins, capital raising, capital structures, private placement, start-ups, joint ventures, business re-engineering, and corporate structures etc.

Independent advice is also offered either directly or together with partners to project sponsors and shareholders, primarily in feasibility studies, financial restructuring, raising equity, raising debt, supporting the sponsors in discussion with technical, legal and other financial advisors and advise customers during negotiating various contracts. The Bank proposes to further strengthen the Corporate Advisory Team, to provide seamless services to corporate customers as a one stop shop.

Brokerage Services: The department has been providing customers 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- an online service which allows customers to trade MSM securities online. The department is also working with regulators to offer future eIPO services which facilitates online / multichannel application /processing of IPO's.

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 unit offers the customers various products both plain vanilla and derivatives. The offerings range from plain Remittances, forward contract, forward rate agreements and FX derivatives with combination of call and put options etc. The Bank also offers structured solutions within the stipulated CBO guidelines for risk mitigation of Foreign Exchange and/or Interest Rate risks. The Bank provides these specialized services through dedicated and experienced resources to meet various requirements.

Financial Institutions department establishes and maintains all international correspondent banking relationships of the Bank. The department ensures that the bank's corporate and retail customers have access to the world through a wide network of leading correspondent banks. Capitalizing on the excellent relationship with leading regional and global banks, the department actively assists the bank's corporate customers with their global trade finance related requirements.

The department continues to identify the treasury business opportunities and trade finance transactions within the GCC and global markets to build a sustainable long-term relationship that would benefit both the bank and its customers.

Government Banking Department:

Government banking department offers its services to all Government / Quasi-Government customers through a dedicated resources team as a separate channel. This is intended to meet the unique requirements of Government customers and Ministries with varied financial service needs.

Wholesale Banking Projects & MIS unit:

Wholesale Banking Projects & MIS unit, which is part of Wholesale banking Group (WBG), is involved in implementation and streamlining of new initiatives/projects for enhancing existing systems & processes within the wholesale banking group. The dedicated resources of this unit ensure accurate and timely reporting of data/reports to various stakeholders in line with management / policy guidelines. The unit support the business teams in enhancing the features of existing software applications and also acts as single point contact between WBG & various other departments within the Bank.

Additionally, BankDhofar worked on Customer Relationship Management (CRM) Program which is one of the high impact programs in "Together 2020" journey. CRM is a business strategy for transforming The Bank to be customer centric where the customer is always at the center. The CRM Program will bring a lot of benefits to the Bank. It will positively change the way of developing products, conducting marketing campaigns, creating sales leads, and serving customers.

As a part of CRM program, BankDhofar will roll-out CRM system in call center and branches. This will enable agents and branch employees to have a single unified view of customer, including transactional service request history. CRM system will be leveraged to run cross-sell and customer acquisition campaign and have automated sales process management.

Retail Banking Division

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

Branch Network

During the year 2018 BankDhofar rolled out the renovation plan for its distribution network which will continue for the coming years. The renovation process falls within BankDhofar's "Together 2020" journey, ensuring that the design is standardized across branches network with the aim of providing best banking experience to customers. BankDhofar has a total of 70 branches and 1 Corporate Centre; including 61 conventional banking branches and 10 Maisarah Islamic Banking Services branches across the country

Retail Products, Business and Segments

During 2018, the Retail Products, Business and Segments team has worked on enhancing existing products as well as designing, developing and implementing new products and offerings.

Retail Assets Products

In 2018 BankDhofar aimed to provide an exclusive banking experience for different customer segments by making these loans the most competitive products in the market. The housing loan campaign continued for the fourth year, providing best customer service in Oman, allowing the customers to own a new home within 5 days at most competitive and affordable pricing. The Bank also launched a special package to target large corporate employees.

Retail Liabilities Products

BankDhofar offered daily prizes where winners took home OMR 2,500 each. Al Riadah customers had the chance to win OMR 25,000 in monthly draws for one winner and OMR 250,000 in quarterly draws for one winner.

Bancassurance Products

BankDhofar continued to offer a diverse selection of insurance packages such as Personal Accident insurance, Family Protection and Motor insurance. The Bank functions here as an insurance agency and provides these services to meet customers' needs. The insurance covers all kinds of policies and offers the lowest third party (motor insurance) in the market.

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:

- 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 Communication (M&CC)

Marketing and Corporate communication unit looks into bringing the visibility of the bank through events and activities and further enhancing the brand. With the aim of enhancing the presence of BankDhofar brand, Marketing and Corporate Communication Department conducted a number of campaigns.

Additionally, M&CC department oversaw the branding of
- BankDhofar Branding at Muscat International Airport.
- BankDhofar vehicles.
- Renovation of branches network to ensure standardized design across all branches.

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 2018, the Bank provided support to a number of charitable organizations. The Bank also provided support to a number of social activities and initiatives. BankDhofar also lent support to various social and economic cases including its support to affected families due to weather conditions. The Bank contributed with OMR 1 million to support affected families due to cyclone Mekunu in Dhofar and Wusta Governorates.

During the year the department organized a number of other campaigns including:

- Savings Prize Draw
- Maisarah Prize Scheme.
- "Did you know" campaign for products and services awareness.
- Discount tie-ups.
- Rewards Program.
- Social media campaigns

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 "Mithal & Qudwa" Campaign. Additionally, in order to keep the staff updated with the initiatives the department launched BankDhofar Whatsapp for internal communication as well as BD TV initiative. Additionally, the department provides required support to other business units.

Digital Banking & Information Group

In 2018, BankDhofar created a new group 'Digital Banking & Information' comprising of Information Technology, Alternate Delivery Channels, Cards Centre, e-Payments, Centre of Innovation and Information & Information security as part of the ongoing transformation program and in order to realize the vision of being the best bank in the GCC.

The Information Technology division 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. During 2018, BankDhofar further strengthened its technology leadership by taking up a number of initiatives in line with the Bank's vision 2020 transformation program and the digital transformation strategy.

Some of the major technology initiatives in 2018 include an upgrade of the Cards switch with several enhancements including point of sale (POS) processing capabilities, implementation of the new integrated business process management platform iBPMS, new call centre system, new credit process automation as well as a number of technology infrastructure upgrades. The bank also implemented additional security features in ATMs to enhance security for the customers.

The continued focus on digital transformation and innovation helped us to further enhance the services on digital channels as well as introduce latest technologies such as augmented reality. In 2018, BankDhofar became the first bank from Oman to join the blockchain consortium bank chain, a consortium of global banks for exploring, building and implementing Blockchain solutions.

The bank continued to roll out a number of new process automation through the new business process automation platform (iBPMS), further enhancing operational efficiencies and controls. The bank also undertook a number of technology initiatives to ensure compliance with the latest regulations in areas such as Anti-money laundering, Know Your Customer (KYC) and Foreign Account Tax Compliance Act of USA (FATCA). The bank also leveraged the Robotic Process Automation (RPA) solution to automate repetitive operational processes, further enhancing process efficiencies.

The Servers and Network infrastructure were further upgraded to enhance performance, connectivity, availability and security.

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.
The alternate delivery channels unit launched a number of new services such as Tasdeed online bill payments, 3D touch features, credit loyalty rewards inquiry, during 2018 through the bank's award-winning mobile banking application. The BankDhofar mobile banking is the App of choice for banking customers in Oman thanks to the best user experience, breadth of services and 24x7 availability. The Call Centre services have been further enhanced with a range of services and self-service features covering account services, credit card services, debit card services, utility bill payments, mobile number update, card hot listing, product information and offers.

The Cards Centre introduced several new initiatives including launch of e-payments integration services, merchant system integration to POS terminals, launch of new cards MasterCard world Near-Field Communication (NFC) based cards and Visa Infinite debit cards to better serve customers and offer a range of unmatched benefits.
Another major initiative during 2018 was the set-up of e-payments unit to focus on capitalizing and building on existing payments services as well as leveraging digital payments opportunities.

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 attempts 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 2018:

1. Disputes Management System, which is a part of Central Bank of Oman (CBO) initiated Automated Clearing House (ACH) project.
2. Cheque Return System. CBO has implemented a new Cheque Return System, replacing current process of handling cheques return data.
3. Robotics Application: As a part of the digital initiative of the Bank, processing of Foreign Currency Standing Instructions and Uploading of Cheques Return data, have been automated through Robotics.
4. Summary of other initiatives completed during the year is given below:

Summary of Initiatives Completed in 2017	Number
Processes Automated	3
Processes Re-engineered	8

Business Continuity Management (BCM)

In terms of CBO guidelines, Bank has in place Business Continuity 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:

- To give impetus in the BCM implementation, a separate Business Continuity Management (BCM) Department has been set up under Risk Management Division. The department deals with addressing day-today activities, meeting Business continuity leaders, undertakes BCP testing activities, proposes BCM awareness matters, alerting the staff during adverse weather conditions, maintains BCM document, conducts periodical BCM Committee meetings, addresses regulatory and compliance /audit issues etc.
- As per the guidelines, Business Impact Analysis (BIA) exercise is conducted on half yearly basis. In the BIA review, people, system and the business processes are assessed and prioritized. Back Up requirements are reviewed and enhanced to meet any unforeseen circumstances.
- Bank has set up BCM 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 BCM formulated across the Bank are implemented and tested.
- Bank has set up an alternate BCM site to ensure business continuity for resuming critical business activities in emergent scenarios, besides serving as a secondary Data Back Up Center as part of Bank Disater Recovery Plan. As part of BCM testing initiative, various testing activities are undertaken to ensure the systems and other capabilities are working expected levels.
- Various BCM 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 this year, BCP Simulation testing was conducted at Back Up site in May & June 2018 for critical business units by relocating key to work from alternate site full business day. The testing is conducted to test the adequacy of systems and business resumption procedures in a partial disruption scenario. And also the Tabletop testing exercise is conducted to cross verify the preparedness of Business continuity leaders.
- Bank-wide BCP testing / IT related Disaster Recovery Drill is conducted once a year to ensure that Network connectivity, critical data processing and interfaces are tested under full disruption / Data Centre Unavailable scenario. Business units are involved to get trained on processing critical services to extend such critical services during disaster times. However, for the year 2018, DR Drill is planned to be conducted by March 2019 due to shifting of location of Back Up site to a new location.
- 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 tailored for various target groups. Importantly, during the period under review, an exclusive specialized BCM Training focusing Business Impact Analysis /Risk Assessment was conducted for the Business Continuity Leaders /Coordinators. As part of promoting BCM Awareness, new innovations are introduced such screensavers containing BCM Messages and Gifts to all staff embossing BCM contents.
- During the year, Bank has appointment an external Evaluator for Undertaking Gap Analysis for obtaining BCM – ISO 22301 Quality Certification. Currently Gap analysis along with Corrective Action plan is being reviewed to implement with a view 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
DGM Chief Risk Officer	24 790 466 Ext: 732 GSM: 9099 3202
Senior Manager - BCM	24790466 Ext. 754; GSM: 95763521

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 processes pertaining limit maintenance and disbursements, controlling facility and collateral documentation, pricing management and 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 portfolios handled by individual portfolio holders, managed by team leaders and a specialized Unit Manager.

These units are entrusted with the tasks to carry out the post sanction activities in a prudent manner to , identify the borrowers legal structure and validate and review the KYC documents , Identify, value and properly classify and record the collateral, attach Bank's security interest in the collateral 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.

The Housing Loan Documentation Unit allocated under the Retail Segment carries out periodical revaluation of all housing loans which has reached the policy specified tenor, along with which CAD formulates MIS reporting for Capital Adequacy.

CAD also 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.

Another key activity handled by CAD is the administration of the Banking Credit Statistics Bureau (BCSB) operations pertaining to the Central Bank of Oman Credit Bureau. This unit coordinates reporting, exception management, access control, complaint management as well as MIS reports pertaining to the Senior Management of the Bank. This BCSB unit also directs the other related periodical regulatory reporting with the prudent coordination of the department MIS and other divisions such as Business, Finance and Compliance.

This year CAD played a key role in forming a CAD unit in the newly established Corporate Centre in Azaiba where CAD had allocated key staff in providing swift services to the clients. This reduced the turnaround time for many CAD related transactions which required speedy attention to corporate customer needs.

As a stepping stone for a self-development, CAD originated a departmental staff development program where staff members are given a choice to conduct their own training program 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.

CAD also took part in the yellow belt program by nominating a large number of staff members from the department for the course and CAD is currently working on the re-engineering of the processes using Lean Six Sigma concepts such as VA/NVA and Cause and Effect Analysis and also Robotic Process Automation.

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 overdues 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.
- Gathering and maintaining market information on assets and investment of defaulters.
- Validating/ maintaining provisions for Loan Loss Reserve/ Interest Reserve as per CBO/ IFRS9 norms.
- Maintaining effective MIS system.

Due to vigorous follow up and timely actions, the department has successfully recovered substantial amount of non-performing assets during the year 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 units are provided with updated document through common shared folders which updated regularly & on timely manner as ongoing process.

Apart from the core activities of developing and reviewing policies & procedures in this context the department plays an important role in formulating board approved policies & charter, Instruction manuals, Standard operating procedures, Product scheme documents and publication of Circulars.

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

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, the Legal Department coordinates with the other departments and branches to ensure correct implementation/interpretation of laws, regulations, circulars and internal policies.

- The Legal Department has grown over the past year by strengthening the team with senior leadership role and qualified legal professional team.. 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 an in-house review and drafting of contracts to protect the Bank's interests and minimize risks.
- 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 the 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 2 years, compliance operational landscape has shifted to maintain 'zero' level compliance risk in the Bank. In 2018, the Bank revisited its compliance policies and procedures to strive towards robust compliance function and 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 Suspicious Transactions Report (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 with international repute to monitor transactions for AML and Anti-Fraud. Moreover, system has been operationalized to screen SWIFT transactions/messages from the sanctions database. 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.

To promote a value based compliance culture, special attention was given to staff training and development. In addition to specific classroom trainings, mandatory e-Learning courses have been adopted in the Bank for all staff. Relevant staff in Compliance Division were trained in their operational areas. Compliance officials have received 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).

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 Police (ROP) as per regulatory requirements.

Risk Management Division

1. Risk Management Structure

The primary responsibility is 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 Risk Management Committee (RMC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The RMC 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, RMC 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:

A) 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 riskand 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.

B) 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.

C) 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.

D) 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 2018, 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.

E) 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.

3. 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 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)

To achieve the Bank's Vision to be the Best Bank in the Gulf, the Bank has aligned its Human Resources (HR) strategy and objectives by implementing Human Resources Together 2020 Transformation Journey which is having a clear road map in terms of Objectives, Strategy and Programs and Projects.

The Bank believes that people are the biggest differentiator in its transformation journey which can be achieved by having committed, engaged and motivated talent who will continue driving sustained business performance. This has been recognized locally, regionally and internationally by winning a number of prestigious awards.

HR is currently driving the development of Performance Culture which is one of the Key Pillars of the Together 2020 Transformation Journey, through the various HR transformation initiatives.

Talent Acquisition & Retention

The Bank has continued its strategy to recruit and retain critical talents by providing them with career development opportunities, competitive rewards and recognition programs, and implementing learning development programs that will enable them to achieve their maximum potential. The Bank has successfully recruited 142 new staff during this year including 95 fresh graduates through Ruwad BankDhofar Program and they have undergone an intensive Training & Development program in all the areas related to Banking and self-development.

The Bank has continued to maintain its Omanisation level of over 93.4% and also retained its critical talent by achieving a single digit attrition rate.

Focusing on Talent Management

The Bank has continued to develop its talent through MAWAHIB Talent Development Program which aims at identifying, assessing and developing talents through world-class development programs which has been based on both structured learning delivered by the best of the class of learning & development partners and participation in real time projects which will enable the Bank's talents to improve their functional competencies.
In 2018, Bank has conducted various programs targeting different staff segments such as the Top Team, Middle Managers and Junior Managers to develop their talent and to cater for the succession planning needs. Different Individual development plans have been created for different segments in the Talent pool of the Bank.

Learning & Development

In alignment with Bank's strategy "Together 2020", the Human Resources Division have taken up various ambitious projects aiming at improving performance, productivity, and developing people at the Bank. The Performance Academy which was launched towards the end of 2017 as a part of the Transformation journey of the Bank has been a development platform focusing on the development of Omani talent. During the year, the Academy cascaded the Lean Transformation programs across the Bank and build Professional Lean Practitioners who will be Lean Champions for their respective Businesses and Operating Units to achieve the Lean Operating Model.

The Academy also played a major role in supporting the Banks Transformation Journey by executing required training initiatives that cover areas related to Leadership, Banking and Culture change. The Academy has played a major role in capability building of the Bank by implementing specialized banking programs including various Master-Class Programs, Sales Training and Project Management etc.

Academy has also contributed to develop different leadership levels in the Bank through the executing of different development initiatives including Team Effectiveness based on Values and EQ, Coaching and Mentoring, specialized programs for Retail Banking which includes Area Manager's Development Program and Retail Future Banking Talent Development program. Academy has continued the Coaching & Mentoring Programs for the senior executives to equip them with the right tools to create a performance culture in line with cultural transformation program that has been implemented by the Bank.

Employee Engagement

The Bank has implemented different initiatives and programs that aims at creating a word class employee engagement culture. According Bank has organized Annual Staff convention for all their staff an Employee Wellness Program by rolling out Fitness campaigns, Blood Donation camps, Eat Smart Campaign and a Walkathon Carnival. Bank has also continued to cascade its values to staff through various initiatives and workshops. Going forward Bank will conduct more initiatives and roadshows to disseminate the values which will enable staff to live the values.

Digital People

During 2018, Bank has consolidated HR Operations, by automating 18 of HR Processes which has led to the achievement of the targeted enablement of the Employee Self Service in the Bank. Some of the highlights of this are centralization of staff facilities, HR Contact Centre, HR Track IT etc.

Bank has also launched its Digital learning Platform by introducing a world class Learning Management System which aims at Anywhere Anytime Learning for the staff to develop their skills and competencies. This system will facilitate the design delivery and assessment of courses and it will enable covering more e-learning courses for staff in the areas related to Banking, Regulatory, Soft Skills and Leadership programs.

Financial Performance

Despite the current challenging economic and financial situation driven by volatile oil prices and rising interest rates, the bank continued to grow its net profit in 2018 achieving 5.57% growth year-on year from OMR 47.63 million (USD 123.71 million) as of 31st of December 2017 to OMR 50.28 million (USD 130.60 million) as of 31st of December 2018. The Net Loans, Advances and Financing to customers reached OMR 3.16 billion (USD 8.21 billion) at December 2018, compared to OMR 3.25 billion (USD 8.44 billion) at the end of 2017. In line with a decline in Loans and Financing book, Customer deposits, including Islamic deposits, also decreased by 4.88% from OMR 3.07 billion (USD 7.97 billion) at the end of 2017 to reach OMR 2.92 billion (USD 7.58 billion) at the end of 2018. Total assets reached OMR 4.21 billion (USD 10.94 billion) in December 2018 as compared to OMR 4.25 billion (USD 11.04 billion) at end of 2017, a marginal decline of 0.94%.

Non-Performing Loans (NPL). 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).

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

Description (OMR M)	31-Dec-18	31-Dec-17	Growth %
Gross Loans/Financing	**3,293.95**	3,386.83	(2.74%)
Retail Loans/ Financing	**1,375.14**	1,482.88	(7.27%)
WSB Loans/Financing	**1,918.81**	1,903.95	0.78%

Analysis of our Loan portfolio by product is tabulated below:

Loans, advances and financing to customers (OMR 000)	31-Dec-18	31-Dec-17	Growth%
Overdrafts	**165,880**	173,297	(4.28%)
Loans	**2,547,049**	2,628,663	(3.10%)
Loans against trust receipts	**99,393**	116,350	(14.57%)
Bills discounted	**70,969**	72,082	(1.54%)
Advance against credit cards	**8,921**	8,516	4.76%
Islamic Banking Window financing	**401,733**	387,917	3.56%
Gross loans, advances and financing	**3,293,945**	3,386,825	(2.74%)
Less: Impairment allowance	**(135,101)**	(137,952)	(2.07%)
Net loans, advances and financing	**3,158,844**	3,248,873	(2.77%)

The customer deposits mobilized by the bank decreased by 4.88% from OMR 3.07 billion (USD 7.97 billion) at the end of 2017 to reach OMR 2.92 billion (USD 7.58 billion) at the end of 2018. The analysis of our Key deposits by product is given below:

Deposits from customers (OMR 000)	31-Dec-18	31-Dec-17	Growth%
Current accounts	**568,332**	704,197	(19.29%)
Savings accounts	**456,011**	442,972	2.94%
Time deposits	**1,531,677**	1,493,204	2.58%
Margin accounts	**15,099**	51,253	(70.54%)
Islamic Banking Window deposits	**353,385**	376,783	(6.21%)
Grand total	**2,924,504**	3,068,409	(4.69%)

The key profitability indicators showed a positive growth with net interest and financing income to achieve a growth of 7.05% to reach OMR 99.70 million (USD 258.96 million) for the year 2018 as compared to OMR 93.13 million (USD 241.90 million). Non-funded income increased by 1.86% year-on-year reaching OMR 34.43 million (USD 89.43 million) in 2018 as against OMR 33.80 million (USD 87.79 million) during the same period of last year. The total operating income is OMR 134.12 million (USD 348.36 million) for the year 2018 as compared to OMR 126.93 million (USD 329.69 million) for the year 2017.

Total Operating Expenses is OMR 67.27 million (USD 174.73 million) for the year 2018 as compared to OMR 58.99 million (USD 153.22 million) for the year 2017. The Cost to Income ratio as of 31st of December 2018 stood at 50.50% as compared to 46.48% in 2017. The provision for loan impairment, net of recovery, during the year 2018 decreased to OMR 6.65 million (USD 17.27 million) as against OMR 11.90 million (USD 30.91 million) for the year 2017. The impairment allowance on investments during the year decreased to OMR 0.20 million (USD 0.52 million) from OMR 0.36 million (USD 0.94 million) in 2017.

Funding and Capital Raising initiatives

In continuation of its capital augmentation to strengthen the capital base, the Bank has successfully raised capital of OMR 95 million in the following forms:

a) a rights issue of its ordinary shares by OMR 55 million which forms part of the Bank's Core Equity Tier 1 Capital (CET1);
b) Additional Tier 1 Perpetual Bond of OMR 40 million which forms part of Tier 1 Capital.

This takes the CET-1 Ratio to healthy 11.88% and total Capital Adequacy Ratio (CAR) to 17.33% compared to the Regulatory requirements of 8.875% and 12.875% as at 31st December 2018

Proposed Dividends

The Board of Directors in their meeting held on 29th January 2019 proposed a cash dividend of 10% (2017: 12%) for the year ended 31st December 2018 amounting to OMR 28.00 million (2017: OMR 27.09 million) and a bonus share issue of 7% (2017: 8%) amounting to 196,022,990 shares (2017: 180,268,618 shares) of OMR 0.100 each subject to Regulatory and Shareholders Approvals.

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

Year	2013	2014	2015	2016	2017
Cash Dividends	14%	5%	15%	13.5%	12%
Bonus Shares	11%	15%	10%	7.5%	8%

FINANCIAL HIGHLIGHTS
OF LAST FIVE YEARS

Financial Highlights of Last Five Years

(OMR'000)	2018	2017	2016	2015	2014
NET INTEREST INCOME (CONVENTIONAL)	89,729	84,605	90,786	84,478	73,580
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES	9,969	8,521	6,874	5,729	3,208
NON INTEREST INCOME	34,426	33,801	29,691	25,019	22,063
OPERATING COSTS	67,727	58,994	56,767	51,199	46,163
OPERATING PROFIT (before Impairment losses)	66,397	67,933	70,584	64,027	52,688
PROFIT FROM OPERATIONS	59,743	56,031	54,429	52,501	45,754
NET PROFIT FOR THE YEAR	50,281	47,627	47,622	46,765	40,453

At year-end					
TOTAL ASSETS	4,213,490	4,246,710	3,952,043	3,593,061	3,194,127
NET LOANS, ADVANCES AND FINANCING	3,158,844	3,248,873	2,988,592	2,729,306	2,254,705
CUSTOMER DEPOSITS	2,924,504	3,068,409	2,885,189	2,592,371	2,482,179
TOTAL EQUITY	698,162	587,007	534,000	476,529	325,318
SHARE CAPITAL	280,033	225,786	189,920	154,473	134,324
FULL SERVICE BRANCHES	71	69	68	67	68
ATMs / CDMs / FFMs	190	179	180	187	197
STAFF	1,600	1,514	1,478	1,371	1,340

FINANCIAL RATIOS
OF LAST FIVE YEARS

Financial Ratio of Last Five Years

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	7.82%	8.50%	9.42%	11.66%	12.86%
Return on Weighted Average Shareholders Equity	9.92%	10.70%	12.22%	13.63%	12.86%
Return on Weighted Average Paid-up Capital	19.88%	22.91%	27.66%	32.39%	31.69%
Return on Average Assets	1.19%	1.16%	1.26%	1.38%	1.40%
Non-Interest Income to Operating Income	25.67%	26.63%	23.31%	21.71%	22.32%
Operating Expenses to Operating Income	50.50%	46.48%	44.58%	44.43%	46.70%
2. LIQUIDITY					
Net Loans to Total Deposits	95.91%	94.00%	92.36%	94.07%	84.84%
Total Customer Deposits to Total Deposits*	88.80%	88.78%	89.17%	89.35%	93.41%
3. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	4.10%	4.07%	3.83%	3.49%	3.74%
Non-Performing Loans to Total Loans	3.68%	3.11%	2.68%	2.30%	2.55%
Non-Performing Loans Net of Interest Reserve to Total Loans **	1.99%	1.72%	1.41%	1.10%	1.24%
Loan Loss Provisions to Total Non-Performing Loans	111.38%	130.93%	142.66%	151.88%	146.59%
4. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	11.88%	10.53%	9.85%	9.43%	10.76%
Tier 1 capital ratio	15.52%	13.29%	12.77%	12.68%	10.76%
Total Capital Adequacy Ratio	17.33%	15.44%	14.41%	14.70%	14.05%
Shareholder's Equity/ Total Assets	12.88%	11.10%	10.59%	10.05%	10.18%

* Net Loan to Customers Deposits is 108.01%.
** Net NPL for 2018 is 0.74% 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/ 24276000 - 24276001 - 24276002	24545268
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
Mod Ghala	Dir/ 24316227 - 24316038	24316196
New Muscat International Airport	Dir/ 24356999 - 24356995 - 24356997	24216600
Muscat Center Area		
Muscat Grand Mall	Dir/ 24216666	24216600
Al Qurum	Dir/ 24568351 - 24567671 - 24567673	24567679
New Bausher	Dir/ 24614768 - 24614786	24614764
Al Amerat	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/ 2484519 5- 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

Branch Network

BRANCH	TEL. NO.	FAX NO.
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
Bidbid	25369044 - 25369033	25369055
Adam	25215001	25215050
Buraimi & Dhahira Area		
Al Buraimi	Dir/ 25652224 - 25652227	25651 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

Branch Network

BRANCH	TEL. NO.	FAX NO.
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

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Independent Auditors' Report on factual findings to the Board of Directors of Bank Dhofar SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures and Basel III related disclosures ("the Disclosures") set out on pages 1 to 48 of Bank Dhofar SAOG (the "Bank") as at and for the year ended 31 December 2018. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services No. 4400 applicable to agreed-upon procedures engagements. The Procedures set out in the Circular No. BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based solely on performance of the procedures, we found no exceptions.

Because the 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 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 first 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 CBO; and we accept no liability or responsibility to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

KPMG

11 March 2019

Kenneth Macfarlane

KPMG

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Independent Auditors' Report on factual findings to the Board of Directors of Bank Dhofar SAOG in respect of Basel II - Pillar III & Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related disclosures ("the Disclosures") of Maisarah Islamic Banking - Window of Bank Dhofar SAOG ("Maisarah") set out on pages 1 to 38 as at and for the year ended 31 December 2018. The disclosures were prepared by the Management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services No. 4400 applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating Maisarah's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based solely on performance of the procedures, we found no exceptions.

Because the 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 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 first 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 CBO; and we accept no liability or responsibility to any third party. This report relates only to the Maisarah's Disclosures and does not extend to the financial statements of Maisarah taken as a whole or to any other reports of Maisarah.

KPMG

11 March 2019

Kenneth Macfarlane

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

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 12.875% (including the capital conservation buffer) as at 31st December 2018 and with effective from 01.01.2019, to maintain minimum capital adequacy ratio of 13.500% (including capital conservation buffer).
d. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:
    - Within the overall requirement of 12.875% CAR, Tier 1 ratio is to be maintained at a minimum of 10.875%,
    - Within the minimum Tier 1 ratio of 10.875%, minimum CET 1 ratio is to be maintained at 8.875%,
    - Further, within the minimum overall capital ratio of 1 1%, Tier 2 capital can be admitted up to a maximum of 2% of Risk Weighted Assets (RWA) of the Bank.
    - The above requirement will change correspondingly with the implementation of capital conservation buffer of additional 0.625% in 2019 and the required capital adequacy ratio (after capital conservation buffer) would be 13.50%.
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:

As at 31.12.2018
CET 1 Capital Ratio: 8.875% of risk weighted assets
Tier 1 Capital Ratio: 10.875% of risk weighted assets (Going concern capital)
Total Capital Ratio: 12.875% of risk weighted assets (Gone concern capital)

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 reaching 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 at the begining of 2019, 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.

3.2. 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	280,033
Legal reserve	55,878
Share premium	95,656
Special reserve	18,488
Subordinated loan reserve	30,100
Retained earnings	**11,557**
Proposed bonus shares	**19,602**
Common Equity Tier (CET) I capital	**511,314**
Deferred Tax Assets	(1,029)
Less Goodwill	(794)
Cumulative unrealized losses recognized directly in equity	(2,271)
CET I Capital – Regulatory Adjustments	**(4,094)**
Total CET I capital	**507,220**
Additional Tier I Capital	**155,500**
Total Tier I Capital	**662,720**
Investment revaluation reserve (45% only)	134
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)	43,606
Subordinated loans	33,775
Total Tier II capital	**77,515**
Total eligible capital (Tier I + Tier II Capital)	**740,235**

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 17.33% as against the CBO requirement of 12.875% as at 31st December 2018. 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:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	4,417,162	4,300,057	3,328,534
2	Off balance sheet items	646,836	589,709	587,751
3	Derivatives	1,210,792	1,210,792	20,361
4	**Total Credit Risk**	**6,274,790**	**6,100,558**	**3,936,646**
5	Market Risk	-	-	**75,779**
6	Operational Risk	-	-	**258,086**
7	Total Risk Weighted Assets	-	-	**4,270,511**

* Net of provisions and, reserve interest

2) Detail of Capital Adequacy:

Sl. No	Details	RO'000
1	Common Equity Capital	507,220
	Tier 1 Capital	662,720
2	Tier 2 Capital	77,515
3	Tier 3 Capital	-
4	**Total eligible capital**	**740,235**
5	Capital Requirement for Credit Risk	433,031
6	Capital Requirement for Market Risk	8,336
7	Capital Requirement for Operational Risk	28,389
8	**Total Required Capital**	**469,756**
9	Common Equity Capital Ratio	11.88%
10	Tier 1 Capital Ratio	15.52%
	Total Capital Adequacy Ratio	17.33%

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.

3.4.1 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 (Board Credit Committee dissolved on 26 April 2018) 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 the 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)

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

Sl. No.	Type of Credit Exposure	Average Gross exposure		Total Gross exposures	
		2018 RO'000	2017 RO'000	2018 RO'000	2017 RO'000
	Conventional				
1	Overdrafts	**177,624**	164,179	**165,880**	173,297
2	Loans	**2,549,067**	2,893,419	**2,547,049**	2,628,663
3	Loans against trust receipts	**119,580**	119,546	**99,393**	116,350
4	Other	**59,346**	64,931	**59,331**	58,734
5	Bills purchased /discounted	**11,426**	13,145	**11,638**	13,348
6	Advance against credit cards	**8,833**	7,986	**8,921**	8,516
	Total	**2,925,876**	3,263,206	**2,892,212**	2,998,908
	Islamic				
7	Murabaha Receivables	**22,370**	18,493	**24,625**	27,236
8	Mudaraba Financing	**21,601**	27,399	**26,585**	23,481
9	Ijarah Assets	**45,301**	42,118	**46,002**	44,334
10	Wakala Financing	**-**	-	**18,762**	-
11	Diminishing Musharaka Financing	**291,868**	272,010	**285,759**	292,866
12	Total Islamic	**381,140**	360,020	**401,733**	387,917
	TOTAL	**3,307,016**	3,623,226	**3,293,945**	3,386,825

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

Sl. No	Type of Credit Exposure	Oman RO'000	Other CC 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	165,880	-	-	-	-	-	165,880
2	Personal Loans	1,375,140	-	-	-	-	-	1,375,140
3	Loans against trust Receipts	99,393	-	-	-	-	-	99,393
4	Other Loans	1,166,456	5,453	-	-	-	-	1,171,909
5	Bills Purchased / negotiated	10,552	211	875	-	-	-	11,638
6	Advance against credit cards	8,921	-	-	-	-	-	8,921
7	Any other	59,331	-	-	-	-	-	59,331
	Total	**2,885,673**	**5,664**	**875**				**2,892,212**
	Islamic							
8	Murabaha Receivables	24,625	-	-	-	-	-	24,625
9	Mudaraba Financing	26,585	-	-	-	-	-	26,585
10	Ijarah Assets	46,002	-	-	-	-	-	46,002
11	Wakala Financing	18,762	-	-	-	-	-	18,762
12	Diminishing Musharaka Financing	285,759	-	-	-	-	-	285,759
13	Total Islamic	401,733	-	-	-	-	-	401,733
	Total	**3,287,406**	**5,664**	**875**	**-**	**-**	**-**	**3,293,945**

Overdrafts and others includes in Personal loans and others

*excluding countries included in column 2

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

Sl. No.	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills purchased RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
1	Import trade	15,573	76,260	-	15,314	107,147	29,026
2	Export trade	172	51	-	5	228	6,692
3	Wholesale/retail trade	13,086	44,356	-	3,356	60,798	32,727
4	Mining and quarrying	5,722	30,481	1,930	1,612	39,745	1,719
5	Construction	62,741	338,266	6,598	89,296	496,901	465,775
6	Manufacturing	21,372	161,416	1,307	29,125	213,220	48,994
7	Electricity, gas and water	586	137,917	-	-	138,503	92,763
8	Transport and Communication	2,420	3,114	-	383	5,917	7,375
9	Financial institutions	1,987	138,606	257	-	140,850	248,862
10	Services	24,845	171,743	-	2,595	199,183	38,319
11	Personal loans	1,045	1,365,684	-	8,411	1,375,140	174
12	Agriculture and allied Activities	4,004	6,231	-	1,888	12,123	696
13	Government	-	268,114	-	3	268,117	10,670
14	Non Resident lending	-	5,453	1,086	-	6,539	241
15	All others	12,327	201,090	460	15,657	229,534	26,781
	Total (1 to 15)	**165,880**	**2,948,782**	**11,638**	**167,645**	**3,293,945**	**1,010,814**

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

Sl. 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	8,294	62,496	11,638	1,074	83,502	402,447
2	1 - 3 months	8,294	171,802	-	4,005	184,101	40,522
3	3 - 6 months	8,294	36,838	-	6,088	51,220	50,164
4	6 - 9 months	8,294	10,347	-	7,490	26,131	22,236
5	9 - 12 months	8,294	1,476	-	7,128	16,898	18,526
6	1 - 3 years	41,470	91,423	-	39,270	172,163	118,543
7	3 – 5 years	41,470	203,446	-	22,028	266,944	277,158
8	Over 5 years	**41,470**	**2,370,954**	**-**	**80,562**	**2,492,986**	**81,218**
	TOTAL	**165,880**	**2,948,782**	**11,638**	**167,645**	**3,293,945**	**1,010,814**

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

Sl. 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	94,488	12,659	871	1,743	10,548	596	1
2	Export Trade	222	6	17	4	3	2	-
3	Wholesale & Retail	30,598	30,200	230	4,906	25,045	(90)	-
4	Mining & Quarrying	39,735	10	689	3	5	(37)	-
5	Construction	488,548	8,353	5,907	2,416	3,253	1,519	1
6	Manufacturing	213,039	181	1,175	31	141	16	-
7	Electricity, gas & water	138,467	36	761	9	1	8	-
8	Transport & Communications	5,709	208	202	84	6	108	-
9	Financial Institutions	140,850	-	310	-	-	-	-
10	Services	197,750	1,433	797	537	306	10	-
11	Personal loan	1,316,151	58,989	16,885	25,937	14,625	8,252	26
12	Agriculture & Allied activities	12,114	9	43	5	4	-	-
13	Government	268,117	-	234	-	-	-	-
14	Non-Resident lending	1,086	5,453	1	4,380	1,027	-	-
15	Others	225,772	3,762	9,786	1,345	829	35	-
	TOTAL (1 to 15)	3,172,646	121,299	37,908	41,400	55,793	10,419	28

* Represents only on balance sheet NPLs.

6) Geographical distribution of amount of impaired loans:

Sl. 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	3,171,560	115,846	37,907	37,020	54,766	10,419	28
2	Other GCC countries	211	5,453	-	4,380	1,027	-	-
3	OECD countries*	875	-	1	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	TOTAL	3,172,646	121,299	37,908	41,400	55,793	10,419	28

*excluding countries included in row 2

7) Movement of Gross Loans/Financing:

(OR in 000's)

Sl. No.		Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	2,610,136	671,186	105,503	3,386,825
2	Migration/changes (+/-)	(52,112)	42,302	9,810	-
3	New Loans	559,156	99,254	9,017	667,427
4	Recovery from Loans	(610,800)	(146,476)	(2,836)	(760,112)
5	Loans written off	-	-	(195)	(195)
6	**Closing Balance**	**2,506,380**	**666,266**	**121,299**	**3,293,945**
7	Total Provisions	13,350	24,558	41,400	79,308

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 174.233 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 31.12.2018 is as follows:

Sl. 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)	565,002	-	-	-	-	-	-	-	-	-	565,002
2	Banks (Rated)	-			126,664	-	152,510	-	50,469	253	-	329,896
3	Corporate	115,229	-	-	-	-	-	-	1,646,712	-	26,326	1,788,267
4	SME	-			-	-	-	67,722	-	-	258	67,980
5	Retail	1,877	-	-	-	-	-	-	756,543	-	-	758,420
6	Claims secured by residential property	-	-	-	-	251,361	-	-	306,370	-	-	557,731
7	Past due loans	-	-	-	-	-	-	-	121,299	-	-	121,299
8	Other assets	-	-	-	-	-	-	-	84,912	-	-	84,912
9	Un-drawn exposure	-	-	-	-	1,709	-	9,639	131,544	-	763	143,655
10	Derivative	-	1,027,461	182,363	-	-	-	-	968	-	-	1,210,792
11	Non funded-Bank	-	-	-	-	-	-	-	113,113	-	-	113,113
12	Non funded-Customers	57,127	-	-	9,401	-	285,149	171	179,960	-	-	531,808
13	Non funded-Sovereign	1,915	-	-	-	-	-	-	-	-	-	1,915
	Total	**741,150**	**1,027,461**	**182,363**	**136,065**	**253,070**	**437,659**	**77,532**	**3,391,890**	**253**	**27,347**	**6,274,790**

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 Risk Management Committee of Board of Directors.

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 41.609 Mn in OTC derivatives (such as currency option, interest rate swap and forward interest rate agreement) and risk weighted assets of RO 0.968 Mn as at 31 Dec 2018.

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.

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 31.12.2017 Impact on	+ or – 1%	+ or – 2%
Earnings	11.06	22.12
Economic Value of Equity	45.36	90.73
Impact on earning as a % of NII	10.41%	20.83%
Impact as a % of Bank's Net worth	6.75%	13.49%

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.

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 3.41 million as on 31.12.2018, VaR works out to OMR 308K at 99% confidence level, which is 9.05% 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	6,062
TOTAL	**6,062**

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).

3.4.7 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 90% on an ongoing basis with effect from 01.01.2018 and shall be 100% by 2019. The Bank is meeting the regulatory limit of LCR as at 31st December 2018 on a consolidated basis.

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 2018.

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

	Item	As at 31st December 2018	As at 31st December 2017
1	Total consolidated assets as per published financial statements	**4,213,490**	4,246,710
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	**7,445**	6,059
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)	**592,166**	497,260
7	Other adjustments		
8	Leverage ratio exposure	**4,813,101**	4,750,029

Table 2: Leverage ratio common disclosure template			
	Item	**As at 31st December 2018**	**As at 31st December 2017**
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**4,213,490**	4,246,710
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)	**4,213,490**	4,246,710
	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	**7,445**	6,059
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)**	**7,445**	6,059
	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	**1,010,814**	1,018,969
18	(Adjustments for conversion to credit equivalent amounts)	**(418,648)**	(521,709)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**592,166**	497,260
	Capital and total exposures		
20	**Tier 1 capital**	**662,720**	556,639
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,813,101**	4,750,029
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**13.8**	11.7

Annexure I

Basel III Capital Disclosure Template 31/12/2018

Basel III common disclosure template to be used during the transition of regulatory adjustments 9i.e. from 1 January 2013 to 1 January 2018			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	375,689.00	
2	Retained Earnings	31,159.00	
3	Accumulated other comprehensive income (and other reserves)	104,466.00	
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	511,314.00	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	2,271.00	
8	Goodwill (net of related tax liability)*	794.00	
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)	1,029.00	
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)	-
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	4,094.00
29	Common Equity Tier 1 capital (CET 1)	507,220.00
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)	662,720.00
Tier 2 capital: Instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	33,775.00
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	43,740.00
51	Tier 2 capital before regulatory adjustments	77,515.00
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)	77,515.00
59	Total Capital (TC = T 1 + T 2)	740,235.00
	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)	4,270,511.00
60a	of which: Credit Risk Weighted Assets	3,936,646.00
60b	of which: Market Risk Weighted Assets	75,779.00
60c	of which: Operational Risk Weighted Assets	258,086.00

Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.88%
62	Tier 1 (as a percentage of risk weighted assets)	15.52%
63	Total capital (as a percentage of risk weighted assets)	17.33%
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)	8.88%
65	of which: capital conservation buffer requirement	1.88%
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)	
National Minima (if different from Basel III)		3.00%
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)	43,740.00
77	Cap on inclusion of provisions in Tier 2 under standardized approach	49,208.08
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)

Sl. No.	CA Report 1 (For CBO Use only)	RO'000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	511,314
2	Regulatory Adjustments to CET1	4,094
3	CET1	507,220
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%)	662,720
8	Tier 2 Capital before Regulatory Adjustments	77,515
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	77,515
11	Total Capital (11=7+10)	740,235
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,270,511
13	Credit Risk Weighted Assets	3,936,646
14	Market Risk Weighted Assets	75,779
15	Operational Risk Weighted Assets	258,086
16	CET1 (as a percentage of TRWA) (in %) 7.625%	11.88
17	Tier 1 (as a percentage of TRWA) (in %) 9.625%	15.52
18	Total capital (as a percentage of TRWA) (in %) 12.625%	17.33

Capital Adequacy Disclosure

Sl. No.	Details	31st December 2018 Amount RO ' 000
1	Common Equity Tier 1 capital (CET 1)	507,220
2	Tier I Capital (after supervisory deductions)	662,720
3	Tier II capital (after supervisory deductions & upto eligible limits)	77,515
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	3,936,646
7	Risk Weighted Assets – Operational Risk	258,086
8	Total Risk Weighted Assets – Banking Book + Operational Risk	4,194,732
9	Minimum required capital to support RWAs of banking book & operational risk	461,421
	i) Minimum required Tier I Capital for banking book & operational risk	383,906
	ii) Tier II Capital required for banking book & operational risk	77,515
10	Tier I capital available for supporting Trading Book	278,814
11	Tier II capital available for supporting Trading Book	0
12	Risk Weighted Assets – Trading Book	75,779
13	Total capital required to support Trading Book	8,336
14	Minimum Tier I capital required for supporting Trading Book	2,376
15	Used Eligible Tier III Capital	0
16	Total Regulatory Capital	740,235
17	Total Risk Weighted Assets – Whole bank	4,270,511
18	Common Equity Tier 1 Ratio	11.88%
19	Tier 1 Ratio	15.52%
20	Total Capital Adequacy Ratio	17.33%
21	Unused but eligible Tier III Capital	
	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	3.00%

Capital Elements of Capital

		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) Sovereign												
	carrying 0%	565,002				1,915	566,917				566,917	-
	carrying 20%											-
	carrying 50%											
	carrying 100%											
	carrying 150%											
	Unrated 100%											
2) MDBs	Carrying 0%											
3) Banks												
	carrying 0%											
Placement	carrying 20%	126,664					126,664				126,664	25,333
	carrying 50%	152,510					152,510				152,510	76,255
	carrying 100%	50,469				113,112	163,581				163,581	163,581
	carrying 150%	253					253				253	380
	Unrated 50%											
4) Corporate												
	carrying 0%	115,229				57,127	172,356		172,356	172,356	172,356	-
	carrying 20%					9,401	9,401	9,401		9,401	9,401	9,401
	carrying 50%					285,149	285,149	285,149			285,149	285,149
	carrying 75%		171			171	171	171			171	128
SME	carrying 75%	67,722	9,639				77,361	77,361			77,361	58,021
	carrying 100%		104,981			104,981	104,981	104,981			104,981	104,981
	Unrated 100%	1,646,712	129,403			74,980	1,851,095	1,851,095			1,851,095	1,851,095
(Mudaraba) SME	carrying 300%	258	7				265	265			265	795
(Mudaraba)	carrying 300%	26,326	756				27,082				27,082	81,246
5) Retail	carrying 0%	1,877					1,877		1,877	1,877	1,877	-
	carrying 20%											
	carrying 50%											
	carrying 75%											-
	carrying 100%	756,543	2,128				758,671				758,671	756,543
6) Claims secured by residential property												
	carrying 0%											
	carrying 20%											
	carrying 35%	251,361	1,709				253,070				253,070	87,976
	carrying 100%	306,370	13				306,383				306,383	306,383
7) Claims secured by commercial property												
	carrying 0%											
	carrying 20%											
	carrying 100%											
8) Past Due Loans												
	carrying 0%											
	carrying 20%											
	carrying 150%											
	carrying 100%	121,299	-				121,299		(97,193)	24,106	24,106	24,106
net prov for past due loans	carrying 50%											
9) Other Assets												
	carrying 0%											
	carrying 20%											
other assets/ investment/ fixed assets	carrying 100%	84,912					84,912				84,912	84,912
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%				1,027,461		1,027,461				1,027,461	10,275
Above 1 Year	carrying 5%				182,363		182,363				182,363	9,118
	carrying 7.5%											
	carrying 100%				968		968				968	968
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		**4,273,507**	**248,807**	**0**	**1,210,792**	**646,836**	**6,274,790**	**2,328,423**	**77,040**	**207,740**	**6,177,597**	**3,936,646**

Capital Elements of Capital

Sl. No.	Details	31st December 2018 Amount RO ' 000
	Common Equity Tier 1 Capital: Instruments and reserves	
	Local Banks	
1	Paid - up Capital	**280,033**
2	Share Premium	**95,656**
3	Legal reserves	**55,878**
4	General Reserves (Special Reserve)	**18,488**
5	Sub-ordinated Loan Reserve	**30,100**
6	Stock Dividend	**19,602**
7	Retained Earnings	**11,557**
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	**511,314**
	Common Equity Tier 1 Capital : Regulatory Adjustments	
	Deductions	
14	Goodwill	**(794)**
15	Deferred Tax Asset	**(1,029)**
*16	Intangible Assets, including losses, cumulative	
	unrealized losses recognized directly in equity	**(1,562)**
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	**(4,094)**
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 the 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	**0**

23	**Common Equity Tier 1 capital (CET 1)**	**507,220**
	Pepercual Capital Tier 1 Capital	**155,500**
	Total Tier 1 Capital (T1=CET1+AT1)	**662,720**
	Tier II Capital: Instruments and Provisions	**31st December 2018**
	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 or losses on available for sale instruments	**134**
26	General Loan Loss Provisions / General Loan Loss Reserve	**43,606**
27	Sub-ordinated Debt	**33,775**
28	Hybrid Debt Capital Instruments	
29	**Total Tier II Capital before Regulatory adjustment**	**77,515**
	Tier II capital Regulatory Adjustments	
30	Tier III Capital	
31	**Total Regulatory Capital**	**740,235**

Sl. No.	Details – Risk Weighted Assets – Trading Book	31st December 2018 Amount RO ' 000
1	Capital Charge on Specific Risk	**0**
	1) On interest rate related instruments	**0**
	2) On Equities	**0**
2	Capital charge on general market risk	**0**
	1) On interest rate related instruments	**0**
	2) On Equity	**0**
	3) On foreign exchange & Gold position	**6,062**
	4) On Commodities position	**0**
3	Total Capital Charge for market risks	**6,062**
4	Total Risk Weighted Assets – Trading Book	**75,779**

Sl. No.	Details – Risk Weighted Assets – Operational Risk	31st December 2018 Amount RO ' 000
1	Capital Charge for Operational Risk under Basic Indicator Approach	**20,647**
2	Total Risk Weighted Assets - Operational Risk	**258,086**

Statement IIA

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

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	As at Period End	
Assets			
Cash & Balances with CBO	301,505.00		
Balances with bank and money at call and short notice	329,059.00		
Investments:	304,332.00		
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 - Net	3,158,844.00		
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			
Fixed Assets	14,917.00		
Other Asset	104,039.00		
Of which,			
Goodwill & Intangible Assets	794.00		a
Out of which			
Goodwill			

Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	4,213,490.00		
Capital & Liabilities			
Paid up capital	435,533.00		
of which:			
Amount eligible for CET 1	280,033.00		h
Amount eligible for AT1	155,500.00		i
Reserves & Surplus	262,629.00		j
Share Premium	95,656.00		k
Legal Reserve & Special Reserve	74,366.00		l
Special reserve – restructured loans	1,281.00		
Subordinated loan reserve	30,100.00		m
Special reserve Impairment Ifrs9	4,562.00		
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 I)	(1,789.00)	(2,271.00)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	59,162.00	31,159.00	o
Total Capital			
Deposits			
Of which,			
Deposit from Banks	368,983.00		
Customer Deposits	2,571,119.00		
Deposit of Islamic Banking Window	353,385.00		
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	33,775.00	
Other liabilities & provisions	157,966.00		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Liabilities	4,213,490.00		

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			
		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	280,033.00	h
2	Retained earnings	31,159.00	
3	Accumulated other comprehensive income (and other reserves)	200,122.00	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	511,314.00	
7	Prudential valuation adjustments	2,271.00	n
8	Goodwill (net of related tax liability)	794.00	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

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)	280,033
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
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

	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
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

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
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 (ii) of CP1 of CBO guidelines)	Not applicable

Subordinated Loan 3

Disclosure for Main Features of regulatory capital instruments - Perpetual Tier I Capital Securities		
1	Issuer	BankDhofar
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 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)	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
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 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

Subordinated Loan 4

Disclosure for Main Features of regulatory capital instruments – Perpetual Tier I Capital Securities		
1	Issuer	BankDhofar
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
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 60% as at end of 2015 and is to be increased by 10% every year till it reaches 100% in 2019. Thus the LCR ratio should be at a minimum of 90% from 01.01.2018 till 31.12.2018. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31 December 2018.

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

Sl. No.	BankDhofar Consolidated LCR Disclosure for the Quarter ending: Dec 2018	Total Unweighted Value (average) OMR '000	Total Weighted Value (average) OMR '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		365,539.73
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	597,450.76	44,258.11
3	Stable deposits	309,739.40	15,456.97
4	Less stable deposits	287,711.36	28,771.14
5	Unsecured wholesale funding, of which:	800,427.70	385,781.04
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	800,427.70	385,781.04
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	462,885.77	34,196.98
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	462,885.77	34,196.98
14	Other contractual funding obligations	32,306.09	32,306.09
15	Other contingent funding obligations	419,505.41	20,975.27
16	**TOTAL CASH OUTFLOWS**		**517,517.48**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	744,545.13	413,934.73
19	Other cash inflows	18,384.73	18,384.73
20	**TOTAL CASH INFLOWS**	**762,929.86**	**432,319.45**
			Total Adjusted Value
21	**TOTAL HQLA**		**365,539.73**
22	**TOTAL NET CASH OUTFLOWS**		**129,379.37**
23	**LIQUIDITY COVERAGE RATIO (%)**		**282.53**

LCR is computed on a monthly basis and the same for BankDhofar (consolidated entity) was at 276.14% in October, 290.19% in November and 227.30% in December 2018. The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the monthly arithmetic average of the values for the three months of the quarter ended 31.12.2018.

Net Stable Funding Ratio:

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.

As per CBO guidelines, the NSFR is to be maintained at 100% as at January of 2018. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of NSFR as at 31 December 2018.

The disclosure for Net Stable Funding Ratio for Bank Dhofar consolidated (i.e. conventional entity + Islamic Window entity) is calculated on average for the Quarter ending December 2018, is as follows:

(RO '000)

Sl. No.	ASF Item	Unweighted value by residual maturity				Weighted Value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
1	Capital:	1,604,039.63	-	-	-	1,604,039.63
2	Regulatory capital	660,489.64				660,489.64
3	Other capital instruments	943,550.00				943,550.00
4	Retail deposits and deposits from small business customers	643,626.08	41,859.00	42,707.26	-	672,160.75
5	Stable deposits*	323,898.59	2,635.44	9,219.10		318,965.47
6	Less stable deposits*	319,727.49	39,223.56	33,488.16		353,195.29
7	Wholesale funding:	2,457.56	-	1,472,149.06	-	737,303.31
8	Operational deposits	2,457.56				1,228.78
9	Other wholesale funding			1,472,149.06		736,074.53
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	352,818.81				-
14	**Total ASF**					**3,013,503.70**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					11,668.03
16	Deposits held at other financial institutions for operational purposes	13,068.25				6,534.12
17	Performing loans and securities:	-	416,773.90	916,103.65	2,326,396.03	2,451,476.42
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			37,946.71		18,973.36
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		416,773.90	878,156.94		503,455.14
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:				2,314,434.21	1,918,880.38
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				241,943.51	157,263.28
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				11,961.82	10,167.54
25	Assets with matching interdependent liabilities					
26	Other Assets:	-	-		124,434.60	124,434.60
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				124,434.60	124,434.60
32	Off-balance sheet items					71,637.90
33	**TOTAL RSF**					**2,665,751.07**
34	**NET STABLE FUNDING RATIO (%)**					**113.05%**

NSFR is computed on a monthly basis and the same for Bank Dhofar (consolidated entity) was at 110.65% in October 112.67% in November and 115.83% in December 2018.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31st DECEMBER 2018

KPMG

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Independent Auditors' Report

To the Shareholders of Bank Dhofar SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank Dhofar SAOG (the Bank) set out on pages 7 to 90, which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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continued from page 6(a)

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, 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.

Impairment of loans and advances

Refer to note 2.7 for transition impact and note 3.2, 3.3, 4.1 – 4.4, 4.7, 7 and 32 of the financial statements for accounting policy, use of estimates and judgements and credit risk disclosures.

IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Bank on 1 January 2018 and has resulted in:

- change in accounting policies for impairment including the need for making complex estimates and judgement over both timing and recognition of impairment;
- transition adjustment recognised in retained earnings on 1 January 2018, being the date of adoption of IFRS 9;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and
- new disclosure requirements regarding impact of initial application of IFRS 9 and credit quality of the portfolio including explanation of key judgements and material inputs used in determination of expected credit losses.

Given the significance of the loans and advances (representing 75% of total assets) to the financial statements and the related estimation uncertainty in the computation of expected credit losses, this is considered as a key audit matter.

Our response

Our audit procedures, amongst others, to address significant risks associated with impairment included:

- Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice;
- Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over expected credit losses (ECL) model development;
- We involved our specialists to test the relevant General IT and Application Controls over key systems and to review the reasonableness and appropriateness of the methodology, assumptions and key inputs including macro-economic factors and weightages used in various components of ECL computation;
- Testing controls over management authorization of model outputs;

continued to page 6(c)

continued from page 6(b)

- Performing credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;
- Sample testing of loans and advances to customers to determine whether significant increase in credit risk (SICR) was appropriately identified;
- Sample testing of management overlays in order to assess the reasonableness of the adjustments to model and overrides; and
- Testing the completeness and accuracy of the data used in the calculation of the ECL.

We also assessed the adequacy of Bank's disclosures in relation to transition impact from first time application of IFRS 9, new accounting policies, use of significant estimates and judgment and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

Other Matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 8 March 2018.

Other Information

Management is responsible for the other information. The other information comprises the below information included in the annual report, but does not include the financial statements and our auditors' report thereon:

- Chairman's report
- Management Discussion and Analysis Report
- Financial statements of Maisarah Islamic Banking Services
- Corporate Governance Report
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of Maisarah Islamic Banking Services

Our opinion on the financial statements does not cover the other information and we do 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 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, 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.

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continued from page 6(c)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' 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 these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 management.

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continued from page 6(d)

- Conclude on the appropriateness of management's 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 auditors' 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 auditors' 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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 auditors' 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.

Report on Other Legal and Regulatory requirements

We report that the financial statements of the Bank as at and for the year ended 31 December 2018, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and

- applicable provisions of the Commercial Companies Law of 1974, as amended.

KPMG

11 March 2019

Kenneth Macfarlane

Statement of financial position

As at 31 December 2018

2018 USD'000	2017 USD'000		Note	2018 RO'000	2017 RO'000
		Assets			
783,130	848,881	Cash and balances with Central Bank of Oman	5	**301,505**	326,819
854,699	778,951	Loans, advances and financing to banks	6	**329,059**	299,896
8,204,790	8,438,631	Loans, advances and financing to customers	7	**3,158,844**	3,248,873
790,473	755,468	Investment Securities	8	**304,332**	290,855
2,062	3,094	Intangible asset	9	**794**	1,191
38,745	24,738	Property and equipment	10	**14,917**	9,524
270,231	180,655	Other assets	11	**104,039**	69,552
10,944,130	11,030,417	**Total assets**		**4,213,490**	4,246,710
		Liabilities			
958,398	1,007,122	Due to banks	12	**368,983**	387,742
7,596,114	7,969,894	Deposits from customers	13	**2,924,504**	3,068,409
410,301	297,862	Other liabilities	14	**157,966**	114,677
165,909	230,844	Subordinated loan	15	**63,875**	88,875
9,130,722	9,505,722	**Total liabilities**		**3,515,328**	3,659,703
		Shareholder's equity			
727,359	586,457	Share capital	16(a)	**280,033**	225,786
248,457	201,465	Share premium	17	**95,656**	77,564
145,138	130,530	Legal reserve	18(a)	**55,878**	50,254
48,021	48,021	Special reserve	18(d)	**18,488**	18,488
3,327	3,327	Special reserve - restrucutred loans	18(e)	**1,281**	1,281
11,850	-	Special Impairment reserve – IFRS 9	18(f)	**4,562**	-
(1,842)	-	Special revaluation reserve – Investment IFRS 9	18(g)	**(709)**	-
78,182	109,935	Subordinated loan reserve	18(b)	**30,100**	42,325
(4,647)	1,317	Investment revaluation reserve	18(c)	**(1,789)**	507
153,667	143,641	Retained earnings	19	**59,162**	55,302
1,409,512	1,224,693	**Total equity attributable to the equity holders of the Bank**		**542,662**	471,507
403,896	300,000	Perpetual Tier 1 Capital Securities	16(b)	**155,500**	115,500
1,813,408	1,524,693	**Total equity**		**698,162**	587,007
10,944,130	11,030,417	**Total liabilities and equity**		**4,213,490**	4,246,710
2,625,491	2,646,673	**Contingent liabilities and commitments**	28	**1,010,814**	1,018,969
0.50	0.54	**Net assets per share (Rial Omani)**	20	**0.194**	0.209

The financial statements were authorised on 11th March for issue in accordance with the resolution of the Board of Directors.

signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Al Ojaili
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of comprehensive income

For the year ended 31 December 2018

2018 USD '000	2017 USD '000		Notes	2018 RO'000	2017 RO'000
453,937	419,478	Interest income		**174,766**	161,499
(220,875)	(199,725)	Interest expense		**(85,037)**	(76,894)
233,062	219,754	**Net interest income**	21	**89,729**	84,605
55,990	48,939	Income from Islamic financing		**21,556**	18,842
(30,096)	(26,808)	Profit Expenses		**(11,587)**	(10,321)
25,894	22,131	**Net income from Islamic financing and investment activities**	21	**9,969**	8,521
53,514	54,281	Fees and commission income		**20,603**	20,898
(12,984)	(9,470)	Fees and commission expenses		**(4,999)**	(3,646)
40,530	44,810	**Net fees and commission income**	29	**15,604**	17,252
48,888	42,984	Other income	22	**18,822**	16,549
348,374	329,681	**Operating income**		**134,124**	126,927
(166,387)	(144,605)	Staff and administrative costs	23	**(64,059)**	(55,673)
(9,527)	(8,626)	Depreciation	10	**(3,668)**	(3,321)
(175,914)	(153,230)	**Operating expenses**		**(67,727)**	(58,994)
172,460	176,450	**Profit from operations**		**66,397**	67,933
(17,273)	(29,977)	Net impairment losses on financial instruments	7	**(6,650)**	(11,541)
(10)	(8)	Bad debts written-off		**(4)**	(3)
-	(930)	Impairment of available-for-sale investments	18 (c)	**-**	(358)
155,177	145,535	**Profit from operations after provision**		**59,743**	56,031
(24,577)	(21,830)	Income tax expense	24	**(9,462)**	(8,404)
130,600	123,706	**Profit for the year**		**50,281**	47,627
		Other comprehensive (expense)/ income:			
		Items that are or may be reclassified to profit or loss:			
(1,971)	-	Movement in fair value reserve (FVOCI equity instrument)	18 (d)	**(759)**	-
(3,992)	-	Movement in fair value reserves -- FVOCI debt instruments		**(1,537)**	-
-	(2,474)	Impairment of available-for-sale investments		**-**	(952)
(5,964)	(2,473)	Other comprehensive income for the year		**(2,296)**	(952)
124,636	121,234	**Total comprehensive income for the year**		**47,985**	46,675
0.04	0.04	**Earnings per share basic and diluted (Rials Omani)**	25	**0.017**	0.016

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

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 IFRS 9 RO'000	Special revaluation reserve IFRS 9 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**	**591,157**
Profit for the period		-	-	-	-	-	-	-	-	-	50,281	50,281	-	50,281
Other comprehensive income for the period:														
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 period		-	-	-	-	-	-	-	-	(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
Dividend for 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 accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

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 IFRS 9 USD'000	Special revaluation reserve IFRS 9 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**	**145,483**	**1,233,855**	**300,000**	**1,535,473**
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		-	-	-	-	-	-	-	-	(5,964)	130,600	124,636	-	124,636
Transfer to special impairment reserve IFRS 9		-	-	-	-	-	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	-	-	-	-	-	-	-	-	140,977	-	140,977
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**	**(4,647)**	**153,668**	**1,409,512**	**403,896**	**1,813,408**

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of changes in equity

For the year ended 31 December 2017

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve - restructured Loan 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 2017		**189,920**	**59,618**	**45,176**	**18,488**	**-**	**31,550**	**1,459**	**72,289**	**418,500**	**115,500**	**534,000**
Profit for the year		-	-	-	-	-	-	-	47,627	47,627	-	47,627
Other comprehensive income for the year												
Net change in fair value of available-for-sale investments		-	-	-	-	-	-	(1,266)	-	(1,266)	-	(1,266)
Reclassification adjustment on sale of available-for-sale investments		-	-	-	-	-	-	(44)	-	(44)	-	(44)
Impairment of available-for-sale investments		-	-	-	-	-	-	358	-	358	-	358
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(952)**	**47,627**	**46,675**	**-**	**46,675**
Transfer to legal reserve	20	-	-	4,763	-	-	-	-	(4,763)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	-	10,775	-	(10,775)	-	-	-
Issue of right shares	19	21,622	17,946	-	-	-	-	-	-	39,568	-	39,568
Excess of receipts over rights issue expenses	19	-	-	315	-	-	-	-	-	315	-	315
Tranfer to special reserve - resctructured Loans	20	-	-	-	-	1,281	-	-	(1,281)	-	-	-
Payment towards Perpetual Tier 1 coupon		-	-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity												
Dividend paid for 2016	38	-	-	-	-	-	-	-	(25,639)	(25,639)	-	(25,639)
Bonus shares issued for 2016	38	14,244	-	-	-	-	-	-	(14,244)	-	-	-
Balances as at 31 December 2017		**225,786**	**77,564**	**50,254**	**18,488**	**1,281**	**42,325**	**507**	**55,302**	**471,507**	**115,500**	**587,007**

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of changes in equity

For the year ended 31 December 2017

	Notes	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Special reserve RO'000	Special reserve - restructured Loan 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 2017		**493,299**	**154,852**	**117,340**	**48,021**	**-**	**81,948**	**3,790**	**187,764**	**1,087,013**	**300,000**	**1,387,013**
Profit for the year		-	-	-	-	-	-	-	123,706	123,706	-	123,706
Other comprehensive income for the year												
Net change in fair value of available-for-sale investments		-	-	-	-	-	-	(3,288)	-	(3,288)	-	(3,288)
Reclassification adjustment on sale of available-for-sale investments		-	-	-	-	-	-	(114)	-	(114)	-	(114)
Impairment of available-for-sale investments		-	-	-	-	-	-	930	-	930	-	930
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(2,473)**	**123,706**	**121,235**	**-**	**121,235**
Transfer to legal reserve	20	-	-	(12,371	-	-	-	-	(12,371)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	-	27,987	-	(27,987)	-	-	-
Issue of right shares	19	56,161	46,613	-	-	-	-	-	-	102,774	-	102,774
Excess of receipts over rights issue expenses	19	-	-	818	-	-	-	-	-	818	-	818
Tranfer to special reserve - resctructured Loans	20	-	-	-	-	3,327	-	-	(3,327)	-	-	-
Payment towards Perpetual Tier 1 coupon		-	-	-	-	-	-	-	(20,551)	(20,551)	-	(20,551)
Transactions with owners recorded directly in equity												
Dividend paid for 2016	38	-	-	-	-	-	-	-	(66,595)	(66,595)	-	(66,595)
Bonus shares issued for 2016	38	36,997	-	-	-	-	-	-	(36,997)	-	-	-
Balances as at 31 December 2017		**586,457**	**201,465**	**130,530**	**48,021**	**3,327**	**109,935**	**1,317**	**143,642**	**1,224,694**	**300,000**	**1,524,694**

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of cash flows

For the year ended 31 December 2018

2018 USD'000	2017 USD'000		2018 RO'000	2017 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES		
155,177	145,535	Profit for the year before taxation	**59,743**	56,031
-	-	Adjustment for:		
10,558	9,660	Depreciation and amortisation	**4,065**	3,719
17,273	29,976	Net impairment on financial instruments	**6,650**	11,541
-	930	Impairment on available-for-sale investments	**-**	358
862	1,060	End of service benefits provision for the year	**332**	408
(120)	(10)	Gain on disposal of property and equipment	**(46)**	(4)
777	(439)	Loss / (gain) on sale of investments	**299**	(169)
184,527	186,712	**Operating profit before working capital changes**	**71,043**	71,884
		Change in working capital:		
(48,418)	97,470	Due to banks	**(18,641)**	37,526
22,361	200,377	Due from banks	**8,609**	77,145
227,348	(706,031)	Loans & advances and financing	**87,529**	(271,822)
(41,745)	(171,662)	Investment securities	**(16,072)**	(66,090)
(87,068)	60,421	Other assets	**(33,521)**	23,262
(373,779)	475,896	Customer deposits	**(143,905)**	183,220
102,917	(42,431)	Other liabilities	**39,623**	(16,336)
(13,857)	100,751	**Cash used in operations**	**(5,335)**	38,789
(19,109)	(15,865)	Taxes paid	**(7,357)**	(6,108)
(935)	(314)	End of service benefits paid	**(360)**	(121)
(33,901)	84,573	**Net cash (used in) / from operating activities**	**(13,052)**	32,560
		CASH FLOWS FROM INVESTING ACTIVITIES		
(23,535)	(11,878)	Purchase of property and equipment	**(9,061)**	(4,573)
119	**156**	Proceeds from sale of property and equipment	**46**	**60**
(23,416)	(11,722)	**Net cash used in investing activities**	**(9,015)**	(4,513)

		CASH FLOWS FROM FINANCING ACTIVITIES		
(64,935)	90,909	(Repayment) / proceeds from subordinated debt	**(25,000)**	35,000
(70,374)	(66,595)	Dividend paid	**(27,094)**	(25,639)
103,896	-	Proceeds from Tier 1 perpetual subordinated bond	**40,000**	-
(579)	-	Perpetual Tier 1 capital securities issuance cost	**(223)**	-
142,525	103,592	Proceeds from rights issue of share capital, net of expense	**54,872**	39,883
(20,551)	(20,551)	Interest on Tier 1 perpetual subordinated bond	**(7,912)**	(7,912)
89,982	107,355	**Net cash from financing activities**	**34,643**	41,332
32,665	180,205	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	**12,576**	69,379
1,077,608	897,403	**Cash and cash equivalents at 1 January**	**414,879**	345,500
1,110,273	1,077,608	**Cash and cash equivalents at 31 December**	**427,455**	414,879
		Cash and cash equivalent comprises of:		
783,130	848,881	Cash and balances with Central Bank of Oman	**301,505**	326,819
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	**(500)**	(500)
329,655	231,545	Due from banks	**126,917**	89,145
(1,213)	(1,519)	Due to banks	**(467)**	(585)
1,110,273	1,077,608		**427,455**	414,879

Conversion Rate: 1.00 OMR = 2.5974 USD

Reconciliation of liabilities and equity arising from financing activities:

2018 USD'000	2017 USD'000		2018 RO'000	2017 RO'000
		Subordinated loan		
230,844	230,844	Balance at beginning of the period	**88,875**	88,875
(64,935)	-	Cash flows	**(25,000)**	-
165,909	230,844	Balance at end of the period	**63,875**	88,875
		Retained earnings		
143,642	187,764	Balance at beginning of the period	**55,302**	72,289
1,842	-	Changes on initial application of IFRS 9	**709**	-
130,600	123,706	Profit for the period	**50,281**	47,627
(13,060)	(12,371)	Transfer to legal reserve	**(5,028)**	(4,763)
(33,182)	(27,987)	Transfer to Subordinate reserve	**(12,775)**	(10,775)
64,935	-	Transfer from Subordinate to retained earning	**25,000**	-
(20,551)	(20,551)	Additional Tier 1 coupon	**(7,912)**	(7,912)
(579)	-	Perpetual tier 1 capital securities issuance cost	**(223)**	-
(2,688)	-	Transfer to special reserve (IFRS 9)	**(1,035)**	-
-	(3,327)	Transfer to special reserve restructure	**-**	(1,281)
(46,917)	(36,997)	Bonus shares issued	**(18,063)**	(14,244)
(70,374)	(66,595)	Dividend transfer	**(27,094)**	(25,639)
153,668	143,642	Balance at end of the period	**59,162**	55,302

The accompanying notes form an integral part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Notes to the financial statements

For the year ended 31 December 2018

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"), 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 Capital 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) (applicable from 1 January 2018) and available-for-sale investments (applicable upto 31 December 2017).

This is the first set of the Bank's annual financial statements in which IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" have been applied. Changes to significant accounting policies are described in note 2.7.

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.

2.5 Standards, amendments and interpretations effective in 2018 and relevant for the Bank's operations

For the year ended 31 December 2018, the Bank has adopted applicable 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 or after 1 January 2018.

The following are the accounting standards which are relevant to the Bank and have been applied in the preparation of these financial statements which has resulted in changes to the Bank's accounting policies and has not affected the amounts reported for prior periods. Differences in the carrying amount of financial assets and liabilities resulting from adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

IFRS 9: Financial Instruments
On 1 January 2018 the Bank adopted IFRS 9 "Financial Instruments" (as revised in July 2014) which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for:

(1) The classification and measurement of financial assets and financial liabilities;
(2) Impairment of financial assets; and
(3) General hedge accounting.

The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. Refer to the Note 2.7 "IFRS 9 Financial Instruments" for impact on account of adoption of IFRS 9, Note 3.2 and 3.3 for the significant accounting policies and Note 32 for risk disclosures in accordance with the standard.

IFRS 15: Revenue from Contracts with Customers

The Bank has adopted IFRS 15 as issued by IASB with effective date from 1 January 2018. This standard has superseded all revenue recognition requirements under the earlier standard and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Bank has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on the timing or amount of the Bank's fees and commission income from contracts with customers. The impact of IFRS 15 was limited to the new disclosure requirements (note 29).

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 2018:

IFRS 16 Leases; effective for annual periods commencing 1 January 2019

IFRS 16 "Leases" replaces the existing guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now required lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. It included an optional exemption for certain short term leases and leases of low value assets. However, this exemption can only be applied by lessees. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases.

The Bank will adopt the new standard on the required effective date using the modified retrospective approach. The Bank has performed an initial impact assessment of IFRS 16 and concluded that the standard may not have any material impact on the Bank's financial statements.

2.7 Changes in accounting policies

A. IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Accordingly, any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year. As permitted by IFRS 9, the bank has elected to continue to apply the hedge accounting requirements of IAS 39.

The adoption of IFRS 9 has resulted in changes to accounting policies for recognition, classification and measurement of financial assets and financial liabilties and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosure".

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ' expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Further details of the impairment requirements are described in more detail in Note 3.3.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Following are the changes and implications resulting from the adoption of IFRS 9:

(a) The table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

RO'000

	Original Classification under IAS 39	New classification under IFRS 9	Original carrying amount	Re-measurement [note 18 (f)]	Impact of IFRS 9 Re-classification [note 18 (g)]	New carrying amount
Financial assets						
Cash and balances with Central Bank of Oman	Loans and receivables	Amortised cost	326,819	-	-	326,819
Loans, advances and financing to banks	Loans and receivables	Amortised cost	299,896	(495)	-	299,401
Loans and advances to customers	Loans and receivables	Amortised cost	3,248,873	16,370	-	3,265,243
Investment securities – equity	Available-for-sale	FVOCI	4,550	-	(709)	3,841
Investment securities – debt	Available-for-sale	FVOCI	26,437	(67)	-	26,370
Investment securities – equity	Available-for-sale	FVTPL	4,825	-	-	4,825
Investment securities	Held to maturity	Amortised cost	255,043	-	-	255,043
Other assets *	Loans and receivables	Amortised cost	69,441	(676)	-	68,765
Property and equipment			9,524	-	-	9,524
Intangible asset			1,191	-	-	1,191
Derivative financial instruments (net)	FVTPL	FVTPL	111	-	-	111
			4,246,710	15,132	(709)	4,261,133
Financial liabilities						
Due to banks	Amortised cost	Amortised cost	387,742	-	-	387,742
Customer deposits	Amortised cost	Amortised cost	3,068,409	-	-	3,068,409
Other liabilities #	Amortised cost	Amortised cost	104,561	11,605	-	116,166
Subordinated debt	Amortised cost	Amortised cost	88,875	-	-	88,875
Income tax payable			10,116	-	-	10,116
			3,659,703	11,605	-	3,671,308
Net				3,527	(709)	

Note: * Re-measurement includes impact of deferred tax liability on special impairment reserve of RO 623 thousand; and # RO 11,605 thousand represents impairment allowance on loan commitment, financial guarantee, acceptances and unutilised limits

The impact from the adoption of IFRS 9 as at 1 January 2018 has been increase in retained earnings by RO 709 thousand, decrease the fair value reserve by same amount:

	Retained earnings	Special impairment reserve IFRS 9	RO'000 Special revaluation reserve [note 18(f)]
Closing balance under IAS 39 (31 December 2017)	55,302	-	-
Impact on reclassification and measurements:		-	
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income (FVOCI)	709	-	(709)
Re-measurement impact on transition	-	3,527	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**56,011**	**3,527**	**(709)**

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these financial statements, except changes in accounting policies resulting from the adoption of IFRS 9 and IFRS 15 as described in note 2.7.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot 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 securities classified as available-for-sale (before 1 January 2018), which 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

Policy applicable from 1 January 2018

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 cost

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.

2) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrecovably 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.

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.

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

Policy applicable from 1 January 2018

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.

Policy applicable before 1 January 2018

Loans & advances and financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 specifically identified and collective allowance for impairment losses are recognised in the statement of profit or loss as 'impairment for credit losses'. Specific provisions were made against the carrying amount of loans and financings receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and financings receivables are reported in the statement of financial position as loans & advances and financing, net. Interest on loans is included in the statement of profit or loss and is reported as 'interest income'.

Investments

Policy applicable from 1 January 2018

Investments which are recognised in the statement of financial position includes:

1) Debt securities measured at FVOCI;
2) Equity investment securities designated at FVTPL and these are at fair value with changes recognised immediately in profit or loss;
3) Equity investment securities measured at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'Other Comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

Policy applicable before 1 January 2018

Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recognised at fair value, which is the cash consideration paid, and measured subsequently at fair value. All the realised and unrealised gains and losses are recognised in the statement of profit or loss. Interest earned or dividends received are recognised in the statement of profit or loss under 'interest income' and 'other income' respectively.

Policy applicable before 1 January 2018

Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.
These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Interest on held to maturity investments is included in the statement of profit or loss and reported as 'interest income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of profit or loss as 'impairment on investments'. Held to maturity investments includes debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available for sale financial asset is determined to be impaired/derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified in the profit or loss. However, interest calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss as 'other income' when the Bank's right to receive is established.

(b) Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in 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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 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.

3.2.5 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 Bank of similar transactions such as in the Bank's trading activity.

3.2.7 Amortised cost measurement

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.

3.2.8 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.

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

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

Policy applicable from 1 January 2018

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.

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).

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.

(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.

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 rebuttable 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 past due 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).

(h) Presentation of allowance for ECL in the statement of financial position

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

Impairment 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.

(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.

(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 Bank has entered into interest rate swaps to hedge the variability in cash flows arising from changes in interest rates relating to investments. 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.

(k) Identification and measurement of impairment of financial assets – Assets carried at amortised cost

An assessment is made at each reporting date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or a group of financial assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and credited to a loan, advances and financing impairment account.
Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loans & advances and financing by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The present value of the estimated future cash flows for loans & advances and financings receivables and other interest bearing financial assets is discounted at the financial asset's original effective interest rate. If a loan and financing has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In addition to specific provisions against individually significant financial assets, the Bank also makes portfolio impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated. Factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic changes.

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 cost, less any amounts written off and provisions for impairment. Due from banks include nostro balances, placements and loans to banks.

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:

Retained	Retained earnings
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 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.

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); or
- hedges of a net investment in a foreign operation (net investment 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.

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.

3.16 Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, at the present value of the minimum lease payments if lower. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

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

3.18 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.

3.19 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.

3.20 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the 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.

3.21 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.

3.22 Revenue and expense recognition

1. Interest income and expense

Policy applicable from 1 January 2018

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; and
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.

Policy applicable before 1 January 2018

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 carrying amount of the financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

1) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
2) Interest on available for sale investment on an effective interest 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.

3.23 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.

3.24 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.

3.25 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 and retail banking. Segmental information pertaining to Islamic Banking Window is also disclosed in note 34.

3.26 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.

3.27 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 UNCERTAINITY

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Policy applicable from 1 January 2018

4.1 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how Bank's financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

4.2 Significant increase in credit risk

ECL are 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.

4.3 Establishing Bank's 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 the asset of that Bank. Re-segmentation 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 12 month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.4 Models and assumptions used

The Bank uses various models and assumptions in estimating ECL. Judgement 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.

4.5 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.

4.6 Going concern

The Bank's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4.7 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

	2018 RO'000	2017 RO'000
Cash in hand	31,422	30,085
Balances with the Central Bank of Oman	126,863	240,909
Placements with Central Bank of Oman	143,220	55,825
	301,505	326,819

Balances with CBO includes capital deposit of RO 500,000 (2017: 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.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, there are no expected credit losses and hence no provision has been recognised.

6. Loans, advances and financing to banks

	2018 RO'000	2017 RO'000
Syndicated loans to other banks	81,104	55,247
Placements with other banks	230,060	233,744
Current clearing accounts	18,732	11,314
	329,896	300,305
Less: impairment allowance	(837)	(409)
	329,059	299,896

At 31 December 2018, placement with one local bank individually represented 20% or more of the Bank's placements (2017: One local bank represented 20%).

Movement of the impairment allowance as below:

	2018 RO'000	2017 RO'000
Opening balance as on 1 January	409	409
IFRS 9 transition impact	495	-
Less: Reversal during the year	(67)	-
Closing balance as on 31 December	837	409

7. Loans, advances and financing to customers

	2018 RO'000	2017 RO'000
Overdrafts	165,880	173,297
Loans	2,547,049	2,628,663
Loans against trust receipts	99,393	116,350
Bills discounted	70,969	72,082
Advance against credit cards	8,921	8,516
Islamic Banking Window financing	401,733	387,917
Gross loans, advances and financing to customers	3,293,945	3,386,825
Less: Impairment allowance including reserved interest	(135,101)	(137,952)
Net Loans, advances and financing to customers	3,158,844	3,248,873
Housing finance	158,610	148,718
Corporate finance	232,301	230,644
Consumer finance	10,822	8,555
	401,733	387,917
Less: Impairment allowance	(4,649)	(4,472)
Net financing to customers	397,084	383,445

Impairment allowance includes the amount of profit reserve of RO 249 thousand and RO 136 thousand for 2018 and 2017 respectively.

The movement in the impairment allowance is analysed below:

	2018 RO'000	2017 RO'000
(a) Allowance for loan impairment		
1 January	**90,740**	79,242
IFRS 9 transition impact	**(16,370)**	-
Allowance for the year	**11,320**	17,588
Released to profit or loss during the year	**(6,354)**	(6,047)
Written off during the year	**(28)**	(43)
31 December	**79,308**	90,740
(b) Reserved interest		
1 January	**47,212**	39,640
Reserved during the year	**10,146**	8,671
Released to profit or loss during the year	**(1,398)**	(948)
Written-off during the year	**(167)**	(151)
31 December	**55,793**	47,212
Total impairment allowance	**135,101**	137,952

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.

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.

RO'000

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	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
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 (31st December 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

Restructured loans

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
Subtotal		**4,542**	**2,446**	**1,718**	**728**	**1,177**	**2,824**	**-**	**919**
Total (31st December 2018)	**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	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

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.

Impairment charge and provisions held

Asset Classification as per CBO Norms	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.

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

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, loan commitments and financial guarantees.

Interest is reserved by the Bank against loans and advances which are impaired (IFRS 9 stage 3). The details of impaired loans are as follows:

Details of impaired loans and advances as of 31 December 2017:

	2017 RO'000
Substandard	9,718
Doubtful	10,517
Loss	85,268
Total	105,503

Loans, advances and financing to customers past due but not impaired are as follows:

Past due up to 30 days	57,041
Past due 30 – 60 days	16,495
Past due 60 – 89 days	8,592
Total	82,128

Financial assets and financial liabilities

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:

Gross exposure	Stage 1	Stage 2	Stage 3	Total RO'000
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**

Gross exposure of loans and advances of RO 121,299 thousands under stage 3 includes reserved interest of RO 55,793 thousand. Accordingly, the principal outstanding of RO 65,506 was subject to ECL.

A. Classification of financial assets and financial liabilities

	Stage 1	Stage 2	Stage 3	Total RO'000
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	**-**	**-**	**(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**

B. 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:

31 December 2018	Notes	Designated as at FVTPL	FVOCI - debt instruments	FVOCI – equity instrument RO'000	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

	2018 RO'000	2017 RO'000
Equity investments:		
Designated at FVTPL	**1,882**	-
Designated at FVOCI	**4,118**	-
Available-for-sale	**-**	7,343
Gross equity investments	**6,000**	7,343
Less: Impairment losses on investments	**-**	(358)
Net equity investments	**6,000**	6,985
Debt investments:		
Designated at FVTPL	**2,258**	-
Measured at FVOCI	**45,413**	-
Measured at amortized cost	**250,927**	-
Available-for-sale	**-**	28,827
Held to maturity	**-**	255,043
Gross debt investments	**298,598**	283,870
Total investment securities	**304,598**	290,855
Less: Impairment loss allowance	**(266)**	-
Total investment securities	**304,332**	290,855
Available-for-sale investments	**-**	35,812
Held to maturity investments	**-**	255,043
Investment securities designated as at FVTPL	**4,140**	-
Investment securities measured at FVOCI	**49,265**	-
Debt investments at amortised cost	**250,927**	
	304,332	290,855

8. 1 Categories of investments by measurement

As at 31 December 2018	Designated at 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

8. 2 Categories of investments by measurement

As at 31 December 2017	Available for Sale RO'000	Held to Maturity RO'000	Total RO'000
Quoted Equities:			
Other services sector	2,210	-	2,210
Financial services sector	429	-	429
Industrial sector	1,910	-	1,910
	4,549		4,549
Unquoted Equities:			
Local securities	1	-	1
Unit funds	2,435	-	2,435
	2,436	-	2,436
Net equity investments	6,985	-	6,985
Quoted Debt:			
Government Bonds	12,144	205,126	217,270
Foreign Bonds	5,520	-	5,520
Local Bonds	11,163	-	11,163
Unquoted Debt:			
Treasury Bills	-	49,917	49,917
Net debt investments	28,827	255,043	283,870
	35,812	255,043	290,855

Government Development Bonds represents Oman Government Bonds having face value of RO 237.52 million (2017: RO 195.13 million) at average coupon rate of 4.34% maturing between 2018 and 2026.

Treasury bills represents United States Treasury bills having face value of 2018: Nil (2017: RO 49.917 million with maturity period of 91 days at 0.93% average yield).

9. Intangible asset

	2018 RO'000	2017 RO'000
1 January	**1,191**	1,589
Impaired during the year	**(397)**	(398)
31 December	**794**	1,191

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 (2017: 398 thousand) was recognised during the year.

10. Property and equipment

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**

31 December 2017	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 2017	140	1,573	13,159	1,324	22,012	355	38,563
Additions	-	-	1,371	136	1,803	1,263	4,573
Disposals	-	-	(392)	(152)	(89)	(6)	(639)
31 December 2017	140	1,573	14,138	1,308	23,726	1,612	42,497
Depreciation							
1 January 2017	-	1,172	10,661	1,134	17,268	-	30,235
Charge for the year	-	59	1,142	127	1,993	-	3,321
Disposals	-	3	(348)	(149)	(89)	-	(583)
31 December 2017	-	1,234	11,455	1,112	19,172	-	32,973
Carrying value 31 December 2017	140	339	2,683	196	4,554	1,612	9,524

11. Other assets

	2018 RO'000	2017 RO'000
Acceptances	**74,590**	50,661
Interest receivable	**16,575**	8,992
Prepaid expenses	**3,262**	2,045
Positive fair value of derivatives (note 30)	**642**	111
Deferred tax assets (note 24)	**1,028**	62
Other receivables	**8,106**	7,681
Less: impairment allowance	**(164)**	-
	104,039	69,552

12. Due to banks

	2018 RO'000	2017 RO'000
Syndicated Inter bank borrowings	**201,041**	215,600
Inter bank borrowings	**167,475**	171,557
Payable on demand	**467**	585
	368,983	387,742

At 31 December 2018, Inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 38,875 thousand (2017: RO 71,950 thousand).

At 31 December 2018, inter bank borrowings with one bank individually represented 20% or more of the Inter bank's borrowings (2017: one bank). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

13. Deposits from customers

	2018 RO'000	2017 RO'000
Current accounts	**568,332**	704,197
Savings accounts	**456,011**	442,972
Time and certificate of deposits	**1,531,677**	1,493,204
Margin accounts	**15,099**	51,253
Islamic Banking Window deposits	**353,385**	376,783
	2,924,504	3,068,409
Islamic Banking window deposits		
Current accounts	**56,040**	72,155
Savings accounts	**34,026**	26,278
Time deposits	**263,319**	278,350
	353,385	376,783

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,180,082 thousand as at 31 December 2018 (2017: RO 1,292,654 thousand).

14. Other liabilities

	2018 RO'000	2017 RO'000
Acceptances	**74,590**	50,661
Interest payable	**15,632**	15,784
Creditors and accruals	**39,251**	36,451
Income tax provision	**13,810**	10,116
Employee terminal benefits	**1,637**	1,665
Impairment allowance on off-balance sheet items (note 7)	**13,046**	-
	157,966	114,677

Employee terminal benefits
The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2018 RO'000	2017 RO'000
1 January	**1,665**	1,378
Charge for the year	**332**	408
Payments made during the year	**(360)**	(121)
	1,637	1,665

15. Subordinated loans

	2018 RO'000	2017 RO'000
Subordinated loan - RO (i) & (ii)	**35,000**	60,000
Subordinated loan - US Dollar (iii)	**28,875**	28,875
	63,875	88,875

1. In January 2018, the Bank has repaid the unsecured subordinated loan amounting to RO 25 million upon maturity.
2. 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.
3. 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.
4. Details regarding subordinated loan reserve are set out in note 18 (b).

16. (a) Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2017: 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 180,628,618 bonus shares.

At 31 December 2018, the issued and paid up share capital comprise 2,800,328,445 ordinary shares of RO 0.100 each (2017: 2,257,857,722 ordinary shares of RO 0.100 each).

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2018 No. of shares	%	2017 No. of shares	%
Dhofar International Development and Investment Company SAOG	**682,776,167**	24.4%	632,200,155	28.0%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**653,699,269**	23.3%	480,433,078	21.3%
Civil Service Employees' Pension Fund	**289,825,834**	10.3%	233,552,136	10.3%
Total	**1,626,301,270**	58.0%	1,346,185,369	59.6%
Others	**1,174,027,175**	42.0%	911,672,353	40.4%
	2,800,328,445	100%	2,257,857,722	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 2018 and 2017.

16. (b) Perpetual Tier 1 Capital Securities

	2018 RO'000	2017 RO'000
Tier 1 USD Securities	**115,500**	115,500
Tier 1 RO Securities	**40,000**	-
	155,500	115,500

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.

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).

17. Share premium

1. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue at a price of RO 0.152 per share (with a nominal value of RO 0.100 per share, a share premium of RO 0.050 per share and issue expenses of RO 0.002 per share), resulting in an increase of share capital and share premium by RO 36,184 thousand and RO 18,092 thousand, respectively.
2. 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.
3. 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.
4. 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.
5. 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

	2018 RO'000	2017 RO'000
1 January	**50,254**	45,176
Appropriation for the year (i)	**5,028**	4,763
Increase in legal reserve (ii), (iii)	**596**	315
31 December	**55,878**	50,254

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 596 thousand has been transferred to the legal reserve.
3. In 2017, the Bank received RO 432 thousand towards rights issue expenses and incurred RO 117 thousand towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 315 thousand was transferred to the legal reserve.

(b) Subordinated loans reserve

	2018 RO'000	2017 RO'000
1 January	**42,325**	31,550
Appropriation for the year:		
Subordinated loan reserve	**12,775**	10,775
Transfer to retained earnings (refer note 15)	**(25,000)**	-
31 December	**30,100**	42,325

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 (2017: available-for-sale financial assets) and the cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-for-sale financial assets) until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2018 RO'000	2017 RO'000
1 January	**507**	1,459
Decrease in fair value	**(2,296)**	(1,266)
Transfer to profit or loss on sale of available-for-sale investments	-	(44)
Impairment of available-for-sale investments	-	358
31 December	**(1,789)**	507

(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/2017/BKUP/Bank and FLC's/467 dated 20 June 2017, 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/2018/15 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, if CBO provisions are higher than IFRS 9 provisions.

The Bank in its first quarterly financial statements has reported Special impairment reserve of RO 8,455 thousands on the date of initial application. During the fourth quarter, certain adjustments and rectifications were made in the impairment model resulting in revised amount of RO 3,527 thousand, net of tax on date on initial application.

(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:

	2018	2017
Net assets (RO)	**542,662,000**	471,507,000
Number of shares outstanding at 31 December	**2,800,328,445**	2,257,857,722
Net assets per share (RO)	**0.194**	0.209

21. Net interest income

	2018 RO'000	2017 RO'000
Loans and advances to customers	**162,274**	153,692
Treasury bills	**364**	317
Money market placements	**12,085**	7,469
Others	**43**	21
Total interest income	**174,766**	161,499
Deposits from customers	**(74,236)**	(68,989)
Money market deposits	**(10,801)**	(7,905)
Total interest expense	**(85,037)**	(76,894)
Net interest income	**89,729**	84,605

Included in interest expenses on deposits from customers is interest on subordinated loan against related parties of RO 3,634 thousand (2017: RO 4,056 thousand).

22. Other income

	2018 RO'000	2017 RO'000
Foreign exchange	**4,562**	4,357
Investment income (see below)	**11,315**	9,232
Miscellaneous income	**2,945**	2,960
	18,822	16,549
Investment income		
Dividend income	**286**	352
(Loss) / gain on disposal of FVOCI debt instrument / available-for-sale investments	**(299)**	169
Income on Sukuk investments	**1,942**	1,228
Interest income on Government Development Bonds and other bonds	**9,386**	7,483
	11,315	9,232

23. Staff and administrative costs

	2018 RO'000	2017 RO'000
(a) Staff costs		
Salaries and allowances	**33,992**	32,047
Other personnel costs	**7,767**	6,714
Scheme costs	**598**	566
Non-Omani employees terminal benefit	**332**	343
	42,689	39,670
At 31 December 2018, the Bank had 1,600 employees (2017: 1,514 employees).		
(b) Administrative costs		
Occupancy costs	**4,816**	3,883
Operating and administration cost	**15,463**	11,089
Impairment of goodwill	**397**	398
Others	**694**	633
	21,370	16,003
	64,059	55,673

24. Income tax

(a) Income tax expense:

	2018 RO'000	2017 RO'000
Current tax		
Current year charge	**9,436**	9,036
Prior years	**1,615**	(632)
	11,051	8,404
Deferred tax		
Current year	**(153)**	(542)
Prior years	**(1,436)**	542
	(1,589)	-
	9,462	8,404

The Bank is subject to income tax at the rate of 15% of taxable profits.

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 2018. 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.

(b) Reconciliation:

	2018 RO'000	2017 RO'000
Profit before tax	**59,743**	56,031
Income tax as per rates mentioned above	**8,961**	8,404
Tax exempt revenue	**(43)**	(53)
Non-deductible expenses	**365**	143
Prior years	**179**	(90)
Tax expense for the year	**9,462**	8,404

(c) Temporary differences which give rise to deferred tax liability are as follows:

Particulars	2017	Recognised in profit or loss	Recognised in equity	2018
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)
Special impairment reserve for 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 2017 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 2018.

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:

	2018 RO'000	2017 RO'000
Profit for the year (RO)	**50,281,000**	47,627,000
Less : Additional Tier 1 Coupon	**(7,912,000)**	(7,912,000)
Profit for the period attributable to equity holders of the Bank	**42,369,000**	39,715,000
Weighted average number of shares outstanding during the year	**2,510,887,294**	2,496,017,071
Earnings per share basic and diluted (RO)	**0.017**	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 8% bonus shares and bonus element (180,628,618 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:

	2018 RO'000	2017 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**35,993**	36,588
Other related parties	**26,055**	18,345
	62,048	54,933
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**23,663**	36,663
Other related parties	**19,775**	31,775
	43,438	68,438
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**143,240**	176,576
Other related parties	**161,701**	129,123
	304,941	305,699
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**562**	308
Other related parties	**6,203**	2,767
	6,765	3,075
Remuneration paid to Directors		
Chairman		
– remuneration paid	**16**	15
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**108**	107
– sitting fees paid	**66**	68
	200	200
Other transactions		
Rental payment to related parties	**486**	480
Other transactions	**81**	80
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**43**	46
Key management compensation		
– salaries and other benefits	**1,612**	1,534

27. Single borrower and senior members

	2018 RO'000	2017 RO'000
(a) Single borrower		
Total direct exposure	**157,162**	179,415
Number of members	**4**	3
(b) Senior members		
Direct	**67,434**	60,052
Indirect	**6,764**	3,150
	74,198	63,202
Number of members	**44**	25

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:

	2018 RO'000	2017 RO'000
Letters of credit	**91,920**	132,067
Guarantees and performance bonds	**918,894**	886,902
	1,010,814	1,018,969

At 31 December 2018, letters of credit, guarantees and other commitments amounting to RO 292,171 thousand (2017: RO 240,088 thousand) are counter guaranteed by other banks.

At 31 December 2018, the unutilised limits towards the loans, advances and financing to customer amount to RO 822,935 thousand (2017: 832,992 thousand).

(b) Capital and investment commitments

	2018 RO'000	2017 RO'000
Contractual commitments for property and equipment	**1,902**	1,157

29. Disaggregation of net fees and commission income

	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).

30. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and 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 notional amount 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:

At December 2018	Contract / notional amount RO'000	Fair value increase / decrease Assets RO'000	Liabilities RO'000
Derivatives:	**1,217,263**	**-**	**453**
Currency forward - purchase contracts	**1,209,823**	**1,095**	**-**
Currency forward - sales contracts	**41,610**	**652**	**-**
Interest rate swaps – purchase contracts	**41,610**	**-**	**652**
Interest rate swaps – sales contracts	**4,738**	**12,969**	**776**
At December 2017			
Derivatives:			
Currency forward - purchase contracts	610,561	1,132	
Currency forward - sales contracts	605,837	-	1,243
Interest rate swaps – purchase contracts	43,093	200	-
Interest rate swaps – sales contracts	**43,093**	**-**	**200**

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact profit or loss.

	Assets 2018 RO'000	Assets 2017 RO'000	Liabilities 2018 RO'000	Liabilities 2017 RO'000
Expected cash flows	**642**	-	**-**	111

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 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).

At 31 December 2018	Level 1 RO '000	Level 2 RO '000	Level 3 RO '000	Total RO '000	Cost RO '000
Financial assets					
Investments at FVOCI	**48,810**	**-**	**721**	**49,531**	**51,319**
Investments at FVTPL	**2,478**	**-**	**1,662**	**4,140**	**4,440**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**642**	**-**	**642**	**-**
Total	**51,288**	**642**	**2,383**	**54,313**	**55,759**
At 31 December 2017					
Financial assets Available-for-sale investments					
Equity instruments	10,354	-	3,116	13,470	13,167
Sukuk	12,144	10,198	-	22,342	22,138
Derivative financial instruments					
Forward foreign exchange contracts	-	111	-	111	-
Total	22,498	10,309	3,116	35,923	35,305

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 meetings.

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 Credit 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.

(a) 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 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**
31 December 2017						
Sultanate of Oman	80,975	3,381,130	285,335	3,065,864	59,132	889,881
Other GCC countries	102,301	5,695	2,011	2,373	215,227	47,027
Europe and North America	59,322	-	3,127	4	96,250	42,280
Africa and Asia	57,707	-	382	168	17,133	39,781
	300,305	3,386,825	290,855	3,068,409	387,742	1,018,969

Other assets and liabilities are predominately concentrated in the Sultanate of Oman.

(b) 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 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**
31 December 2017						
Personal	-	1,482,882	-	608,967	-	184
Corporate	300,305	1,678,979	22,734	1,166,788	387,742	1,003,486
Government	-	224,964	268,121	1,292,654	-	15,299
	300,305	3,386,825	290,855	3,068,409	387,742	1,018,969

(c) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent Liabilities 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**
31 December 2017			
Personal	1,482,882	608,967	184
International trade	100,624	34,880	28,307
Construction	467,643	130,394	372,333
Manufacturing	159,772	28,139	34,860
Wholesale and retail trade	53,586	25,660	29,937
Communication and utilities	76,843	9,322	87,764
Financial services	155,621	141,432	210,532
Government	224,964	1,292,654	15,299
Other services	170,179	164,107	67,972
Others	494,711	632,854	171,781
	3,386,825	3,068,409	1,018,969

(d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2018 RO'000	2017 RO'000	2018 RO'000	2017 RO'000
Overdrafts	**165,880**	173,297	**177,624**	164,179
Loans	**2,547,049**	2,628,663	**2,549,067**	2,893,419
Loans against trust receipts	**99,393**	116,350	**119,580**	119,546
Bills discounted	**70,969**	72,082	**70,772**	78,076
Advance against credit cards	**8,921**	8,516	**8,833**	7,986
Islamic Banking Window financing	**401,733**	387,917	**381,140**	360,020
Total	**3,293,945**	3,386,825	**3,307,016**	3,623,226

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
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**
31 December 2017			
Overdrafts	173,297	-	173,297
Loans	2,623,323	5,340	2,628,663
Loans against trust receipts	116,350	-	116,350
Bills discounted	12,993	355	13,348
Advance against credit cards	8,516	-	8,516
Others	58,734	-	58,734
Islamic Banking Window financing	387,917	-	387,917
	3,381,130	5,695	3,386,825

(f) 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 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 and Communication	**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					**12,123**	
Activities	**4,004**	**6,231**	**-**	**1,888**		**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**
31 December 2017						
Import trade	13,957	74,610	-	11,380	99,947	24,578
Export trade	93	584	-	-	677	3,729
Wholesale/retail trade	12,371	37,701	-	3,514	53,586	29,937
Mining and quarrying	5,099	30,493	531	1,508	37,631	730
Construction	45,384	345,113	5,210	71,936	467,643	372,333
Manufacturing	13,584	121,173	1,132	23,883	159,772	34,860
Electricity, gas and water	295	65,072	-	276	65,643	80,711
Transport and Communication	512	10,688	-	-	11,200	7,053
Financial institutions	1,402	149,767	4,452	-	155,621	210,532
Services	24,644	143,737	-	-	170,179	67,972
Personal loans	2,116	1,472,584	-	8,182	1,482,882	184
Agriculture and allied Activities	3,647	6,887	-	1,149	11,683	339
Government	2,773	222,191	-	-	224,964	15,299
Non-resident lending	-	5,340	355	-	5,695	240
Others	47,420	330,640	1,668	59,974	439,702	170,472
	173,297	3,016,580	13,348	181,802	3,386,825	1,018,969

(g) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2018 RO' 000	2017 RO' 000
Treasury bills	-	49,917
Loans, advances and financing to banks	**329,059**	299,896
Loan, advances and financing to customers	**3,158,844**	3,248,873
Government development bonds	**250,927**	195,126
	3,738,830	3,793,812
Off-balance sheet items		
Financial guarantees	**918,894**	886,902
	4,657,724	4,680,714

As at 31 December 2018, Bank has total gross impaired loans of RO 121,299 (RO 105,503) thousand which includes interest reserved of RO 55,594 (2017: RO 58,291) thousand against principal outstanding of RO 65,705 (2017: RO 47.212) expected credit losses of RO 41,400 (2017: RO 47,543) thousands have been carried. The fair value of collateral against impaired exposure is RO 8,958 (2017: RO 9,274) thousands.

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, FVOCI debt investments (2018) and available-for-sale debt assets (2017). 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 2018

	Stage 1 RO'000	Stage 2 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**	**3,086,765**
Retail banking	**1,282,342**	**38,646**	**1,320,988**
Investments	**56,330**	**-**	**56,330**
Total	**4,429,979**	**1,041,536**	**5,471,515**
Expected credit losses	**19,207**	**33,014**	**52,221**

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 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.

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 2018 including the projections used is presented as under:

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%

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.

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 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%**
31 December 2017						
Wholesale banking	223	51,947	35,439	16,508	13,644	82.7%
Retail banking	2,099	53,442	11,773	41,669	22,001	52.8%
Total	2,322	105,389	47,212	58,177	35,645	61.3%

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
BANKS								
High Investment Grade	18	214,348	-	-	-	-	18	214,348
Moderate Investment Grade	99	194,734	-	-	-	-	99	194,734
Sub Investment Grade	719	65,338	-	-	-	-	719	65,338
Non-performing			-	-	-	-	-	-
Total	**837**	**474,420**	**-**	**-**	**-**	**-**	**837**	**474,420**
SOVEREIGN								
High Investment Grade	-	237,520	-	-	-	-	-	237,520
Moderate Investment Grade	-	-	-	-	-	-	-	-
Sub Investment Grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	**-**	**237,520**	**-**	**-**	**-**	**-**	**-**	**237,520**
FINANCING TO CUSTOMERS								
Corporate								
High Investment Grade	628	421,893	203	41,723	-	-	831	463,616
Moderate Investment Grade	2,599	629,507	2,011	256,535	-	-	4,610	886,042
Sub Investment Grade	1,392	175,987	13,651	329,506	-	-	15,044	505,494
Non-performing	-	-	-	-	15,463	62,309	15,463	62,309
Total	**4,619**	**1,227,386**	**15,865**	**627,765**	**15,463**	**62,309**	**35,947**	**1,917,460**
RETAIL (Personal)								
High Investment Grade	3,323	604,230	-	-	-	-	3,323	604,230
Moderate Investment Grade	2,136	84,600	15	193	-	-	2,152	84,793
Sub Investment Grade	2,652	30,303	6,113	30,416	-	-	8,765	60,719
Non-performing	-	-	-	-	22,442	51,290	22,442	51,290
Total	**8,112**	**719,133**	**6,128**	**30,609**	**22,442**	**51,290**	**36,682**	**801,032**

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Retail (Housing loan and credit card receivables)								
High Investment Grade	-	-	-	-	-	-	-	-
Moderate Investment Grade ***	619	558,517	2,026	7,892	-	-	2,645	566,409
Sub Investment Grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	3,495	7,700	3,495	7,700
Sub-total	**619**	**558,517**	**2,026**	**7,892**	**3,495**	**7,700**	**6,140**	**574,109**
Total loans and advances to customers	**13,349**	**2,505,037**	**24,558**	**666,266**	**41,400**	**121,299**	**79,307**	**3,292,601**
Investments	-	-	-	-	-	-	-	-
High Investment Grade	4	26,295	-	-	-	-	4	26,296
Moderate Investment Grade	263	30,010	-	-	-	-	263	30,010
Sub Investment Grade	-	24	-	-	-	-	-	24
Non-performing	-	-	-	-	-	-	-	-
Total	**267**	**56,329**	**-**	**-**	**-**	**-**	**267**	**56,330**
Unfunded exposure								
Corporate & SME	2,292	543,719	6,722	208,693	-	790	9,014	753,202
Retail	9	629	-	-	-	-	9	629
Banks	958	256,495	-	1,026	-	-	958	257,521
Total	**3,259**	**800,843**	**6,722**	**209,719**	**-**	**790**	**9,981**	**1,011,352**
Others								
Unutilised	1,342	281,539	1,596	149,434	-	-	2,939	430,973
Acceptances	92	60,886	35	13,166	-	-	126	74,053
Accrued profit	61	13,405	103	2,951	-	-	164	16,355
Grand total	**19,207**	**4,429,979**	**33,014**	**1,041,536**	**41,400**	**122,089**	**93,621**	**5,593,604**

*** The Housing loan portfolio is not rated and is presently categorised based on days past due bucket.
The above table does not include reserve interest figures in the ECL for stage 3.

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 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**
31 December 2017							
Import trade	89,215	10,732	909	1,269	9,089	186	-
Export trade	671	6	1	4	2	-	-
Wholesale/retail trade	27,058	26,528	287	4,932	21,720	15	-
Mining and quarrying	37,622	9	366	253	4	1	-
Construction	462,162	5,481	4,424	4,634	2,917	780	-
Manufacturing	159,325	447	1,626	87	174	150	-
Electricity, gas and water	65,643	-	670	-	-	-	-
Transport and communication	11,200	-	113	-	-	-	-
Financial institutions	155,621	-	1,588	-	-	-	-
Services	169,350	829	1,717	464	211	260	-
Personal loans	1,429,437	53,445	24,648	29,983	11,773	13,712	43
Agriculture and allied activities	11,675	8	119	5	3	-	-
Government	224,964	-	2,295	-	-	-	-
Non-resident lending	355	5,340	4	4,429	915	-	-
Others	437,024	2,678	4,430	1,483	404	947	-
	3,281,322	105,503	43,197	47,543	47,212	16,051	43

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 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**
31 December 2017							
Sultanate of Oman	3,381,130	100,163	43,193	43,114	46,297	16,051	43
Other countries	5,695	5,340	4	4,429	915	-	-
	3,386,825	105,503	43,197	47,543	47,212	16,051	43

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.

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 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	728,573	599,128	204,330	1,008,530	1,672,929	4,213,490
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**	-	50,281	-	-	647,881	698,162
Total liabilities and shareholders' equity	487,484	714,215	392,994	1,129,140	1,489,657	4,213,490

** Including Perpetual Tier 1 capital securities

	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 2017						
Cash and balances with Central Bank of Oman	326,319	-	-	-	500	326,819
Loans and advances to banks	124,881	134,084	37,466	3,465	-	299,896
Loans and advances to customers	276,846	366,338	167,307	834,446	1,603,936	3,248,873
Available-for-sale investments	-	-	13,470	16,567	5,775	35,812
Investments at Amortized Cost	49,917	-	40,406	80,084	84,636	255,043
Intangible asset	-	-	-	-	1,191	1,191
Property and equipment	-	-	-	-	9,524	9,524
Other assets	9,039	43,210	7,354	51	9,898	69,552
Total assets	787,002	543,632	266,003	934,613	1,715,460	4,246,710
Due to banks	183,884	49,858	96,250	57,750	-	387,742
Deposits from customers	311,080	577,735	426,434	1,078,361	674,799	3,068,409
Other liabilities	45,820	52,349	8,089	8,818	601	114,677
Subordinated loans	-	25,000	28,875	35,000	-	88,875
Total equity**	-	47,627	-	115,500	423,880	587,007
Total liabilities and shareholders' equity	540,784	752,569	559,648	1,295,429	1,099,280	4,246,710

** Including Perpetual Tier 1 capital securities

Market risk

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

(a) 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

	2018 RO'000	2017 RO'000
Net assets denominated in US Dollars	**163,412**	113,705
Net assets denominated in UAE Dirham (AED)	**14,020**	653
Net assets denominated in other foreign currencies	**1,320**	1,129
	178,752	115,487

(b) 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%	
	2018 RO'000	2017 RO'000	2018 RO'000	2017 RO'000
Omani Rials	**8,859**	7,551	**17,718**	15,102
US Dollars	**4,083**	4,676	**8,165**	9,351
Others currencies	**232**	1,505	**464**	3,010
	13,174	13,732	**26,347**	27,463

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 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 financing to banks	3.7%	102,702	223,317	-	-	-	3,040	329,059
Loans, advances and financing to customers	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

	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%	55,825	-	-	-	500	270,494	326,819
Loans, advances and financing to banks	1.8%	131,400	167,315	-	-	-	1,181	299,896
Loans, advances and financing to customers	5.5%	636,821	1,144,875	117,617	729,669	619,891	-	3,248,873
Available-for-sale investments	5.0%	-		-	16,561	5,781	13,470	35,812
Investments at amortized cost	3.4%	49,917	-	40,406	80,090	84,630	-	255,043
Intangible asset		-	-	-	-	-	1,191	1,191
Property and equipment		-		-	-	-	9,524	9,524
Other assets		-	-	-	-	-	69,552	69,552
Total assets		873,963	1,312,190	158,023	826,320	710,802	365,412	4,246,710
Due to banks	2.7%	341,590	46,152	-	-	-	-	387,742
Deposits from customers	2.6%	170,661	426,559	416,431	927,686	43,698	1,083,374	3,068,409
Other liabilities		-	-	-	-	-	114,677	114,677
Subordinated loan	5.5%	25,000	-	-	63,875	-	-	88,875
Shareholders' equity	-	-	47,627	-	115,500	-	423,880	587,007
Total liabilities and Equity**		537,251	520,338	416,431	1,107,061	43,698	1,621,931	4,246,710
On-balance sheet gap		336,712	791,852	(258,408)	(280,741)	667,104	(1,256,519)	-
Cumulative interest sensitivity gap		336,712	1,128,564	870,156	589,415	1,256,519	-	-

** Including Perpetual Tier 1 capital securities

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 2,600 thousand (2017: decrease by RO 1,100 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 (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 119 thousand (2017: decrease / increase by RO 156 thousand).

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 2018, 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.

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.

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 2018 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

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 2018 is 17.33% (2017: 15.44%).

Capital structure	2018 RO'000	2017 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	280,033	225,786
Legal reserve	55,878	50,254
Share premium	95,656	77,564
Special reserve	18,488	18,488
Subordinated loan reserve	30,100	42,325
Retained earnings	11,557	10,145
Proposed bonus shares	19,602	18,063
CET I/Tier I Capital	511,314	442,625
Additional Tier I regulatory adjustments:		
Deferred tax assets	(1,029)	(62)
Goodwill	(794)	(1,191)
Negative investment revaluation reserve	(2,271)	(233)
Total CET 1 capital	507,220	441,139
Additional Tier I capital (AT1)	155,500	115,500
Total Tier 1 Capital (T1=CET1+AT1)	662,720	556,639
TIER II CAPITAL		
Investment revaluation reserve	134	275
General provision	43,606	43,606
Subordinated loan	33,775	46,550
Total Tier II capital	77,515	90,431
Total eligible capital	740,235	647,070
Banking book	3,936,646	3,881,383
Trading book	75,779	64,370
Operational risk	258,086	243,793
Total	4,270,511	4,189,546
Total Tier 1 Capital (T1=CET1+AT1)	662,720	556,639
Tier II capital	77,515	90,431
Total regulatory capital	740,235	647,070
Common Equity Tier 1 ratio	11.88%	10.53%
Tier I capital ratio	15.52%	13.29%
Total capital ratio	17.33%	15.44%

34. Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable 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 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	4,738	12,991	16,697	34,426
Total	87,379	113,737	29,632	230,748
Interest, Islamic Window Deposit expenses	(35,219)	(56,264)	(5,141)	(96,624)
Net operating income	52,160	57,473	24,491	134,124
Segment cost				
Operating expenses including depreciation	(33,390)	(29,168)	(5,169)	(67,727)
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
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

At 31 December 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	85,705	86,424	8,212	180,341
Other revenues	5,527	14,479	13,795	33,801
Total	91,232	100,903	22,007	214,142
Interest, Islamic Window Deposit expenses	(32,528)	(48,849)	(5,838)	(87,215)
Net operating income	58,704	52,054	16,169	126,927
Segment cost				
Operating expenses including depreciation	(26,530)	(28,515)	(3,949)	(58,994)
Impairment for loans and investment net recoveries from allowance for loans impairment	(9,276)	(2,268)	(358)	(11,902)
Profit from operations after provision	22,898	21,271	11,862	56,031
Tax expenses	(3,137)	(3,488)	(1,779)	(8,404)
Net profit for the year	19,761	17,783	10,083	47,627
Segment assets	1,580,149	2,070,435	734,487	4,385,071
Less: Impairment allowance	(66,404)	(71,548)	(409)	(138,361)
Total segment assets	1,513,745	1,998,887	734,078	4,246,710
Segment liabilities	640,590	2,542,029	477,084	3,659,703

Islamic Banking Window

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	**(587)**	**(10,381)**	**(619)**	**(11,587)**
Net operating income	**8,178**	**3,129**	**2,282**	**13,589**
Segment cost				
Operating expenses including depreciation	**(3,093)**	**(3,114)**	**(927)**	**(7,134)**
Impairment allowance	**(133)**	**(242)**	**(141)**	**(516)**
Net profit for the year	**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**

At 31 December 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	7,290	11,414	138	18,842
Other revenues	186	603	1,565	2,354
Total	7,476	12,017	1,703	21,196
Unrestricted investment account holders' share of profit and profit expense	(452)	(9,511)	(358)	(10,321)
Net operating income	7,024	2,506	1,345	10,875
Segment cost				
Operating expenses including depreciation	(2,202)	(3,374)	(791)	(6,367)
Impairment allowance	(385)	(934)	-	(1,319)
Net profit for the year	4,437	(1,802)	554	3,189
Segment assets	157,839	233,266	139,318	530,423
Less: Impairment allowance	(1,787)	(2,685)	-	(4,472)
Total segment assets	156,052	230,581	139,318	525,951
Segment liabilities	41,481	343,251	72,417	457,149

35. Dividends – proposed and declared

Further to the disclosure published in the MSM website on 15th January 2019 regarding the Initial Annual Unaudited Financial Result for 2018 The Board of Directors in their meeting held on 29 January 2019 proposed a cash dividend of 10% (2017: 12%) for the year ended 31 December 2018 amounting to RO 28 million (2017: RO 27.09 million) and a bonus share issue of 7% (2017: 8%) amounting to 196,022,991 shares (2017: 180,628,618 shares) of RO 0.100 each. , subject to Regulatory and Shareholders approvals A resolution to approve these distribution will be presented to the shareholders at the Annual General Meeting to be held on 27th March 2019.

During the year, unclaimed dividend amounting to RO 22,449 (2017: RO 64,389) 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 2018 approved the issuance of 8% bonus shares comprising 180,628,618 shares of par value RO 0.100 each (2017: 142,440,105 shares of par value RO 0.100 each) and 12% (2017 – 13.5%) as cash dividend of the paid share capital of the Bank amounting to RO 27.09 million for the year ended 31 December 2017 (2016 – RO 25.64 million for the year ended 31 December 2016).

MAISARAH ISLAMIC BANKING SERVICES

ميسرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

Maisarah Islamic Banking Services window of BankDhofar SAOG

Annual Report 2018

ANNUAL REPORT OF

SHARI'A SUPERVISORY BOARD

31ST DECEMBER 2018

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 31/12/2018: 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 31/12/2018. 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 2018 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 2018, however more focus is required for training of new and existing staff in 2019;

b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;

c) As MIBS operations are expected to increase in 2019, 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: 31 January 2019

Place: Muscat, Sultanate of Oman

Fatwa No. 29/02/2018:
Conventional Insurance in Diminishing Musharakah & Ijarah

"Having considered the decision of the International Islamic Fiqh Academy No. 136 (2/15) on Diminishing Musharakah and its Shari'ah ruling, along with the "Shari'ah Standard No. (12) Sharikah (Musharakah) and Modern Corporations" issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Shari'ah ruling on the Musharakah Contract mentioned in "Standards Abstracted From Resolutions of Shari'ah Board of Bank Al Bilad", we consider the following:

The structure provided by Maisarah in question is on Diminishing Musharakah, and it is known as Sharikat al-'Inan in Islamic Jurisprudence, a kind of Musharakah, and the definition of it is: "it is a partnership between two or more parties whereby each partner contributes a specific amount of money in a manner that gives each one a right to deal in the assets of the partnership, on condition that profit is distributed according to the partnership agreement and the losses are borne in accordance with the contribution of each partner to the capital."

And in actual all the partners bear the cost of company/Musharaka such as Insurance and maintenance as per their share in the company.

And it is not permissible that one of the partners to bear all the insurance or maintenance expenses alone, even if the company's premises will be transferred to him, as this requirement is contrary to the basics of Musharakah Contract, no partner is entitled to force other partners to secure a specific insurance or to secure from a specific party.

And it is allowed for a partner of the company to lease the share of other partner(s) on a specified rent and for a specified period whatsoever, while all the partners are responsible for major maintenance of their shares at all the times, and the insurance is part of the major maintenance.

Therefore, it is mandatory for Maisarah to insure its share from Takaful as MIBS is an institution that implement Shari'ah Laws in its transactions, being the partner (customer), has the right to choose the way and the organization of his choice to secure insurance, as long as he has secured his share in Musharaka for the total duration of Musharaka Contract, because Insurance here is the supplementary of Musharaka contract and not the principle of Musharaka Contract."

Shari'ah Supervisory Board hereby pronounces the above verdict 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 Vice Chairman:
Sheikh Dr. Abdullah bin Mubarak Al Abri

Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

Basis of Membership:
Member

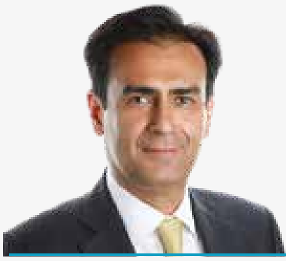
No. of other Directorships held: None

Name of Member:
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

Yousuf Mohammed Al Balushi
Head of Treasury

Fawaz Rajab Al Ojaili
Head of Corporate Banking

Jamsheed Hamza
Head of Retail

Mohsin Shaik
Head Of Investment Banking & Capital Markets

MANAGEMENT DISCUSSION & ANALYSIS REPORT
31st DECEMBER 2018

Maisarah Islamic Banking Services

The Islamic banking window of BankDhofar, Maisarah Islamic Banking Services (MIBS) 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 2018 is highlighted below:

Maisarah Wholesale Banking Group

The Wholesale Banking Group (WSBG) of Maisarah offers a variety of innovative products and services addressing the financial needs of clients operating in different sectors of economy, in a Sharia compliant manner. The Wholesale Banking Group (WSBG) of Maisarah offers a variety of innovative financial solutions, products and services addressing the financial needs of clients operating in different sectors of economy, in a Sharia compliant manner. These financial solutions and products are designed and managed by a dedicated team, with the support of qualified professionals in the domain of sharia-compliant banking products Maisarah's clients include public and private sector companies, governments and quasi-governmental entities.

In order to provide customized financial solutions to the customers, the WSBG team is divided into two segments, namely Corporate and Business Banking. There is a dedicated team of Islamic finance specialized in each business segment that offers banking solutions to corporate clients covering an array of innovative Sharia compliant products for working capital, term finance, project finance with added value of syndicates and structured finance. To promote the international & local trade finance activities a dedicated Trade finance function is fully functional to provide all required services to MIBS business clients. Despite tough economic conditions and prevalent market challenges, during the fiscal year 2018, WSBG-MIBS was able to consolidate their market position and recorded strong performance by diversifying its business, delivering best services, and maintaining positive growth while keeping strong focus on the quality of the portfolio. The strategy for the year was to diversify the portfolio through increased geographical and sectorial coverage and availability of additional products. Diversification was achieved through financing customers in Food, Tourism, Education, Quarry & Mining, Trading, Health, oil and gas, contracting and Manufacturing Sectors. The geographic coverage was achieved through increased branch network and full-fledged corporate offices in Muscat and Salalah. Besides the existing popular range of offered sharia compliant corporate products, WSBG added Ijarah Finance to the current products offering to provide great flexibility to the Customers and also to increase the outreach of WSBG.

The WSBG products have been designed after careful consideration of the Omani market and business requirements and to cater the various segment of economy that includes, Manufacturing, Import & Export, Wholesale, Real Estate etc. The set of available products with Maisarah has provided the great flexibility and ease to the existing and potential clients including Corporate, SME and even Individual entrepreneurs to fulfill Business needs. WSBG will continue to arrange corporate seminars, personalize get-together with key personnel of business entities during the coming year to maintain a close relationship with existing clients and introduce the offerings to potential customers. In 2019 WSBG is well positioned to take advantage of opportunities in the market by expanding its products & services and providing best in class customer service.

Maisarah Retail Banking Services

Maisarah Retail Banking division started off the year with an established 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. In addition, the retail division also offered a wide range of products and services to meet every customer needs. s.

During the year many initiatives were kicked off and rolled out which include Mobile Banking Application, segmentation and enhanced Prize Account for customers. Maisarah introduced a very innovative Mobile Banking App which was well accepted by the customers. The App has quick access area which can be used by customers and non-customers alike. In addition, the features are very user friendly and innovative, developed keeping customer's preferences in the forefront.

Maisarah's focus to ensure that the customers receive best services from the friendly team members in the branches, the retail staff members went through multiple 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.

During the year, Maisarah Retail also worked on increasing the tie ups with different vendors in Oman market to enhance its brand, satisfy its customers & support its branches to achieve targets. These vendor tie ups help us to mutually support and promote the brand. It also helps the branches to market specific Islamic finance products which include Goods Finance & Travel Finance.

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. 9 Six Sigma projects were undertaken to improve the process flow as well as the turnaround time as part of initiating the Operational Excellence journey.

In coming year, we expect more tie ups, attractive prize account and reach out to more customers, segments and regions. With the enhancement of the core banking system, transformation projects and new products & services, Maisarah retail is set to scale new heights and continue to lead its position in the Oman's Islamic banking fraternity.

Investment & Capital Markets

Investment Banking and Capital Markets focus besides investments is to create and distribute Shariah compliant investments opportunity to the market. This department provides comprehensive suite of services such as advisory, corporate finance, deal structuring mainly in Sukuk and private placements.

Maisarah's Investment Banking & Capital Market acted as advisors for issuance of two Sukuks in 2018, viz., Golden Group Holding Company (Sole Issue Manager) and Tilal Development Company (Joint Lead Manager)..

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's performance demonstrated solid progress throughout the year 2018, helping the overall entity to reinforce its position in the Islamic Finance space in the Sultanate of Oman. Maisarah Treasury effectively managed both long and short term funding to ensure that the Bank complies with the regulatory ratios as advised by the Central bank of Oman. Maisarah Treasury identified key opportunities and areas of improvement to align its strategy with the current market conditions that helped Maisarah achieve its budget as per plan.

Maisarah's treasury also maintained a portfolio of marketable and liquid assets to meet its payment obligations when they fall due under normal and stress circumstances. In order to minimize liquidity risks, Maisarah's Treasury arranged for diversified funding sources in addition to its core deposit base by signing bilateral interbank agreements. Maisarah's treasury also has supported and participated line of credit that it can access to meet its liquidity needs. Maisarah Treasury also participated in the locally issued Omani Rial based Golden Group Sukuk and US Dollar based Tilal Development Company Sukuk.

Furthermore, Maisarah's Treasury continued its well established best-practice approach in managing Foreign Currency exposure during the year 2018 for its growing business. With the increase in overall financing and trade business volumes, Maisarah Treasury ensured smooth and effective management of its cash flows and funding requirements by adhering to internal and regulatory limits.

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. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Abdullah bin Mubarak Al Abri, 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

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. 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. As a result, Maisarah was able to develop and successfully launch various innovative products and services expanding its market coverage.

During the year Product Development department has successfully launched Prize Scheme for 2018 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. For wholesale banking customers, Maisarah product development introduced Ijarah based Term Finance product.

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 and Policies & Procedures

Under Corporate Services the Maisarah Project department in coordination with Maisarah Policies & Procedures Department has achieved several mile stones within this year to enhance customer services by delivering the following projects:

- Dispute Management System
- Automation of Balance Confirmation
- KYC/AML & FATCA
- Mobile Banking Enhancement
- Segmentation
- Selection and Launch of Core Banking Upgrade
- Internet Banking Enhancement

Maisarah - Financial Performance

Maisarah Islamic Banking Services has achieved a strong growth in profitability during 2018. For the year 2018, Maisarah Islamic Banking Services declared a net profit before tax of OMR 5.94 million compared to a net profit before tax of OMR 3.19 million in 2017, year-on-year increase of 86.21%.

The gross profit (financiang) income from Financing, Placement and Investment increased by 17.09% to OMR 23.50 million from OMR 20.07 million. The net financing income increased to OMR 11.91 million as at December 2018 compared to OMR 9.75 million achieved in the previous year of 2017, a growth of 22.15%. Non Funded income has also increased by 48.67% to OMR 1.68 million in 2018 from OMR 1.13 million in 2017.

Particulars	OMR in Million	
	2018	2017
Gross Profit/Financing income	**23.50**	20.07
Net profit/financing income	**11.91**	9.75
Fees, commissions & other income	**1.68**	1.13
Total Operating Income	**13.59**	10.88
Total operating costs	**(7.13)**	(6.37)
Net operating profit / (loss)	**6.46**	4.51
Impairment allowance	**(0.52)**	(1.32)
Profit before tax	**5.94**	3.19

The gross financing portfolio has grown from OMR 387.78 million at December 2017 to OMR 401.49 million at December 2018, growth of 3.54%. The gross Sukuk investment portfolio increased by 28.63% from OMR 32.34 million at December 2017 to OMR 41.60 million at December 2018.

As at December 2018 the total customer deposit stood at OMR 353.39 million, compared to OMR 376.78 million at same period last year. The total assets is at OMR 512.43 million at December 2018 compared to OMR 543.28 million at December 2017.

A brief analysis of diverse financing portfolio as at December 31, 2018 is as follows:

Particulars	OMR in Million	
	2018	2017
Murabaha & Other receivables	**24.18**	26.99
Mudaraba financing	**26.59**	23.48
Diminishing Musharaka financing	**285.52**	292.74
Ijarah Muntahia Bittamleek	**46.00**	44.33
Credit Card receivable	**0.44**	0.24
Wakala Finance	**18.76**	-
Gross Financing to customers	**401.49**	387.78
Less: Allowance for impairment	**(4.40)**	(4.34)
Net Financing	**397.09**	383.44

Customer deposits of Maisarah as at December 31, 2018 comprises of the following:

Particulars	OMR in Million	
	2018	2017
Current accounts	**56.04**	72.15
Saving accounts	**34.03**	26.28
Term deposits	**263.32**	278.35
Total customer deposits	**353.39**	376.78

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 2019 include:

- Upgrading the Core Banking Software to enhance MIBS operational capabilities.
- Reach out to more customers, segments and regions by expanding branch network across the country.
- Continue rolling out new products and services to increase market share
- Enhance internet and mobile banking services
- Investing in technology and operational infrastructure to stream line internal process and reduce operational risks
- Positioning MIBS as a leading player in Islamic Banking Industry through innovative products and providing top of the class customer services through use of technology and also by improving current processes and procedures.
- MIBS also plans to conduct and participate actively in seminars, workshops and corporate events locally and internationally to promote awareness of its products and services and develop stronger relationships with its existing and new customer and all other stakeholders.

DISCLOSURE REQUIREMENTS UNDER **PILLAR-III OF BASEL II**

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

Introduction:

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 Mudarabah or Wakala, providing commercial banking services and other investment activities.

The Public disclosures under this section have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy, Pillar III – Market Discipline.

1) 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. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital and retained earnings (available on a long term basis).

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.

Capital Adequacy determination for Islamic Finance Entities (IFE) differs from Conventional financial institutions (CFI) in that:

a) Its financing arrangements are either asset-based or profit and loss sharing (Musharakah) or Profit and loss bearing (Mudarabah)
b) Much of the funding is raised through Wakala deposits and unrestricted investment accounts that are, in principle, a form of liability and equity respectively.

Investment Account Holders (IAH) that impose no restrictions on investment of funds by the Bank are deemed Unrestricted Investment Account Holders (UIAH). Restricted Investment Account Holders (RIAH) imposes certain restrictions with regards to how and for what purpose the funds should be invested. Maisarah accepted deposits as Unrestricted Investments.

As such, the underlying assets involved under the Shari'a Compliant financing contracts may be exposed to Market (price) Risk, as well as to Credit Risk in respect of the amount due from the counterparty. 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 and therefore 100% risk weights have been assigned to all corporate borrowers.

The details of capital structure are provided as under:

Common Equity Tier 1 Capital (CET1)	RO'000
Paid up capital	55,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	12,617
Proposed Stock Dividend	-
Common Equity Tier 1 Capital (CET1)	**67,617**
Prudential valuation adjustments	(549)
Additional Tier 1 Capital (AT1)	-
Total Tier 1 Capital (T1=CET1+AT1)	**67,068**
Tier 2 Capital (T2) : Instruments and provisions	
Subordinated Debt	-
Impairment provision (upto 1.25% of risk-weighted assets) *	3,747
PER & IRR	14
Total Tier 2 Capital (T2)	**3,761**
Total Regulatory Capital (TC=CET1+AT1+ T2)	**70,829**

* As per CBO Circular BSD/CB/FLC/2018/17 dated 26 November 2018, Expected Loss under Stage 1 and 80% of Stage 2 (2018: OMR 3,837k) 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 (OMR 3,747k).

Unrestricted IAH Funds	RO'000
PER (Shareholders Component)	4
PER (IAH Component)	7
IRR	3

2) Capital Adequacy

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 15.28% as against the CBO requirement of 11%. The Bank's policy is to manage and maintain its window 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 remains adequately capitalized at all times.

i) Capital Adequacy Disclosures:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	532,605	531,698	400,545
2	Off balance sheet items	17,363	17,363	17,183
3	Derivatives	38,635	38,635	386
4	Total Credit Risk (RWA)	**588,603**	**587,696**	**418,114**
5	Market Risk (RWA)			4,438
6	Operational Risk (RWA)			41,043
7	**Total Risk Weighted Assets**			**463,595**
8	Tier 1 Capital			67,068
9	Tier 2 Capital			3,761
10	**Total Regulatory Capital**			**70,829**
10.1	Capital Requirement for Credit Risk			45,993
10.2	Capital Requirement for Market Risk			488
10.3	Capital Requirement for Operational Risk			4,515
11	**Total Required Capital**			**50,996**
12	**Tier 1 Capital Ratio**			**14.47%**
13	**Total Capital Adequacy Ratio**			**15.28%**

* Net of Stage 3 provision and Reserve Profit.

ii) Computation of Capital Adequacy Ratio:

Sl. No	Details	RO'000
1	Tier 1 Capital (after supervisory deductions)	67,068
2	Tier 2 Capital (after supervisory deductions and up to eligible limits)	3,761
3	Risk weighted assets – banking book	418,114
4	Risk weighted assets – operational risk	41,043
5	**Total risk weighted assets – Banking Book + Operational risk**	**459,157**
6	**Minimum required capital to support RWAs of banking book and operational risk**	**55,099**
	i) Minimum required Tier I capital for banking book and operational risk	51,338
	ii) Tier II capital required for banking book and operational risk	3,761
7	Tier I capital available for supporting trading book	15,730
8	Tier II capital available for supporting trading book	-
9	**Risk weighted assets – trading book**	**4,438**
10	Total capital required to support trading book	533
11	Minimum Tier I capital required for supporting trading book	152
12	**Total regulatory capital**	**70,829**
13	**Total risk weighted assets**	**463,595**
14	**BIS capital adequacy ratio**	**15.28%**

iii) Capital Requirement by Types of Islamic Financing Contracts:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	Murabaha and other Receivables	24,625	24,513	24,813
2	Mudaraba Financings	26,585	26,301	82,041
3	Ijarah Assets	45,998	45,888	17,720
4	Diminishing Musharaka Financing	285,515	281,649	226,198
5	Wakala Financing	18,762	18,733	18,763
	Total	**401,485**	**397,084**	**369,535**

* Net of provisions and reserve profit for Murabaha

3) 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 and operational risk. For each separate risk area (e.g. credit, market, operational) Maisarah describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.1 Credit Risk:

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.

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 bench marks, 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. 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.

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.

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.

Movement of provision loss on financing for the year ended 31 December 2018 is as follows:

	Stage 1	Stage 2	Stage 3
As at 1 January 2018	2,051	2,010	451
Provided / Added during the year	(1,215)	896	236
Written back during the year	-	-	(29)
Written-Off during the year	-	-	-
As at 31 December 2018	**836**	**2,906**	**658**

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

Sl. No	Type of Credit Exposure	Total Gross exposures RO'000	Total Gross exposures RO'000	Percentage of Gross exposures %
1	Murabaha and Other Receivables	22,370	24,625	6.13%
2	Mudaraba Financing	21,601	26,585	6.62%
3	Ijarah Assets	45,301	45,998	11.46%
4	Diminishing Musharaka Financing	282,678	285,515	71.12%
5	Wakala Financing	8,990	18,762	4.67%
	Total	**380,940**	**401,485**	**100.00%**

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

Sl. No	Type of Credit Exposure	Oman RO'000	Other CC Countries RO'000	*OECD Countries RO'000	Other RO'000	Total RO'000
		1	2	3	4	5
1	Murabaha and other Receivables	24,625	-	-	-	24,625
2	Mudaraba Financing	26,585	-	-	-	26,585
3	Ijarah Assets	45,998	-	-	-	45,998
4	Diminishing Musharakah Financing	285,515	-	-	-	285,515
5	Wakala Financing	18,762	-	-	-	18,762
	Total	**401,485**	**-**	**-**	**-**	**401,485**

*excluding countries included in column 2

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

Sl. No.	Economic Sector	Murabaha and other receivables RO'000	Mudaraba Financing RO'000	Diminishing Musharaka Financing RO'000	Wakala Financing RO'000	Ijarah Muntahia Bittamleek RO'000	Off balance sheet exposures RO'000
1	Import trade	5,579	780	1,283	9,509	-	6,649
2	Wholesale/retail trade	2,242	775	3,039	31	-	1
3	Mining and quarrying	-	2,840	861	418	-	-
4	Construction	2,924	10,743	109,416	5,934	240	5,438
5	Manufacturing	2,952	9,478	6,590	1,514	-	3,649
6	Electricity, gas and water	-	-	513	-	-	-
7	Transport and communication	106	-	221	-	-	-
8	Financial Institutions	-	981	-	-	-	-
9	Services	-	35	45,757	1,356	-	727
10	Retail	10,822	-	112,845	-	45,758	-
11	Agriculture and allied activities	-	953	-	-	-	-
13	Others	-	-	4,990	-	-	107
	Total	**24,625**	**26,585**	**285,515**	**18,762**	**45,998**	**16,571**

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

Sl. No.		Murabaha and other receivables RO'000	Mudaraba Financing RO'000	Diminishing Musharaka Financing RO'000	Wakala Financing RO'000	Ijarah Muntahia Bittamleek RO'000	Off balance sheet exposures RO'000
1	Upto 1 month	1,646	26,585	1	394	-	1,169
2	1 - 3 months	4,847	-	83	3,051	-	7,482
3	3 - 6 months	4,434	-	5	11,364	-	1,926
4	6 - 9 months	894	-	209	3,953	9	1,806
5	9 - 12 months	37	-	784	-	-	817
6	1 - 3 years	807	-	10,565	-	107	2,896
7	3 – 5 years	1,480	-	18,338	-	419	475
8	Over 5 years	10,480	-	255,530	-	45,463	-
	Total	**24,625**	**26,585**	**285,515**	**18,762**	**45,998**	**16,571**

v) Analysis of performing asset book by major industry or counterparty type:

Sl. No.		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	Total Performing Financing RO'000
1	Import trade	5,579	780	1,283	9,509	-	17,151
2	Export trade	-	-	-	-	-	-
3	Wholesale/retail trade	2,242	775	3,039	31	-	6,087
4	Mining and quarrying	-	2,840	861	418	-	4,119
5	Construction	2,924	10,743	107,580	5,934	240	127,421
6	Manufacturing	2,952	9,478	6,590	1,514	-	20,534
7	Electricity, gas and water	-	-	513	-	-	513
8	Transport and communication	106	-	221	-	-	327
9	Financial institutions	-	981	-	-	-	981
10	Services	-	35	45,757	1,356	-	47,148
11	Personal finance	10,791	-	112,789	-	45,677	169,257
12	Agriculture and allied activities	-	953	-	-	-	953
13	Government	-	-	-	-	-	-
14	Non resident lending	-	-	-	-	-	-
15	Others	-	-	4,990	-	-	4,990
	Total	**24,594**	**26,585**	**283,623**	**18,762**	**45,917**	**399,481**

vi) Past due amount based on the by major industry or counterparty type:

Sl. No.		Neither Past Due Nor Impaired RO'000	Past Due But Not Impaired RO'000	Non-Performing RO'000	Stage 1 & 2 Provision Held RO'000	Stage 3 Provision Held RO'000
1	Import trade	16,921	230	-	80	-
2	Export trade	-	-	-	-	-
3	Wholesale/retail trade	5,102	985	-	64	-
4	Mining and quarrying	4,119	-	-	9	-
5	Construction	107,160	20,261	1,836	2,855	577
6	Manufacturing	18,965	1,569	-	173	-
7	Electricity, gas and water	513	-	-	2	-
8	Transport and communication	221	106	-	3	-
9	Financial institutions	981	-	-	2	-
10	Services	39,543	7,605	-	223	-
11	Personal finance	165,287	3,970	168	301	81
12	Agriculture and allied activities	953	-	-	1	-
13	Government	-	-	-	-	-
14	Non resident lending	-	-	-	-	-
15	Others	1,498	3,492	-	29	-
	Total	**361,263**	**38,218**	**2,004**	**3,742**	**658**

vii) Financing by type of counterparty:

	RO'000	%
Retail	169,425	42.20%
Corporate	232,060	57.80%

viii) Past due amount based on the financing contract is as under:

Sl. No.		Neither Past Due Nor Impaired RO'000	Past Due But Not Impaired RO'000	Non-Performing RO'000	Stage 1 & 2 Provision Held RO'000	Stage 3 Provision Held RO'000
1	Murabaha and other Receivables	23,938	657	30	96	15
2	Mudaraba Financing	26,584	-	-	284	-
3	Ijarah Assets	44,923	994	81	72	38
4	Diminishing Musharakah Financing	247,056	36,567	1,893	3,261	605
5	Wakala Financing	18,762	-	-	29	-
	Total	**361,263**	**38,218**	**2,004**	**3,742**	**658**

3.2 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. The same convention has been adopted 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 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.
3) The credit risk weighted assets applicable to various asset items are provided as under:

Sl. No.	Risk Weighted Assets	0% RO' 000	1% 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)	60,399	-	-	-	-	-	-	-	-	60,399
2	Banks (Rated)	-	-	28,065	-	2,310	-	-	-	-	30,375
3	Corporate	-	-	-	-	-	-	45,823	-	26,326	72,149
4	Retail	-	-	-	-	-	-	10,792	-	-	10,792
5	SME	-	-	-	-	-	-	10,655	-	258	10,913
6	Claims secured by residential property	-	-	-	150,540	-	-	7,925	-	-	158,465
7	Claims secured by commercial property	-	-	-	-	-	-	147,162	-	-	147,162
8	Past due financing	-	-	-	-	-	-	1,345	-	-	1,345
9	Other assets	-	-	-	-	-	-	24,242	-	-	24,242
10	Un-drawn exposure	-	-	-	1,709	-	984	21,549	-	763	25,005
11	Off-balance sheet items	-	38,635	-	-	-	598	7,616	-	-	46,849
	Total	**60,399**	**38,635**	**28,065**	**152,249**	**2,310**	**1,582**	**277,109**	**-**	**27,347**	**587,696**

3.3 Credit Risk Mitigation: 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.

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 RO'000	Haircut Applied %	Total Collateral After Haircut RO'000
Mortgage	703	100	0
Mortgage	2,605	25	1,954

Carrying amount of assets under Ijarah Muntahia Bittamleek as of 31 December 2018 is RO (000) 45,998/- .

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.

3.4 Market Risk:

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.

Below are the assets that are subject to the Market Risk:

Type of Assets	Gross Amount RO'000
Total Sukuk	41,599
Net Open Position Foreign Currency	2,191

Details of various market risks faced by the Maisarah Islamic Banking Services are set out below:

1) 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 & IAH. The profit distribution to IAH in 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 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 Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

Maisarah 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 profit rate risk thereon are placed to the ALCO in its regular meetings. Impact on earnings due to profit rate risk in the banking book is as follows:

	+ or - 1%		+ or - 2%	
	2018 RO'000	**2017 RO'000**	**2018 RO'000**	**2017 RO'000**
Omani Rials	**0.957**	1.063	**1.915**	2.126
US Dollars	**0.156**	0.385	**0.311**	0.770
Others currencies	**0**	0	**0**	0

Analysis of profit bearing assets (net of provision) and liabilities according to repricing buckets is as follows:

	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	-	-	-	-	-	-	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 FVOCI	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	-	-

2) Foreign Exchange Risk: The responsibility of management of foreign exchange risk rests with the Treasury department. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has defined various limits for foreign currency lending. As at 31.12.2018, exposure to foreign exchange risk (net open position) is presented as under:

	Amount in RO'000
Net open position in US Dollar:	1,952
Net open position in pegged GCC currencies:	235
Net open position in Other currencies:	4
TOTAL	2,191

99.8% of the net open position is in pegged currencies and there is no volatility in the currency.

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

3) Commodity Risk: Presently Maisarah has no exposure to the commodity market.

4) Equity Position Risk: Presently Maisarah has no exposure to the Equity market.

5) 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 IBRF. Maisarah does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. During the year risk weighted assets for market risk was RO 4,438k (mainly from Foreign Exchange Risk), thus the capital charge for various components of market risk in Maisarah is RO 355K.

3.5 Liquidity Risk

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.

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.

3.6 Operational Risk:

Maisarah 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 Management Risk Committee to identify, manage, measure, monitor, mitigate and report operational risks.

Bank has started 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.

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.

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 Maisarah to provide 15% of the average gross income for the last three years as capital charge for operational risk which amounts to OMR 3,283K.

4) Investment Account Holders (IAH)

Maisarah manages and deploys the equity of IAH according to rules and regulations laid down in IBRF. Maisarah holds and maintains two separate pools of funds, one for its own funds and another for Equity of its IAH. Both of these pools are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolio to enable Maisarah to exercise its fiduciary responsibilities. Maisarah is authorized by the IAH to invest the funds in the manner Maisarah deems fit without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in Maisarah's credit risk, liquidity risk, and other risks policies. The strategic objectives of the investments of the fund are:

1) Investments in Shari'a compliant opportunities
2) Targeted returns
3) Compliance with Credit risk policy & overall investment plan
4) Diversified Portfolio

Funds are invested in Shari'a Compliant commercial or Retail financing as short, medium or long term investments excluding strategic investments. Under all the aforesaid arrangement, Maisarah can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as self-financed. These self-financed assets are deducted from total assets to arrive at "Jointly Financed Assets (JFA)". To separate the JFA into Self-Financed and IAH, Maisarah applies formula to identify the proportional share of each fund's in the JFA.

Maisarah's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including Murabaha, Mudarabah, Musharakah and Ijarah. There are no separate designations for Portfolio Managers, Investment Advisors and trustee. IAH's accounts are managed at Head Office level by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "Mudarib Expenses". Mudarib expenses include all expenses incurred by Maisarah, including specific provisions, but excluding staff cost and depreciation. Maisarah's Mudarib Profit is deducted from Investors' share of income before distributing such income.
The basis applied by Maisarah in arriving at the IAH's share of income is [Total Investments income less Investment Pools Expenses] divided by [average funds generating income (shareholders & equity of IAH) times average funds of IAH]. Total administrative expenses for profit distribution purposes are borne by Maisarah.

Investment account holders by category:

Category	RO'000
Saving Account	34,026
Term deposit	-

Profit Equalization Reserve (PER)
Maisarah appropriates a certain amount in excess of the profit to be distributed to equity of IAH before taking in to consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Investment Risk Reserve (IRR)
Maisarah deducts Investment Risk Reserve as per approved policy from the profit distributable to equity of IAH, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Displaced Commercial Risk (DCR)
Maisarah is exposed to DCR in the event of having equity of IAH profit rates that are lower than market rates. Maisarah has mitigated the risk through setting up of reserves that will be used in case of a drop in IAH profit rates.

4.1 Shari'a Compliance

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 of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2018, the department has conducted 15 audits as compared to the target of 16.

The Unit comes under the direct supervision of Shari'a Supervisory Board (SSB). The SSB met 5 times (including one meeting with Board of Directors) in the year 2018 and the remuneration paid for the year ended 31 December 2018 for SSB members are as follows:

	2018 RO'000	2017 RO'000
Remuneration paid to SSB members		
Chairman		
– remuneration proposed	8	8
– sitting fees paid	2	3
Other Members		
– remuneration proposed	24	24
– sitting fees paid	6	7

Non Shari'a Compliant Income

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.

During the year, Maisarah recorded and transferred to charity the Non Shari'a compliant income of RO 17k in respect of rebate received on nostro accounts, late payments from customer and income from placement with Central Bank.

Zakat

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

4.2) Break up of PER and IRR

The following table summarized the breakdown of analysis of PER and IRR of IAH:

Sl. No	Details	%
1	PER to PSIA Ratio	0.033%
2	IRR to PSIA Ratio	0.009%

4.3) Movement in PER & IRR

The following table summarized the movement in PER & IRR during the year

	PER RO'000	IRR RO'000
Balance at January 1	7	2
Amount apportioned from income allocated equity of IAH	4	1
Amount utilized during the year	-	-
Balance at December 31	11	3

The PER & IRR will revert to IAH as per the terms and conditions of the Mudaraba Contract.

As IAH funds are commingled with Maisarah's funds for investments, no priority is granted to, neither the Mudarib nor the Rab ul maal, for the purpose of Investments and distribution of profits.

4.4) Other governance matters

Maisarah follows Financial Accounting Standard issued by Accounting and Auditing Organisation 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. Transactions with related parties are disclosed in the financial statements of Masiarah.

During the year penalty taken to charity on account of late payment from customers is RO 475.093.

4.5) Break up of ROA and ROE

The following table summarized the position of Return on Assets (RoA) and Return on Equity (RoE) of IAH over the period of last five years:

Sl. No.	Details	2018 %	2017 %	2016 %	2015 %	2014 %
1	Return on Assets (ROA) i.e. 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	1.198	0.624	0.732	2.142	1.950
2	Return on Equity (ROE) i.e. Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity	8.855	5.129	5.394	15.502	15.996

4.6) Movement of Mudaraba Based Deposit Rate

The following table summarizes the movement of Mudaraba based deposit profit rates:

	Average rate over the 5 year period	Position as at Dec 2018	Position as at Dec 2017	Position as at Dec 2016	Position as at Dec 2015	Position as at Dec 2014
Saving accounts (RO)	1.02%	0.66%	0.95%	1.67%	0.98%	0.86%
Saving accounts (USD)	0.62%	0.22%	0.19%	1.03%	0.89%	0.78%
Prize Saving Account	0.90%	0.64%	0.99%	1.06%		
Mudaraba 1-M	0.85%					0.85%
Mudaraba 3-M	1.10%			1.25%	1.10%	0.96%
Mudaraba 6-M	1.07%					1.07%
Mudaraba 12-M	1.39%				1.48%	1.30%

5) Rate of return risk

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 bench mark 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.

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.

6) 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.

6.1 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 90% on an ongoing basis with effect from 01.01.2018 and shall be 100% by 2019. The Bank is meeting the regulatory limit of LCR as at 31st December 2018 on a consolidated basis.

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 2018.

Annexure I

Basel III Capital Disclosure Template 31/12/2018

	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	55,000	
2	Retained Earnings	12,617	
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	67,617	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments	549	
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)	-	
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	549
29	Common Equity Tier 1 capital (CET 1)	67,068
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)	-
	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)	67,068
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	3,761
51	Tier 2 capital before regulatory adjustments	3,761
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)	3,761
59	Total Capital (TC = T 1 + T 2)	70,829
	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)	463,595
60a	of which: Credit Risk Weighted Assets	418,114
60b	of which: Market Risk Weighted Assets	4,438
60c	of which: Operational Risk Weighted Assets	41,043

Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.47%
62	Tier 1 (as a percentage of risk weighted assets)	14.47%
63	Total capital (as a percentage of risk weighted assets)	15.28%
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)	7%
65	of which: capital conservation buffer requirement	0%
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)	7.47%
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)	3,761
77	Cap on inclusion of provisions in Tier 2 under standardized approach	5,226
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)

SI. No.	CA Report 1 (For CBO Use only)	RO'000
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	67,617
2	Regulatory Adjustments to CET1	549
3	CET1	67,068
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%)	67,068
8	Tier 2 Capital before Regulatory Adjustments	3,761
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	3,761
11	Total Capital (11=7+10)	70,829
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	463,595
13	Credit Risk Weighted Assets	418,114
14	Market Risk Weighted Assets	4,438
15	Operational Risk Weighted Assets	41,043
16	CET1 (as a percentage of TRWA) (in %) 7.625%	14.47
17	Tier 1 (as a percentage of TRWA) (in %) 9.625%	14.47
18	Total capital (as a percentage of TRWA) (in %) 12.625%	15.28

Statement IIA

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

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	As at Period End	
Assets			
Cash & Balances with CBO	38,810		
Balances with bank and money at call and short notice	30,375		
Investments:	41,599		
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	31,599		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances	401,485		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks			
Loans & Advances to domestic customers	390,150		
Loans & Advances to Non Resident Customers for domestic operations			
Loans & Advances to Non Resident Customers for operations abroad			
Loans & Advances to SMEs	11,335		
Financing from Islamic Banking Window			
Fixed Assets	1,309		
Other Asset	3,708		
Of which,			a
Goodwill & Intangible Assets			
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			

Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	517,286		
Capital & Liabilities			
Paid up capital	55,000		
of which:			h
Amount eligible for CET 1	55,000		i
Amount eligible for AT1	-		j
Reserves & Surplus			k
Share Premium	-		l
Legal Reserve & Special Reserve	-		m
Special reserve – restructured loans	-		n
Subordinated loan reserve			o
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	(549)	(549)	
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	12,617	12,617	
Total Capital	67,068		
Deposits	353,385		
Of which,			
Deposit from Banks			
Customer Deposits	353,385		
Deposit of Islamic Banking Window			
Other deposits (pl specify)			
Borrowings	82,575		
Of which,			
From CBO			
From Banks (including Head Office)	82,575		
Borrowings in the form of bonds, debentures & Sukuks			
Others (Plz specify) (Subordinated Loans)			
Other liabilities & provisions	14,258		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets			
Total Capital and Liabilities	517,286		

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			
		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	55,000	h
2	Retained earnings	12,617	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	67,617	
7	Prudential valuation adjustments	549	n
8	Goodwill (net of related tax liability)	-	a

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 Liquidity Coverage Ratio for Maisarah is as follows:

Sl. No.	"Maisarah Islamic Banking Services (MIBS) LCR Disclosure for the quarter ended December 2018"	Total Unweighted Value (average) OMR '000	Total Weighted Value (average) OMR '000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		60,250.19
Cash Outflows			
2	Retail deposits and deposits customers, from small business customer, of which:	44,989.94	3,359.03
3	Stable deposits	22,799.30	1,139.97
4	Less stable deposits	22,190.63	2,219.06
5	Unsecured wholesale funding, of which:	77,782.01	41,930.86
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	77,782.01	41,930.86
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	70,218.42	6,825.49
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	70,218.42	6,825.49
14	Other contractual funding obligations	8,030.66	8,030.66
15	Other contingent funding obligations	17,105.79	855.29
16	**TOTAL CASH OUTFLOWS**		**61,001.32**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	93,306.99	23,145.68
19	Other cash inflows	2,499.09	2,499.09
20	**TOTAL CASH INFLOWS**	**95,806.08**	**25,644.77**
			Total Adjusted Value
21	**TOTAL HQLA**		**60,250.19**
22	**TOTAL NET CASH OUTFLOWS**		**35,356.55**
23	**LIQUIDITY COVERAGE RATIO (%)**		**170.41**

As stated above, the LCR is computed on a monthly basis and the same for MIBS was at 220.16% in October, 168.15% in November and 146.61% in December 2018. The above disclosed values for high quality liquid assets, cash outflows and cash inflows are the monthly arithmetic average of the values for the three months of the quarter ended 31 December 2018.

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 13.53% as at 31 December 2018 as Compared to 8.83% as at 31 December 2017.

In terms of CBO guidelines, the standard for NSFR has become effective from 1 January 2018, with a minimum ratio of 100%. The position for Maisarah as at 31 December 2018 was at 117.55% as compared to 102.91% as at 31 December 2017.

Net Stable Funding Ratio:

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.

As per CBO guidelines, the NSFR is to be maintained at 100% as at January of 2018. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of NSFR as at 31 December 2018.

The disclosure for Net Stable Funding Ratio for Bank Dhofar Islamic Window entity is as follows:

(RO '000)

Sl. No.	ASF Item	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	Capital:	191,785.44	-	-	-	191,785.44
2	Regulatory capital	65,713.67				65,713.67
3	Other capital instruments	126,071.77				126,071.77
4	Retail deposits and deposits from small business customers	49,969.01	14,778.85	9,285.85	-	67,837.67
5	Stable deposits*	23,499.11	272.24	375.23		22,939.26
6	Less stable deposits*	26,469.89	14,506.61	8,910.62		44,898.41
7	Wholesale funding:	-	-	167,996.88	-	83,998.44
8	Operational deposits	-				-
9	Other wholesale funding			167,996.88		83,998.44
10	Liabilities with matching interdependent assets					-
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	51,553.51				-
14	**Total ASF**					**343,621.55**
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					1,588.17
16	Deposits held at other financial institutions for operational purposes	1,357.30				678.65
17	Performing loans and securities:	-	14,318.93	93,455.25	302,349.90	285,368.33
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			-		-
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		14,318.93	93,455.25		48,875.47
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:				302,349.90	236,492.86
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				102,522.76	66,639.79
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:	-	-		13,638.05	13,638.05
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				13,638.05	13,638.05
32	Off-balance sheet items					4,366.21
33	**TOTAL RSF**					**305,639.40**
34	**NET STABLE FUNDING RATIO (%)**					**112.43%**

NSFR is computed on a monthly basis and the same for Bank Dhofar (Islamic entity) was at 110.85% in October 109.02% in November and 117.55% in December 2018.

FINANCIAL STATEMENTS

31st DECEMBER 2018

KPMG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

Report on the Financial Statements

We have audited the accompanying financial statements of Maisarah Islamic Banking Services ("Maisarah"), Islamic Window of Bank Dhofar SAOG (the Bank), set out on pages 2 to 47 which comprise the statement of financial position as at 31 December 2018, income statement, statements of changes in owners' equity, cash flows and sources and uses of charity fund for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Shari'a are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Maisarah as at 31 December 2018 and the results of its operations and its cash flows for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of Maisarah and the Financial Accounting Standards ("FAS") issued by AAOIFI.

Other Matter

The financial statements of Maisarah for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 8 March 2018.

KPMG

11 March 2019

Kenneth Macfarlane

Statement of Financial Position

As 31 December 2018

2018 USD'000	2017 USD'000		Note	2018 RO'000	2017 RO'000
		Assets			
100,805	211,423	Cash and balances with Central Bank of Oman	5	**38,810**	81,398
78,860	108,068	Due from banks and financial institutions	6	**30,361**	41,606
63,670	69,730	Murabaha and other receivables	7	**24,513**	26,846
68,314	60,413	Mudaraba financing	8	**26,301**	23,259
731,556	751,919	Diminishing Musharaka financing	9	**281,649**	289,489
81,623	58,031	Investments	10	**31,425**	22,342
25,974	25,974	Investment at amortised cost	11	**10,000**	10,000
48,657	-	Wakala finance	12	**18,733**	-
119,190	113,899	Ijarah Muntahia Bittamleek	13	**45,888**	43,851
3,400	3,639	Property and equipment	14	**1,309**	1,401
8,930	8,010	Other assets	15	**3,438**	3,084
1,330,979	1,411,106	**Total assets**		**512,427**	543,276
		Liabilities, equity of investment accountholders and owners' equity			
		Liabilities			
145,558	187,416	Current accounts		**56,040**	72,155
146,558	186,883	Due to banks	16	**56,425**	71,950
67,922	62,223	Qard Hasan from Head office	17	**26,150**	23,956
683,946	722,987	Customer Wakala deposits		**263,319**	278,350
24,377	21,836	Other liabilities	18	**9,385**	8,407
1,068,361	1,181,345	**Total liabilities**		**411,319**	454,818
88,416	68,278	**Equity of investment accountholders**	19	**34,040**	26,287
		Owners' equity			
142,857	142,857	Capital	20	**55,000**	55,000
(1,426)	530	Reserves	10	**(549)**	204
32,771	18,096	Retained earnings		**12,617**	6,967
174,202	161,483	**Total owners' equity**		**67,068**	62,171
		Total liabilities, equity of investment			
1,330,979	1,411,106	**Accountholders and owners' equity**		**512,427**	543,276
43,042	33,195	**Contingent liabilities and commitments**	28	**16,571**	12,780

The Financial statements were approved by the Board of Directors on 11th March and signed on their behalf by

Chairman

Chief Executive Islamic Banking

The attached notes 1 to 33 form part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of Comprehensive Income

For the year ended 31 December 2018

2018 USD'000	2017 USD'000		Note	2018 RO'000	2017 RO'000
		Income			
60,252	51,771	Income from Islamic finances and investments	22	**23,197**	19,932
782	359	Income on Wakala placements		**301**	138
61,034	52,130			**23,498**	20,070
		Less:			
(524)	(522)	Return on equity of investment accountholders		**(202)**	(201)
(27,964)	(25,356)	Return on customer Wakala deposits	23	**(10,766)**	(9,762)
(1,608)	(930)	Return on inter bank Wakala deposit		**(619)**	(358)
(30,096)	(26,808)			**(11,587)**	(10,321)
30,938	25,322	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**11,911**	9,749
3,670	2,442	Revenue from banking services		**1,413**	940
628	478	Foreign exchange gain – net		**242**	184
60	5	Other revenues		**23**	2
35,296	28,247	**Total revenue**		**13,589**	10,875
(12,060)	(10,811)	Staff costs	24	**(4,643)**	(4,162)
(5,275)	(4,665)	General and administrative expenses	25	**(2,031)**	(1,796)
(1,195)	(1,062)	Depreciation	14	**(460)**	(409)
(18,530)	(16,538)	**Total expenses**		**(7,134)**	(6,367)
16,766	11,709	**Profit before impairment allowance**		**6,455**	4,508
(1,340)	(3,426)	Net impairment on financial instruments	26	**(516)**	(1,319)
15,426	8,283	**Profit for the year**		**5,939**	3,189
		Other comprehensive income for the year			
		Items that are or may not be reclassified to profit or loss			
(1,956)	16	Debt instrument at FVOCI		**(753)**	6
(1,956)	16	**Other comprehensive income**		**(753)**	6
13,470	8,299	**Total comprehensive income**		**5,186**	3,195

The attached notes 1 to 33 form part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of changes in owners' equity

For the year ended 31 December 2018

	31 December 2018			
	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 (note 2.5.1)	-	-	(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 change on FVOCI debt investments	-	(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			
	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 (note 2.5.1)	-	-	(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 change on FVOCI debt investments	-	(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

Conversion Rate: 1.00 OMR = 2.5974 USD

	31 December 2017			
	Capital RO'000	Investment Revaluation Reserve RO'000	Retained Earnings RO'000	Total RO'000
Balance at 1 January 2017	55,000	198	3,778	58,976
Total comprehensive income for the year				
Net profit for the year	-	-	3,189	3,189
Other comprehensive income for the year				
Fair value adjustment against available for sale instruments	-	6	-	6
Total comprehensive income	-	6	3,189	3,195
Balance as at 31 December 2017	55,000	204	6,967	62,171

	31 December 2017			
	Capital USD'000	Investment Revaluation Reserve USD'000	Retained Earnings USD'000	Total USD'000
Balance at 1 January 2017	142,857	514	9,813	153,184
Total comprehensive income for the year				
Net profit for the year	-	-	8,283	8,283
Other comprehensive income for the year				
Fair value adjustment against available for sale instruments	-	16	-	16
Total comprehensive income	-	16	8,283	8,299
Balance as at 31 December 2017	142,857	530	18,096	161,483

The attached notes 1 to 33 form part of these financial statements.

Statement of sources and uses of charity fund

For the year ended 31 December 2018

2018 USD'000	2017 USD'000		2018 RO'000	2017 RO'000
		Sources of charity funds		
521	397	Undistributed charity funds at beginning of the year	**201**	153
43	521	Shari'a non-compliant income	**17**	201
564	918	Total sources of funds during the year	**218**	354
		Uses of charity funds		
(521)	(397)	Health related organizations	**(201)**	(153)
(521)	(397)	Total uses of funds during the year	**(201)**	(153)
43	521	Undistributed charity funds at end of the year	**17**	201

The attached notes 1 to 33 form part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Statement of cash flows

For the year ended 31 December 2018

2018 USD'000	2017 USD'000		2018 RO'000	2017 RO'000
		Cash flows from operating activities		
15,426	8,283	Profit for the year	**5,939**	3,189
		Adjustment for:		
1,195	1,062	Depreciation	**460**	409
4,969	4,449	Depreciation on Ijarah assets	**1,913**	1,713
(8)	(5)	Gain on sale of property and equipment	**(3)**	(2)
1,340	3,426	Net impairment on financial instruments	**516**	1,319
3	3	Investment risk reserve	**1**	1
10	**8**	Profit equalisation reserve	**4**	**3**
22,935	**17,226**	**Operating profit before changes in operating assets and liabilities**	**8,830**	**6,632**
		Operating assets and liabilities:		
6,784	(45,068)	Murabaha and other receivables	**2,612**	(17,351)
(10,886)	(24,771)	Ijarah Muntahia Bittamleek assets	**(4,191)**	(9,537)
1,592	1,608	Proceeds from sale of Ijarah Muntahia Bittamleek assets	**613**	619
18,743	(137,761)	Diminishing Musharaka financing	**7,216**	(53,038)
(8,062)	3,561	Mudaraba financing	**(3,104)**	1,371
(48,732)	-	Wakala financing	**(18,762)**	-
(553)	(2,430)	Other asset	**(213)**	(936)
1,277	9,689	Other liabilities	**492**	3,730
49,795	**16,275**	Qard Hasan from Head Office	**19,171**	**6,266**
32,893	**(161,671)**	**Net cash used in operating activities**	**12,664**	**(62,244)**
		Cash flows from investing activities		
(51,974)	(15,000)	Purchase of investments	**(20,010)**	(5,775)
25,974	**-**	Sale proceed from maturity of investments at FVOCI	**10,000**	**-**
(26,000)	**(15,000)**	**Net cash used in investing activities**	**(10,010)**	**(5,775)**
		Cash flows from financing activities		
(41,857)	83,816	Current account	**(16,115)**	32,269

-	(10,000)	Due to banks and financial institutions	**-**	(3,850)
(39,042)	124,145	Customer Wakala deposit	**(15,031)**	47,796
20,125	28,685	Unrestricted investment accountholders	**7,748**	11,044
(60,774)	226,646	**Net cash from financing activities**	**(23,398)**	87,259
(53,881)	49,975	**(Decrease) / Increase in cash and cash equivalents**	**(20,744)**	19,240
132,608	82,633	**Cash and cash equivalents at the beginning of the year**	**51,054**	31,814
78,727	132,608	**Cash and cash equivalents at the end of the year**	**30,310**	51,054
		Cash and cash equivalents at the end of the year comprise:		
100,805	211,423	Cash and balances with CBO	**38,810**	81,398
78,896	108,068	Due from banks and financial institutions	**30,375**	41,606
(100,974)	(186,883)	Due to banks	**(38,875)**	(71,950)
78,727	132,608		**30,310**	51,054

The attached notes 1 to 33 form part of these financial statements.

Conversion Rate: 1.00 OMR = 2.5974 USD

Notes to the financial statements
For the year ended 31 December 2018

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 (2017: 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 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 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

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.

2.5 Change in accounting policy

Except for the changes resulting from the adoption of IFRS 9 from 1 January 2018, the accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.5.1 IFRS 9 – Financial instruments

Maisarah has adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2018. Following are the significant changes to the accounting policies resulting from the implementation of the IFRS 9:

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.

The 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.

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.

Impairment

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued; and
- financing commitments issued.

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.

Impairment provision for lease receivables are always measured at an amount equal to lifetime ECL. 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'.

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.

Measurement of ECL

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.

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.

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 presented in the accumulated other comprehensive income; 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).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Islamic window has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Following are the changes and implications resulting from the adoption of IFRS 9:

- The table below reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Islamic window's financial assets and financial liabilities as at 1 January 2018:

			Impact of IFRS 9		
	Original Classification under IAS 39	New classification under IFRS 9	Original carrying amount RO'000	Re-measurement RO'000	New carrying amount RO'000
Financial assets					
Cash and balances with central banks	Financing and receivables	Amortised cost	81,398	-	81,398
Due from banks and financial institutions	Financing and receivables	Amortised cost	41,606	(47)	41,559
Murabaha and other receivables	Financing and receivables	Amortised cost	26,846	306	27,152
Mudaraba financing	Financing and receivables	Amortised cost	23,259	(258)	23,001
Diminishing Musharaka financing	Financing and receivables	Amortised cost	289,489	(636)	288,853
Investment at fair value through other comprehensive income	Available for sale	FVOCI	22,342	-	22,342
Investment at amortised cost	Held to maturity	Amortised cost	10,000	-	10,000
Ijarah Muntahia Bittamleek	Financing and receivables	Amortised cost	43,851	412	44,263
Property and equipment			1,401	-	1,401
Other assets			3,084	-	3,084
Total			**543,276**	**(223)**	**543,053**
Financial liabilities					
Current accounts	Amortised cost	Amortised cost	72,155	-	72,155
Due to banks	Amortised cost	Amortised cost	71,950	-	71,950
Qard Hasan from Head Office	Amortised cost	Amortised cost	23,956	-	23,956
Customer Wakala deposits	Amortised cost	Amortised cost	278,350	-	278,350
Other liabilities			8,407	66	8,473
Total			**454,818**	**66**	**454,884**

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For the year ended 31 December 2018

The below table reconciles the closing impairment provision in accordance with IAS 39 as at 31 December 2017 to the opening ECL provision determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017 RO'000	Re-measure-ment RO'000	01 January 2018 RO'000
Due from banks and financial institutions	-	47	**47**
Financing (including financing commitment / unutilised limits and accrued profit)	4,336	176	**4,512**
Other liabilities	-	66	**66**
	4,336	**289**	**4,625**

The impact from the adoption of IFRS 9 as at 1 January 2018 has been to reduce the retained earnings by RO 289 thousand and in increase the impairment allowance by the same amount:

	Retained earnings RO'000
Closing balance under IAS 39 (31 December 2017)	**6,967**
Impact on recognition of Expected Credit Losses	
Due from banks	(47)
Financings (including financing commitment / unutilised limits and accrued profit)	(176)
Off balance sheet exposures subject to credit risk	(66)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**6,678**

2.6 New standards, interpretations and amendments

For the year ended 31 December 2018, 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 2018.

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 but not yet effective

FAS 30 Impairment, Credit losses and onerous commitments

In November 2018, AAOIFI issued FAS 30 – Impairment, credit losses and onerous commitments, the standard superseded the earlier FAS 11 – Provision and Reserves, effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

However, during the last year, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments 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.

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 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.

3.7 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 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:

Position	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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders.

3.16 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".

3.17 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.

3.18 Revenue recognition

3.18.1 Murabaha receivables

Profit from Murabaha receivables is recognised on time apportioned basis from the date of Murabaha contract. Income related to non-performing accounts is excluded from statement of profit or loss.

3.18.2 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.

3.18.3 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.

3.18.4 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.

3.18.5 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.

3.18.6 Dividends

Dividends are recognised when the right to receive payment is established.

3.18.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.18.8 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.

3.18.9 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 Taxation

Maisarah is 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.

3.20 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.

3.21 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:

S. No.	Name of Director	Title
1.	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2.	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
3.	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
4.	Sheikh Dr. Abdullah bin Mubarak Al Abri	Member
5.	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.22 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.

Notes to the financial statements

For the year ended 31 December 2018

3.23 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.

3.24 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) Going concern

The Bank's management has made an assessment of the Islamic Window's ability to continue as a going concern and is satisfied that the Islamic Window's has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Islamic Window's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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

	2018 RO'000	2017 RO'000
Cash in hand	**2,356**	2,024
Balances with Central Bank of Oman	**36,454**	79,374
	38,810	81,398

6. Due from banks and financial institutions

	2018 RO'000	2017 RO'000
Wakala placement – jointly financed	**27,335**	23,100
Qard Hasan placement – self financed	**-**	17,325
Current clearing account – self financed	**3,040**	1,181
	30,375	41,606
Less: Impairment allowance for ECL (note 26)	**(14)**	-
	30,361	41,606

During 2017, Qard Hasan placement and current clearing account were classified under jointly-financed.

7. Murabaha and other receivables

	2018 RO'000	2017 RO'000
Gross Murabaha receivables – jointly financed	**27,199**	29,743
Gross Ujrah receivables – jointly financed	**2**	4
	27,201	29,747
Less: Deferred income – jointly financed	**(3,018)**	(2,753)
	24,183	26,994
Credit card receivables – self financed	**442**	242
Less: profit suspended	**(1)**	-
Less: Impairment allowance for ECL (note 26)	**(111)**	(390)
	24,513	26,846

Murabaha and other receivables past due but not impaired amounts to RO 657 thousand (2017: RO 185 thousand).

Notes to the financial statements
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8. Mudaraba financing

	2018 RO'000	2017 RO'000
Mudaraba financing – jointly financed	**26,585**	23,481
Less: Impairment allowance for ECL (note 26)	**(284)**	(222)
	26,301	23,259

At reporting date, there were Mudaraba financing cases which were past due but not impaired.

9. Diminishing Musharaka financing

	2018 RO'000	2017 RO'000
Diminishing Musharaka – jointly financed	**285,515**	292,731
Less: Impairment allowance for ECL (note 26)	**(3,866)**	(3,242)
	281,649	289,489

Diminishing Musharaka past due but not impaired amounts to RO 36,567 thousand (2017: RO 36,913 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

	2018 RO'000	2017 RO'000
Fair value through other comprehensive income:		
Local listed Sukuk – jointly financed	**10,000**	-
International listed Sukuk – jointly financed	**10,010**	-
Sovereign Sukuk – jointly financed	**11,589**	-
Available-for-sale:		
Local listed Sukuk – jointly financed	**-**	10,198
Sovereign Sukuk – jointly financed	**-**	12,144
	31,599	22,342
Less: Impairment provision for ECL (note 26)	**(174)**	-
Total Sukuk – jointly financed	**31,425**	22,342

During the year, Maisarah has invested RO 10 million and RO 10.010 million in locally listed Corporate Sukuk issued by Golden Sukuk LLC and in internationally listed Corporate Sukuk issued by Tilal Sukuk SAOC respectively. Total cost of Sukuk is RO 32,148 thousands resulting in the decrease fair valuation reserve to RO 549 thousands.

Notes to the financial statements
For the year ended 31 December 2018

11. Investment at amortised cost

	2018 RO'000	2017 RO'000
Sovereign Sukuk – jointly financed	**10,000**	10,000

Being Sovereign Sukuk, no impairment allowance for ECL has been recognised.

12. Wakala financing

	2018 RO'000	2017 RO'000
Wakala financing – jointly financed	**18,762**	-
Less: Impairment allowance for ECL (note 26)	**(29)**	-
	18,733	-

Wakala financing is neither past due nor impaired.

13. Ijarah Muntahia Bittamleek

	2018 RO'000	2017 RO'000
Cost – jointly financed		
at 1 January	**49,622**	40,838
Additions	**4,191**	9,537
Disposals	**(1,047)**	(753)
at 31 December	**52,766**	49,622
Accumulated depreciation – jointly financed		
at 1 January	**5,289**	3,710
Charge for the period	**1,913**	1,713
Disposals	**(434)**	(134)
at 31 December	**6,768**	5,289
Net book value at 31 December	**45,998**	44,333
Less: Impairment allowance for ECL (note 26)	**(110)**	(482)
Net Ijarah Muntahia Bittamleek	**45,888**	43,851

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 994 thousand (2017: RO 1,516 thousand).

Notes to the financial statements

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14. Property and equipment

	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)**
Provided during the year	**(182)**	**(13)**	**(265)**	**-**	**(460)**
Disposal	**2**	**-**	**-**	**-**	**2**
at 31 December	**(702)**	**(60)**	**(1,050)**	**-**	**(1,812)**
Net book value at 31 December	**522**	**18**	**767**	**2**	**1,309**

	2017				
	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	875	54	1,487	3	2,419
Additions	164	7	113	58	342
Disposals / Transfers	-	-	-	(6)	(6)
at 31 December	1,039	61	1,600	55	2,755
Accumulated depreciation					
at 1 January	(351)	(36)	(558)	-	(945)
Provided during the year	(171)	(11)	(227)	-	(409)
Reversal of depreciation	-	-	-	-	-
at 31 December	(522)	(47)	(785)	-	(1,354)
Net book value at 31 December	517	14	815	55	1,401

15. Other assets

	2018 RO'000	2017 RO'000
Ijarah rental receivables	**84**	37
Other profit receivables	**1,933**	1,584
Prepayments	**350**	142
Others	**884**	975
Acceptances	**537**	582
	3,788	3,320
Less: Reserve for suspended profit (note 26)	**(248)**	(136)
Less: Allowance against other assets	**(80)**	(100)
Less: Impairment allowance for ECL on accrued profit (note 26)	**(22)**	-
Total	**3,438**	3,084

16. Due to banks

	2018 RO'000	2017 RO'000
Due to the Bank (Bank Dhofar SAOG)	**17,550**	-
Due to banks	**38,875**	71,950
Total	**56,425**	71,950

Due to Head Office and banks comprises of Wakala deposits.

17. Qard Hasan from Head Office

	2018 RO'000	2017 RO'000
Qard Hasan from Head Office (17.1)	**25,000**	20,000
Current clearing account (17.2)	**1,150**	3,956
Total	**26,150**	23,956

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

	2018 RO'000	2017 RO'000
Payables	**939**	650
Accrued expenses	**1,118**	853
Profit payables	**6,215**	6,065
Others	**28**	56
Charity payable	**17**	201
Acceptances contra	**537**	582
Impairment allowance for ECL on non-funded exposure (note 26)	**531**	-
Total	**9,385**	8,407

19. Equity of investment accountholders

	2018 RO'000	2017 RO'000
Saving account	**34,026**	26,278
Profit equalisation reserve	**11**	7
Investment risk reserve	**3**	2
Total	**34,040**	26,287

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 2018 and 2017 as follows:

	2018 RO'000	2017 RO'000
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

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.

20. Capital

During 2017 and 2018, 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

	2018 RO'000	2017 RO'000
Murabaha receivables	**1,278**	925
Mudaraba	**1,351**	1,493
Ijarah muntahia bittamleek – net*	**2,395**	2,073
Diminishing Musharaka	**15,769**	14,213
Wakala financing	**462**	-
Profit on investments at FVOCI	**1,592**	878
Profit on investment at amortised cost	**350**	350
	23,197	19,932

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,913 thousand (2017: RO 1,713 thousand).

23. Return on customer Wakala deposits

	2018 RO'000	2017 RO'000
Return allocated to Wakala depositors	**10,737**	9,455
Hiba for Wakala depositors	**29**	307
	10,766	9,762

24. Staff costs

	2018 RO'000	2017 RO'000
Salaries and allowances	**3,929**	3,471
Other personnel cost	**660**	635
Non-Omani employee terminal benefits	**54**	56
	4,643	4,162

25. General and administrative expenses

	2018 RO'000	2017 RO'000
Occupancy cost	602	517
Operating and administration cost	1,429	1,279
	2,031	1,796

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 2018:

31 December 2018	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Gross exposure				
Cash and balances with Central Bank of Oman	38,810	-	-	38,810
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 finance	12,287	6,475	-	18,762
Ijarah Muntahia Bittamleek	45,720	197	81	45,998
Accrued profit	1,267	531	248	2,046
Acceptances	230	307	-	537
Total funded gross exposure	447,573	65,027	2,252	514,852
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
	494,858	83,765	2,252	580,875

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31 December 2018	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Allowance for ECL & profit suspended				
Cash and 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 finance	(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)

31 December 2018	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Net exposure				
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	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 finance	12,277	6,456	-	18,733
Ijarah Muntahia Bittamleek	45,670	175	43	45,888
Accrued profit	1,262	514	-	1,776
Acceptances	230	305	-	535
Total funded net exposure	446,544	62,102	1,345	509,991
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
	493,603	80,537	1,345	575,485

26.2 The following table shows the movement in ECL provision for the year ended 31 December 2018:

31 December 2018	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance - as at 1 January 2018				
Due from Banks	47	-	-	47
Financing to customers (including financing commitment / unutilised limits and accrued profit)	2,051	2,010	451	4,512
Letter of credit / guarantee	63	1	-	64
Acceptances	2	-	-	2
	2,163	2,011	451	4,625
Net transfer between stages				
Financing to customers (including financing commitment / unutilised limits and accrued profit)	(269)	269	-	-
Letter of credit / guarantee	(14)	14	-	-
	(283)	283	-	-
Charge for the period (net)				
Due from Banks	(33)	-	-	(33)
Financing to customers (including financing commitment / unutilised limits and accrued profit)	(751)	879	207	335
Investments at FVOCI	174	-	-	174
Letter of credit / guarantee	(13)	53	-	40
Acceptances	(2)	2	-	-
	(625)	934	207	516
Closing balance - as at 31 December 2018				
Due from Banks	14	-	-	14
Financing to customers	836	2,906	658	4,400
Investments at FVOCI	174	-	-	174
Letter of credit / guarantee	36	68	-	104
Acceptances	-	2	-	2
Financing commitment / unutilised limits	190	235	-	425
Accrued profit	5	17	-	22
	1,255	3,228	658	5,141

26.3 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.

26.3.1 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:

RO'000

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
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8)=3-5	(9)	(10)
	Stage 1	335,214	3,454	835	2,619	331,760	334,379	-	-
Standard	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**	**-**	**-**
	Stage 1	78	2	1	1	76	77	-	-
Special Mention	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**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	53	13	18	(5)	40	35	-	-
Subtotal		**53**	**13**	**18**	**(5)**	**40**	**35**	**-**	**-**
	Stage 1	-	-		-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	82	27	43	(16)	54	39	-	1
Subtotal		**82**	**27**	**43**	**(16)**	**54**	**39**	**-**	**1**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,869	794	598	(196)	1,075	1,271	-	-
Subtotal		**1,869**	**794**	**598**	**(196)**	**1,075**	**1,271**	**-**	**-**
	Stage 1	159,566	-	419	(419)	120,756	120,337	-	-
Other items	Stage 2	19,576	-	322	(322)	19,576	19,254	-	-
	Stage 3	248	-	248	(248)	-	-	-	248
Subtotal		**179,390**	**-**	**989**	**(989)**	**140,332**	**139,591**	**-**	**248**
	Stage 1	494,858	3,456	1,255	2,201	452,592	454,793	-	-
Total	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	**580,875**	**4,914**	**5,390**	**(476)**	**536,902**	**536,675**	**-**	**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.

26.3.2 Restructured financing

RO'000

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
(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.

Asset Classification as per IFRS 9	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:

	2018 RO'000	2017 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**664**	743
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**43,930**	18,268
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**2**	3
Other Members		
– remuneration proposed	**24**	24
– sitting fees paid	**6**	7
Other transactions		
Rental payment to a related party	**237**	237
Income from finance to related parties	**25**	29
Profit expense on deposits from related parties	**2,007**	496
Key management compensation		
Salaries and other benefits	**261**	216
End of service benefits	**9**	13

28. Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2018 RO'000	2017 RO'000
Letters of credit	**5,678**	5,103
Guarantees	**10,893**	7,677
Total	**16,571**	12,780

(b) Capital and investment commitments

	2018 RO'000	2017 RO'000
Contractual commitments for property and equipment	**19**	44

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2018 amounts to RO 90,004 thousand (2017: 110,693 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	
	2018 RO'000	2017 RO'000
Forward exchange contracts		
Currency forward - purchase contracts	**38,635**	-
Currency forward - sale contracts	**38,505**	-

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).

	2018			
	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Investments at FVOCI	**31,599**	**-**	**-**	**31,599**

	2017			
	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Available-for-sale investments	12,144	10,198	-	22,342

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.

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(a) Geographical concentrations (Gross)

	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

	2017				
	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	25,025	45,000	-	-	26,181
Other GCC Countries	15,614	11,550	-	-	106
Europe and North America	967	-	-	-	-
Africa and Asia	-	15,400	-	-	-
	41,606	71,950	-	-	26,287

(b) Customer concentrations on assets (Gross)

	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
Retail	-	10,822	-	112,845	-	45,758
Corporate	30,375	13,803	26,585	172,670	18,762	240
	30,375	24,625	26,585	285,515	18,762	45,998

	2017					
	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
Retail	-	8,555	-	104,382	-	44,333
Corporate	41,606	18,681	23,481	188,349	-	-
	41,606	27,236	23,481	292,731	-	44,333

(c) Economic sector concentrations (Gross)

	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
Personal	**10,822**	**-**	**112,845**	**-**	**45,758**
Construction	**2,924**	**10,743**	**109,416**	**5,934**	**240**
Manufacturing	**2,952**	**9,478**	**6,590**	**1,514**	**-**
Services	**-**	**35**	**45,757**	**1,356**	**-**
Others	**7,927**	**6,329**	**10,907**	**9,958**	**-**
	24,625	**26,585**	**285,515**	**18,762**	**45,998**

	2017				
	Murabaha and other receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000
Personal	8,555	-	104,382	-	44,333
Construction	1,262	13,234	107,561	-	-
Manufacturing	7,215	4,519	6,832	-	-
Services	54	1,986	66,456	-	-
Others	10,150	3,742	7,500	-	-
	27,236	23,481	292,731	-	44,333

(d) Gross credit exposure

	2018	
	Total gross exposure RO 000	Monthly average gross exposur 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**

	2017	
	Total gross exposure RO 000	Monthly average gross exposur RO 000
Murabaha and other receivables	27,236	18,493
Mudaraba financing	23,481	27,399
Diminishing Musharaka Financing	292,731	271,931
Wakala financing	-	-
Ijarah Muntahia Bittamleek	44,333	42,118
Total	387,781	359,941

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(e) Industry type distribution of exposures by major types of credit exposures:

	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	Off balance sheet exposures RO 000
Import trade	5,579	780	1,283	9,509	-	6,649
Export trade	-	-	-	-	-	-
Wholesale & retail trade	2,242	775	3,039	31	-	1
Mining & quarrying	-	2,840	861	418	-	-
Construction	2,924	10,743	109,416	5,934	240	5,438
Manufacturing	2,952	9,478	6,590	1,514	-	3,649
Electricity,gas and water	-	-	513	-	-	-
Transport & communication	106	-	221	-	-	-
Financial institutions	-	981	-	-	-	-
Services	-	35	45,757	1,356	-	727
Retail	10,822	-	112,845	-	45,758	-
Agriculture and allied Activites	-	953	-	-	-	-
Government	-	-	-	-	-	-
Non-resident lending	-	-	-	-	-	-
Others	-	-	4,990	-	-	107
	24,625	26,585	285,515	18,762	45,998	16,571

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	2017					
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off balance sheet exposures RO 000
Import trade	7,545	2,074	708	-	-	3,711
Export trade	189	395	-	-	-	-
Wholesale & retail trade	2,286	741	2,152	-	-	1
Mining & quarrying	-	455	1,279	-	-	-
Construction	1,262	13,234	107,561	-	-	4,728
Manufacturing	7,215	4,519	6,832	-	-	3,615
Electricity,gas and water	-	-	-	-	-	-
Transport & communication	130	-	336	-	-	-
Financial institutions	-	77	-	-	-	-
Services	54	1,986	66,456	-	-	725
Retail	8,555	-	104,382	-	44,333	-
Agriculture and allied Activites	-	-	-	-	-	-
Government	-	-	-	-	-	-
Non-resident lending	-	-	-	-	-	-
Others	-	-	3,025	-	-	-
	27,236	23,481	292,731	-	44,333	12,780

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(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	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	Off Balance sheet exposures RO 000
Upto 1 month	1,646	26,585	1	394	-	1,169
1 - 3 months	4,847	-	83	3,051	-	7,482
3 - 6 months	4,434	-	5	11,364	-	1,926
6 - 9 months	894	-	209	3,953	9	1,806
9 - 12 months	37	-	784	-	-	817
1 - 3 years	807	-	10,565	-	107	2,896
3 – 5 years	1,480	-	18,338	-	419	475
Over 5 years	10,480	-	255,530	-	45,463	-
	24,625	26,585	285,515	18,762	45,998	16,571

	2017					
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Wakala financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off Balance sheet exposures RO 000
Upto 1 month	5,818	23,481	-	-	-	1,417
1 - 3 months	5,331	-	13	-	-	6,947
3 - 6 months	3,504	-	35	-	-	2,648
6 - 9 months	1,510	-	1,792	-	4	108
9 - 12 months	26	-	1,095	-	3	891
1 - 3 years	730	-	8,254	-	220	294
3 – 5 years	950	-	18,142	-	378	475
Over 5 years	9,367	-	263,400	-	43,728	-
	27,236	23,481	292,731	-	44,333	12,780

(g) Maximum exposure to credit risk without consideration of collateral held:

	2018 RO'000	2017 RO'000
Due from banks and financial institutions (Gross)	30,375	41,606

(h) 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 2018 including the projections used is presented as under:

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%

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.

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
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**
Cash And balances With CBO								
High investment grade	-	38,810	-	-	-	-	**-**	**38,810**
Moderate investment grade	-	-	-	-	-	-	**-**	**-**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**38,810**	**-**	**-**	**-**	**-**	**-**	**38,810**
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	-	-	-	-	14	30	**14**	**30**
Total	**51**	**10,282**	**14**	**72**	**14**	**30**	**79**	**10,384**
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**	**658**	**2,004**	**4,400**	**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**

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Letter of credit / Guarantees								
Corporate	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	1,267	17	531	-	-	**22**	**1,798**
Total	**195**	**41,100**	**254**	**10,687**	**-**	**-**	**449**	**51,787**
Total portfolio	**1,255**	**494,858**	**3,228**	**83,765**	**658**	**2,004**	**5,141**	**580,627**

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

Notes to the financial statements

For the year ended 31 December 2018

(i) Distribution of performing and non-performing financing by type of industry:

	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	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	-	-	(80)	-
Export trade	-	-	-	-	-	-	-	-
Wholesale & retail trade	2,242	775	3,039	31	-	-	(64)	-
Mining & quarrying	-	2,840	861	418	-	-	(9)	-
Construction	2,924	10,743	107,580	5,934	240	1,836	(2,855)	(577)
Manufacturing	2,952	9,478	6,590	1,514	-	-	(173)	-
Electricity,gas and water	-	-	513	-	-	-	(2)	-
Transport & communication	106	-	221	-	-	-	(3)	-
Financial institutions	-	981	-	-	-	-	(2)	-
Services	-	35	45,757	1,356	-	-	(223)	-
Retail	10,791	-	112,789	-	45,677	168	(301)	(81)
Agriculture and allied Activities	-	953	-	-	-	-	(1)	-
Government	-	-	-	-	-	-	-	-
Non-resident lending	-	-	-	-	-	-	-	-
Others	-	-	4,990	-	-	-	(29)	-
	24,594	26,585	283,623	18,762	45,917	2,004	(3,742)	(658)

	2017							
	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	General provisions as of year end RO 000	Specific provisions as of year end RO 000
Import trade	7,545	2,074	708	-	-	-	(98)	-
Export trade	189	395	-	-	-	-	(6)	-
Wholesale & retail trade	2,286	741	2,152	-	-	-	(34)	-
Mining & quarrying	-	455	1,279	-	-	-	(18)	-
Construction	1,262	13,234	105,723	-	-	1,838	(935)	(566)
Manufacturing	7,215	4,519	6,832	-	-	-	(190)	-
Electricity, gas and water	-	-	-	-	-	-	-	-
Transport & communication	130	-	336	-	-	-	(3)	-
Financial institutions	-	77	-	-	-	-	(1)	-
Services	54	1,986	66,456	-	-	-	(670)	-
Retail	8,555	-	104,326	-	44,298	91	(1,761)	(23)
Agriculture and allied Activities	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Non-resident lending	-	-	-	-	-	-	-	-
Others	-	-	3,025	-	-	-	(31)	-
	27,236	23,481	290,837	-	44,298	1,929	(3,747)	(589)

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 2018

Maturity profile of assets (net of impairment allowance for ECL) and liabilities

	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 FVOCI	-	-	-	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
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

Notes to the financial statements

For the year ended 31 December 2018

	2017					
	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	81,398	-	-	-	-	81,398
Due from banks and financial institutions	33,906	7,700	-	-	-	41,606
Murabaha and other receivables	16,322	1,460	1,617	5,750	1,697	26,846
Mudaraba financing	1,147	2,348	2,292	11,741	5,704	23,259
Diminishing Musharaka financing	5,063	28,118	33,524	126,334	96,450	289,489
Investments at fair value through equity	-	-	10,000	6,561	5,781	22,342
Investment at amortised cost	-	-	-	10,000	-	10,000
Wakala financing	-	-	-	-	-	-
Ijarah Muntahia Bittamleek	333	1,697	1,910	15,770	24,141	43,851
Property and equipment	-	-	-	-	1,401	1,401
Other asset	1,531	536	-	-	1,017	3,084
Total assets	139,727	41,859	49,343	176,156	136,191	543,276
Current accounts	15,969	24,582	14,046	-	17,558	72,155
Due to banks	71,950	-	-	-	-	71,950
Qard Hasan from Head Office	3,956	-	-	20,000	-	23,956
Customer Wakala Deposit	38,333	88,965	43,173	70,422	37,457	278,350
Other liabilities	7,871	536	-	-	-	8,407
Equity of unrestricted investment accountholders	1,314	2,627	2,627	13,140	6,579	26,287
Owner's equity	-	-	-	-	62,171	62,171
Total liabilities and accountholders & owners' equity	139,393	116,710	59,846	103,562	123,765	543,276

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.

(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.

Notes to the financial statements

For the year ended 31 December 2018

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).

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.

	2018							
	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	-	-	-	-	-	-	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 FVOCI	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	-	-

Notes to the financial statements

For the year ended 31 December 2018

	2017							
	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	-	-	-	-	-	-	81,398	81,398
Due from banks and financial institutions	0.97%	15,400	7,700	-	-	-	18,506	41,606
Murabaha and other receivables	5.23%	16,080	1,460	1,617	5,750	1,697	242	26,846
Mudaraba financing	5.42%	23,259	-	-	-	-	-	23,259
Diminishing Musharaka Financing	5.26%	5,063	28,118	33,524	126,334	96,450	-	289,489
Investments at fair value through equity	4.44%	-	-	10,000	6,561	5,781	-	22,342
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Wakala financing	-	-	-	-	-	-	-	-
Ijara Muntahia Bittamleek	4.94%	333	1,697	1,910	15,770	24,141	-	43,851
Property and equipment	-	-	-	-	-	-	1,401	1,401
Other asset	-	-	-	-	-	-	3,084	3,084
Total assets		60,135	38,975	47,051	164,415	128,069	104,631	543,276
Current accounts	2.49%	11,188	19,579	11,188	-	13,985	16,215	72,155
Due to banks	1.19%	71,950	-	-	-	-	-	71,950
Qard Hasan from Head office	-	-	-	-	-	-	23,956	23,956
Customer Wakala deposit	3.48%	38,333	88,965	43,173	70,422	37,457	-	278,350
Other liabilities	-	-	-	-	-	-	8,407	8,407
Equity of unrestricted investment								
accountholders	1.00%	26,278	-	-	-	-	9	26,287
Owner's equity	-	-	-	-	-	-	62,171	62,171
Equity of accountholders & Total liabilities and shareholders' equity		147,749	108,544	54,361	70,422	51,442	110,758	543,276
On-balance sheet gap		(87,614)	(69,569)	(7,310)	93,993	76,627	(6,127)	-
Cumulative profit sensitivity gap		(87,614)	(157,183)	(164,493)	(70,500)	6,127	-	-

(C) Equity risk

Presently Maisarah is not exposed to any equity price risk.

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 2018

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.

	2018 RO 000	2017 RO 000
Types of capital		
Tier I capital	**67,068**	61,967
Tier II capital	**3,761**	3,756
Total Regulatory Capital	**70,829**	65,723
Risk weighted assets		
Credit risk weighted assets	**418,114**	425,669
Market risk weighted assets	**4,438**	12,913
Operational risk weighted assets	**41,043**	30,501
Total risk weighted assets	**463,595**	469,083
Capital ratios		
Tier I capital ratio (%)	**14.47%**	13.21%
Capital adequacy ratio (%)	**15.28%**	14.01%

Notes to the financial statements

For the year ended 31 December 2018

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.

	2018			
31 December 2017	**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 segment operating revenues	8,765	13,510	2,901	25,176
Profit expenses	(587)	(10,381)	(619)	(11,587)
Net operating income	8,178	3,129	2,282	13,589
Segment cost				
Operating expenses including depreciation	(3,093)	(3,114)	(927)	(7,134)
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 2018

	2017			
31 December 2017	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	Total RO 000
Segment operating revenues	7,290	11,414	138	18,842
Other revenues	186	603	1,565	2,354
Total segment operating revenues	7,476	12,017	1,703	21,196
Profit expenses	(452)	(9,511)	(358)	(10,321)
Net operating income	7,024	2,506	1,345	10,875
Segment cost				
Operating expenses including depreciation	(2,202)	(3,374)	(791)	(6,367)
Provision for impairment	(385)	(934)	-	(1,319)
Net profit for the year before tax	4,437	(1,802)	554	3,189
Segment assets	157,836	233,133	156,643	547,612
Less: Provision for impairment	(1,784)	(2,552)	-	(4,336)
Total segment assets	156,052	230,581	156,643	543,276
Segment liabilities	15,934	342,511	96,373	454,818

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