2017 Annual Report

بنك ظفار
BankDhofar

TOGETHER
2020
Best in Gulf

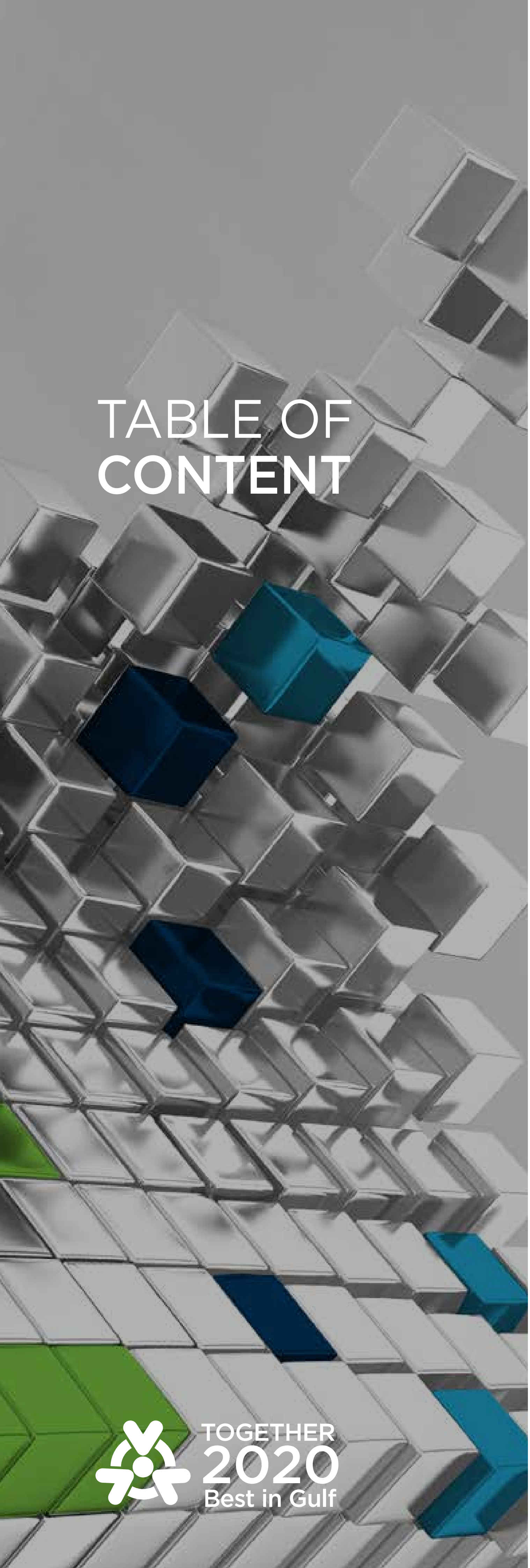
Transparency • Innovation • Service Excellence

بنك ظفار

BankDhofar

"We have always affirmed our continued attention to the development of human resources and we said that these resources take top priority in our plans and programmes".

HIS MAJESTY
SULTAN QABOOS BIN SAID



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0.1

BOARD OF DIRECTOR'S REPORT

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THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2017

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 2017.

Financial overview in year 2017

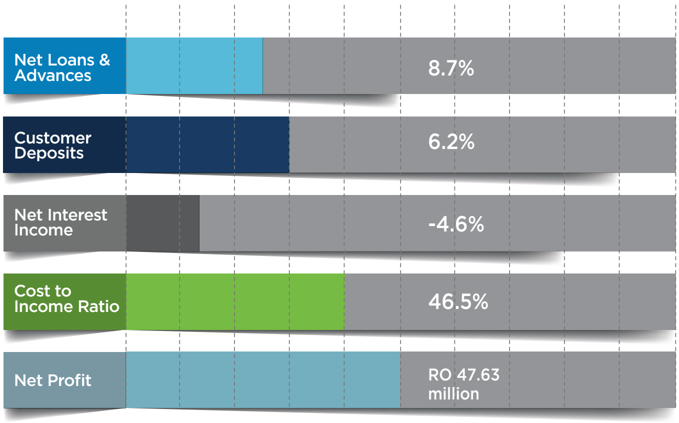
Amidst the challenging Economic and financial environment, the bank continued to grow in all key areas in the year 2017. The Net Loans, Advances and Financing to customers reached RO 3.25 billion (USD 8.44 billion) at December 2017, showing a significant growth of 8.7% from RO 2.99 billion (USD 7.77 billion) at the end of 2016. To supplement the loan growth, customer deposits mobilized by the bank achieved a growth of 6.2% from RO 2.89 billion (USD 7.51 billion) at the end of 2016 to reach RO 3.07 billion (USD 7.97 billion) at the end of 2017. Total assets reached RO 4.25 billion (USD 11.04 billion) in December 2017 as compared to RO 3.95 billion (USD 10.26 billion) at end 2016, a growth of 7.6%.

The Net interest income and income from Islamic Financing activities earned during the year 2017 was RO 93.13 million (USD 241.89 million) as compared to RO 97.66 million (USD 253.66 million) showing a decline of 4.6% mainly due to higher interest and cost of funds influenced by overall upward trending interest rate environment. However, the Non-funded income increased by 13.8% reaching RO 33.8 million (USD 87.8 million) as against RO 29.69 million (USD 77.12 million) for the same period last year. The total operating income is RO 126.93 million (USD 329.69 million) for the year 2017 compared to RO 127.35 million (USD 330.78 million) for the year 2016.

The Cost to Income ratio during the year 2017 was at 46.48% as compared to 44.57% in 2016. The provision for loan impairment, net of recovery, during the year 2017 decreased to RO 11.5 million (USD 29.87 million) as against RO 14.56 million (USD 37.82 million) for the year 2016. The impairment of investments during the year decreased to RO 0.36 million (USD 0.94 million) from RO 1.59 million (USD 4.13 million) in 2016.

Non-performing loans to gross loans & financing at Bank level increased from 2.68% as at 31st December 2016 to 3.11% at 31st December 2017; Non-performing loans, net of interest suspense, to gross loans & financing increased from 1.41 % at 31st December 2016 to 1.72 % at 31st December 2017 year on year.

The net profit for the year 2017 achieved by the Bank is RO 47.63 million (USD 123.71 million) as against RO 47.62 million (USD 123.69 million), showing a marginal growth of 0.02 % year on year.



Maisarah- Islamic Banking Services

Maisarah Islamic Banking Services, the Islamic Banking Window of BankDhofar, has posted a good growth in balance sheet numbers during the year 2017. Total Assets have grown to RO 543.28 million (USD 1.41 billion) at December 2017 from RO 450.71 million (USD 1.17 billion) at December 2016, a growth of 20.5%. Gross Financing portfolio has increased by 24.5% to RO 387.78 million (USD 1.01 billion) at December 2017 from RO 311.55 million (USD 0.81 billion) at the December 2016. Customer deposits shows a strong growth of 31.9% reaching RO 376.78 million (USD 0.98 billion) at December 2017 compared to RO 285.67 million (USD 0.74 billion) at December 2016.

The net financing income increased to RO 8.52 million (USD 22.13 million) for the year 2017 compared to RO 6.88 million (USD 17.87 million) in 2016, a growth of 23.8%. Other income including Investment income has also increased by 19.8% to RO 2.36 million (USD 6.13 million) in 2017 from RO 1.97 million (USD 5.12 million) in 2016. Cost to income ratio during the year 2017 stood at 58.55% compared to 57.44% in 2016. The effects of economic cycle led to higher provision against financings and during 2017 a total of RO 1.32 million (USD 3.43 million) was charged to Income Statement compared to RO 0.59 million (USD 1.53 million) in 2016.

Maisarah Islamic Banking Services reported a profit before tax of RO 3.19 million (USD 8.29 million) compared to a profit before tax of RO 3.18 million (USD 8.26 million) in 2016, a marginal growth of 0.03%.

Funding and Capital Raising initiatives

During 2017, in line with the planned on-going capital augmentation program, to continually strengthen its capital base, the Bank successfully raised capital in the following forms:

a) a rights issue of its ordinary shares by RO 40 million which forms part of the Bank's Core Equity Tier 1 Capital (CET1);
b) a Tier 2 Sub-ordinated loan of RO 35 million which forms part of Tier 2 Capital

Top Management Changes

As part of Bank's long term strategy, the following senior management changes took place during the year 2017:

- Mr. Abdul Hakeem Omar Al-Ojaili has been confirmed as Chief Executive Officer from his Acting role
- Mr. Ahmed Said Al-Ibrahim has been promoted to General Manager, Chief Corporate Services Officer
- Mr. Kamal Hassan Al-Murazza has been promoted to General Manager. Chief Wholesale Banking Officer
- Mr. Faisal Hamad Al-Wahaibi has been promoted to General Manager, Chief Retail Bank Officer
- Mrs. Amina Nasser Mohammed Al-Falahi has been promoted to Assistant General Manager, Government Banking
- Mr. Shaleen Chugh has been promoted to Deputy General Manager, Corporate Banking
- Mr. Sohail Niazi has been promoted to Deputy General Manager, Chief Executive Islamic Banking Officer, Maisarah Islamic Banking Services
- Mr. Isamil Jama Bait Isihaq has been promoted to Assistant General Manager, Chief Operating Officer – Maisarah Islamic Banking Services

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 2017.

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 2017 as sitting fees was RO 78,000 and the proposed remuneration & sitting fees is RO 122,000, complying with total cap of RO 200,000.

Proposed Dividends

The Board of Directors in their meeting held on 29th January 2018 proposed a cash dividend of 12% (2016: 13.5%) for the year ended 31st December 2017 amounting to RO 27.09 million (2016: RO 25.64 million) and a bonus share issue of 8% (2016: 7.5%) amounting to 180,628,618 shares (2016: 142,440,105 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	2012	2013	2014	2015	2016
Cash Dividends	15%	14%	5%	15%	13.5%
Bonus Shares	10%	11%	15%	10%	7.5%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Corporate Social Responsibility (CSR) initiatives

Bank Dhofar initiated several CSR initiatives during the year 2017, participating actively in the Youth Sports, supporting new and aspiring entrepreneurs, Go-Green Campaign, women empowerment programs, senior support, youth awareness and various cultural and traditional activities

Awards and Accolades during 2017

Our Bank won several awards during the year 2017 with some of them listed here:

1. 'Best Bank in Oman' in 2017, Large Banks Categories Award by Oman Economic Review (OER)
2. Top 20 Oman's Largest Corporates Award at the OER Finance Summit & Top 20 Awards.
3. 'Best Islamic Bank in Oman' at the EMEA Finance's Achievement Awards 2016.
4. 'Best Digital Bank in Oman' 2016 at the World Finance Digital Banking Awards.
5. 'Best Mobile Banking Application in Oman' 2016 at the World Finance Digital Banking Awards
6. 'Best Improved Investor Relations Team' from Middle East Investor Relations Association (MEIRA)
7. 'Best Islamic Community Support Bank' 2017 by Global Financial Market Review
8. 'SME Bank of the Year – Oman' by the "Wealth & Finance International Magazine"- UK
9. Brand of Excellence in SME Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program
10. Brand of Excellence in E-Commerce Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program
11. Top 20 Oman's Largest Corporates Award at the OER Finance Summit & Top 20 Awards.
12. Straight-Through Processing (STP) Award from Wells Fargo Bank

The Year Ahead (2018)

Oman's government has announced state budget for year 2018 projecting deficit of OMR 3 billion, compared to estimated 2017 deficit of RO 3.5 billion. 2018 Budget deficit represents 32% of total revenue and 10% of GDP. The 2018 deficit is expected to be financed from borrowings (84%) and reserves (16%). Average price per barrel of oil assumed in the State Budget is US$50. With upward rising oil prices the government budget continues to maintain tight curbs on spending and focusing on increasing non-oil and gas revenues. GDP is projected to grow by 3%, in line with Ninth Five-Year Plan. Government spending for 2018 is projected at RO 12.5 billion (USD 32.47 billion) and revenues at RO 9.5 billion (USD 24.68 billion) focusing mainly on maintaining fiscal and economic stability. Allocations have been made for several infrastructure projects in Oman and development projects in Duqm.

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 2017.

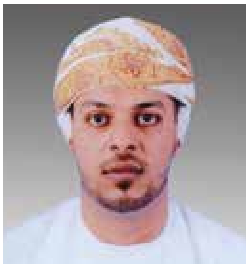
The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector.

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:
Sheikh Qais Mustahail
Ahmed Al Mashani

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

No. of otherdirectorships held: 2

Name of Director:
Mr. 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:
Mr. 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:
Mr. 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:
Mr. 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

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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 Hamed Al Wahaibi
General Manager
& Chief Retail Banking Officer

Shankar Krishnan Sharma
Chief Financial Officer

Nasser Said Al Bahantah
Chief Human Resources Officer

Osama Fathi Al Mansoor
DGM
& Head of Transformation

THE EXECUTIVE TEAM

Sohail Niazi
Chief Executive
Maisarah Islamic Banking Services

Shaleen Chugh
DGM
& Head of Corporate Banking

Hani Habib Macki
AGM
& Head of Strategic Business Development

Tariq Saleh Taha
AGM
& Chief Information Officer

Mohammed Hilal Al Reyami
AGM
& Head of Internal Audit

Mohammed Iqbal Al Balushi
AGM
& Head of Operations
& Support Services

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

Hussain Ali Ibrahim Al Lawati
AGM
& Head of Business Banking

Issam Mohsin Al Balushi
AGM
& Head of Compliance

P.M. Ranganathan
Head of Risk Management

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CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31ST DECEMBER 2017

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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 fashioning the 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 six sub-committees, viz. the Board Credit Committee, Board Audit Committee, Board Risk Management Committee, Board Nomination & Remuneration Committee, Board Capital, Funding & Investment Committee and Board Strategy, Merger, IT & Transformation 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, a wholesome 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.

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
Bank Dhofar SAOG (the "Bank")

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2017, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2017, and 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 Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board 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 Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2017, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2017 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

8 March 2018
Muscat

ارنسـت ويـونـغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112 Sultanate of Oman

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 share capital. All members of the Board of Directors shall be 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 organisations ("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 six permanent 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 Credit Committee
2. Board Audit Committee
3. Board Risk Management Committee
4. Board Nomination & Remuneration Committee
5. Board Capital, Funding & Investment Committee
6. 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 guiding 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 Bank Dhofar. He is also the Chairman of the Board Credit 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 Credit Committee, a member of the Board Capital, Funding & Investment Committee, a member of the Board Nomination & Remuneration 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 Muscat Overseas Group, Manager - Qais Omani Establishment, Chairman of Dhofar Cattle Feed Co. and Director of Ports Services Corporation. Sheikh Hamoud holds a Diploma in Finance.

Sheikh Qais bin Mustahail Al Mashani - Director

Shaikh Qais bin Mustahail Al Mashani is a member of the Board of Directors. Other positions held by him include Director of Dhofar Int. Development & Investment Holding Co (DIDIC). Shaikh Qais holds a Bachelor Degree from University of Yarmouk and Higher Qualification from Oxford Academy.

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 Risk Management Committee, a member of the Board Audit Committee, a member of the Board Capital, Funding & Investment Committee and a member of the Board Strategy, Merger, Information Technology & Transformation Committee. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 25 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 Credit Committee, Chairman of the Board Capital, Funding & Investment 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. He has been a Director of Dhofar University and Director of Raysut Cement Co. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili- Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also a member of the Board Risk Management Committee and a member of the Board Capital, Funding & Investment Committee. He has extensive experience of public companies' directorship. Other positions held by him include Chairman of Financial Services Co, Vice Chairman of Dhofar Int. Development & Investment Holding Co (DIDIC) and Director of Oman Packaging Co. 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 Credit Committee, a member of the Board Nomination & Remuneration Committee and Chairman of the Board Strategy, Merger, IT & Transformation Committee.

He has a successful career with Petroleum Development Oman (PDO) over the a period of 25 years in the fields of 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, Chairman of the Board Nomination & Remuneration Committee, and a member of the Board Strategy, Merger, IT & Transformation Committee. He has over 26 years' experience in financial management, sourcing logistics, supply chain management and vendor development. Presently in 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 20 years in Finance, Internal Audit and Risk Management. Mr. Hamdan Al Farsi holds a bachelor and master degrees in Accountancy.

Part Two

1. Members of the Board of Directors

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

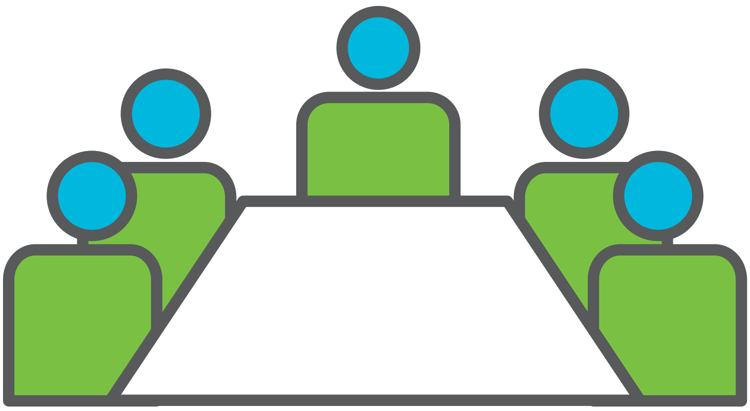
S. No.	Name of Director	Basis of membership			No. of other directorships held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Non-independent	Shareholder Director	-
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non-shareholder Director	2
3	Sheikh Qais Mustahail Ahmed Al Mashani	Member Non-executive	Non-independent	Representative of Shareholder Director	1
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	-
6	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non-independent	Non-shareholder Director	3
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

The Board of Directors held 11 meetings during 2017 as follows:

3 January 2017	25 January 2017	26 March 2017	26 April 2017
15 June 2017	26 July 2017	6 August 2017	5 October 2017
26 October 2017	15 November 2017	25 December 2017	

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	11	10,000	15,416
2	Sheikh. Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	6	7,600	12,418
3	Sheikh. Qais Mustahail Ahmed Al Mashani	Representative of Dhofar International Development & Investment Holding Company (SAOG)	3	2,600	12,418
4	Mr. Ahmed Said Mohammed Al Mahrezi	Representative of Civil Service Pension Fund	9	10,000	13,918
5	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	11	10,000	13,445
6	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	5	7,800	13,096
7	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi	Representative of Malatan Trading and Contracting LLC	7	10,000	13,921
8	Mr. Zakaria bin Mubarak Al Zadjali	Representative of Ministry of Defence Pension Fund	10	10,000	13,450
9	Mr. Hamdan Abdul Al Hafidh Al Farsi	Representative of Social Insurane Pension Fund	9	10,000	13,918
TOTAL				**78,000**	**122,000**



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 5 meetings in 2017.

Name of Director	Designation	No. of meetings attended	Honorarium (Amount in OMR.)	
			Fees Paid	Remuneration Proposed
Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman	5	2,500	8,000
Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	5	2,000	6,000
Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	5	2,000	6,000
Sheikh Dr. Abdullah bin Mubarak Al Abri	Member	4	1,600	6,000
Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	5	2,000	6,000

3. Board Credit Committee

The Board Credit Committee consists of members with proper experience, skills and initiative. The objectives of the Board Credit Committee is 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 Board members of the Board Credit Committee are:

The Members of the Board Credit Committee are:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Eng. Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Board Credit Committee	9
2.	Sheikh. Hamoud Mustahail Ahmed Al Mashani	Member	5
3.	Eng. Abdul Sattar Mohd Abdullah Al Murshidi	Member	9
4.	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	8

The Board Credit Committee held 9 meetings during 2017.

4. Board Audit Committee

The Audit Committee 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 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 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	10
3.	Zakariya Mubarak Al Zadjali	Member	10

The Board Audit Committee held 10 meetings in 2017.

5. Board Risk Management Committee:

The Risk Management Committee of the Board 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 are:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board Risk Management Committee	8
2.	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Member	5
3.	Mr. Mohammed Yousuf Alawi*	Member	4
4.	Mr.Zakariya Mubarak Al Zadjali**	Member	4

* Mr. Mohammed Yousuf Alaw has been a member from 15/6/2017 up to 31/12/2017.
** Mr.Zakariya Mubarak Al Zadjali has been a member from 1/1/2017 up to 14/6/2017.

The Board Risk Management Committee held 8 meetings in 2017.

6. Board Nomination and Remuneration Committee:

The Human Resources Committee of the Board of Directors was formed by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of the Bank.

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

- Ensure manpower plans take into account, the strategic and specific resources requirements at the Bank to achieve strategic plans
- Review the Omanisation plans and ensure certain defined positions are ear-marked for prospective Omanis within a prescribed period of time
- Review exit interviews and note any dismissals or resignations for middle management and top management
- Review the recruitment policy adopted by the Human Resources Department
- Review the qualifications and experience of specific candidates for the positions at the top management levels
- Review and monitor compensation and reward policy and procedures
- Review and monitor training and development policy and process

The members of the Board Human Resources Committee are:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Mr. Zakariya Mubarak Al Zadjali*	Chairman of the Board HR Committee	8
2.	Sheikh Qais Mustahail Ahmed Al Mashani**	Member	2
3.	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi	Member	7
4.	Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili***	Member	5
5.	Sheikh Hamood Mustahail Ahmed Al Mashani****	Member	3

* Mr. Zakariya Mubarak Al Zadjali has been Chairman from 15/6/2017 up to 31/12/2017.
** Sheikh Qais Mustahail Ahmed Al Mashani has been a member from 1/1/2017 up to 14/6/2017.
*** Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili has been Chairman from 1/1/2017 up to 14/6/2017.
**** Sheikh Hamood Mustahail Ahmed Al Mashani has been member from 15/6/2017 up to 31/12/2017.

The Board Human Resources Committee held 8 meetings in 2017.

7. Board Investment Committee (Merged with Capital & Funding Committee)

The Board Investment Committee oversees management practices on investment matters. The Committee, on behalf of the Board, monitors investment activities, as well as compliance with policies and regulatory requirements. The Committee ensures that the management undertakes appropriate measures to recognize adverse trends, to identify problems in investment portfolio. The Committee also approves 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 Board Investment Committee are:

S. No.	Name of Director	Designation	No. of meetings attended
1.	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi*	Chairman of the Board Investment Committee	1
2.	Mr. Zakariya Mubarak Al Zadjali **	Member	-
3.	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	-
4.	Mr. Ahmed Said Mohammed Al Mahrezi	Member	1

* Eng. Abdul Sattar Mohammed Abdullah Al Murshidi has been chairman from 1/1/2017 up to 26/4/2017.
** . Mr. Zakariya Mubarak Al Zadjali has been Chairman from 26/4/2017 up to 5/6/2017.

The Board Investment Committee held 1 meetings in 2017. The Committee has been merged with Capital & Funding Committee on 6/8/2017.

8. Board Capital, Funding & Investment Committee

The Board Capital and Funding Committee oversees management practices on Capital & Funding matters. The Committee, on behalf of the Board, monitors capital and funding requirements of the Bank, as well as compliance with policies and regulatory requirements. The Committee ensures 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 oversees management practices on investment matters. The Committee, on behalf of the Board, monitors investment activities, as well as compliance with policies and regulatory requirements. The Committee ensures that the management undertakes appropriate measures to recognize adverse trends, to identify problems in investment portfolio. The Committee also approves 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 are:

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

* Mr. Mohammed Yousuf Alawi Al Ibrahim is chairman from 26/4/2017 up to 31/12/2017.
** Mr. Ahmed bin Said Al Mahrazi is a member from 6/8/2017 up to 31/12/2017.
*** Sheikh Hamood bin Mustahil Al Mashani is a member from 6/8/2017 up to 31/12/2017.
**** Mr. Zakariya Mubarak Al Zadjali is a member from 1/1/2017 up to 14/6/2017.

The Board Capital, Funding & Investment held 4 meetings in 2017.

9. Board Strategy, Merger & Information and Transformation Committee

The Board Strategy, Merger & Information and Transformation Committee oversees 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 Managements Information Technology Committee (ITC) and update the BOD, as appropriate

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

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	5
2.	Mr. Ahmed Said Al Mahrezi**	Member	3
3.	Mr. Zakariya Mubarak Al Zadjali****	Member	4
4.	Mr. Tariq Abdul Hafidh Salim Al Aujaili	Member	1

* Eng. Abdul Sattar Mohammed Abdullah Al Murshidi is Chairman from 26/4/2017 up to 31/12/2017.
** . Mr. Ahmed Said Al Mahrezi is a member from 15/6/2017 up to 31/12/2017.
*** Mr. Zakariya Mubarak Al Zadjali is a member from 1/1/2017 to 6/4/2017 and from 6/8/2017 up to 31/12/2017.
**** Mr. Tariq Abdul Hafidh Salim Al Aujaili is a member from 1/1/2017 up to 5/8/2017.

The Board Strategy, Merger & Information and Transformation Committee held 5 meetings in 2017.

10. 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 2017 are as follows:

	Proposed Remuneration OMR.	Sitting Fees Paid OMR.	Total OMR.
Chairman of the Board	15,416	10,000	25,416
Board Members	106,584	68,000	174,299
Total OMR.	122,000	78,000	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 in 2017:

	Salaries , Performance Bonus & Others (OMR)
Top five Executives	1,533,942.75

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.

Profiles of the
Top 5 Executives

Abdul Hakeem Al Ojaili
Chief Executive Officer

Abdul Hakeem Omar Al Ojaili is a veteran banker with over 26 years of progressive banking experience. He assumed the leadership of BankDhofar in 2013 with a proven track record of vast experience in Corporate & Retail Banking, Operations Management, Technology and Corporate Support Services - all gained while navigating through the organisation from its embryonic inception to aiding development of BankDhofar to become one of the leading banks in Oman.

Prior to his current role, Abdul Hakeem was the General Manager of Corporate Services where he led the restructuring and transformation of the bank's entire support functions including Operations, Technology, Support Services and Human Resources. Before that he headed the Retail Banking and Marketing Division, during which the bank had achieved strong growth, performance and network expansion.

Abdul Hakeem started his career in wholesale banking for a number of years where he managed a diverse corporate portfolio in businesses and industries. Gaining exposure in the international banking environment, he was also cross posted on a number of assignments with JP Morgan and Lloyds TSB.

Abdul Hakeem holds a BA and MBA from Exeter University in the UK and is also an alumnus of both Harvard and London Business Schools Executive Education Programs.

Kamal Hassan Al Marazza
General Manager & Chief
Wholesale Banking Officer

Kamal Hassan Al Murazza is the Chief Wholesale Banking Officer at BankDhofar. The Whole Sale Banking Group consists of Large Corporates, Project Finance & Syndications, Mid Sector Corporates, Business Banking, Payments and Cash Management, MIS/Projects and the Advisory & Investment Banking Division.

Kamal has more than 17 years of experience in Corporate Banking, Relationship Management, Sales & Marketing, Risk Management and Business Strategies.

Kamal is an astute Corporate Banker who has served BankDhofar in various positions, after which he joined HSBC Oman as Unit Head, followed by the position of AGM Corporate Banking at Bank Sohar before returning to BankDhofar in 2010.

He is a member of the Bank's Asset & Liability Committee, the Technology Committee and sits as Deputy Chairman of the Management Credit Committee, Deputy Chairman of Management Risk Committee, Deputy Chairman of the Management Committee and is the Chairman of the Human Resources Committee.

Kamal holds a Bachelor's degree from Saint Louis University, USA and attended several specialized banking programs in Oman and internationally.

Ahmed Said Al Ibrahim
General Manager & Chief
Corporate Services Officer

Ahmed Said Al Ibrahim serves BankDhofar in the capacity of Chief Corporate Services Officer and has been with the bank since 1996 in a variety of rolls across the business.

Ahmed has more than 24 years of experience which includes Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking with various organisations.

Ahmed sits on the Bank's Asset & Liability Committee, Executive Management Committee, Investment Management Committee and is the Chairman of the Purchase Committee. He holds an MBA from University of Hull UK, and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He has also attended the Executive Leadership Programme at the London Business School and several other programs in Management, Business and Banking.

Faisal Hamed Al Wahaibi
General Manager & Chief
Retail Banking Officer

Faisal Hamad Al-Wahaibi is the Chief Retail Banking Officer BankDhofar. The Retail Banking Division comprises of Retail Credit, Electronic Banking, Retail Products, Segments and Services, Branch Network, Branch Support, Institutional Sales, Customer Relationship Management and Projects Management Departments.

Faisal joined the Bank in 2009 as Assistant General Manager of Retail Banking and is a member of the Bank's Asset & Liability Committee, Executive Committee, Management Credit Committee, Management Risk Committee, Purchase Committee, Disciplinary Committee, Human Resources Management Committee and is the Chairman of Staff Recognition Panel.

Faisal has more than 22 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, Customer retention strategies, telecommunications, Operations, Retail and Accounts with organisations like Bank Muscat, MENA Business Services in Dubai and Omantel.

He holds a Bachelor's degree in Marketing from the University of Missouri, USA.

Nasser Said Al Bahantah
Chief Human Resources
Officer

Nasser is a seasoned entrepreneurial business and HR professional with over 24 years of experience in the field during which he led major restructuring and transformations of HR functions in the Financial Services (Conventional & Islamic Banking), Telecommunications and Oil & Gas industries across the GCC.

Nasser brings 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 is responsible for the strategic leadership of the Human Resources functions of the Bank. he has a wealth of experience particularly in the financial services sector where he served as DGM & Chief Human Resources Officer (CHRO) of National Bank of Oman and AGM & Chief Human Resources Officer of Bank Al Jazzira, based in Jeddah,KSA.

Nasser has 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.

11. 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 RO 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 RO 12,000 in their 2016 Examination Report (issued in October 2016).
- No penalties were imposed in 2017

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.

12. 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.

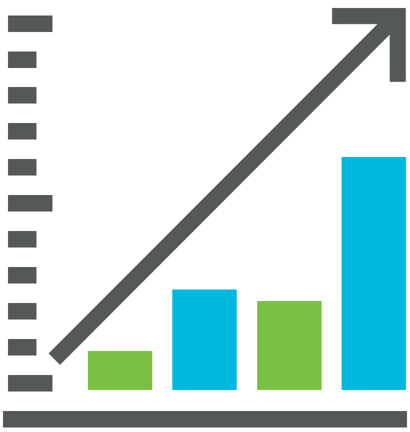
The Bank publishes its unaudited quarterly and audited annual financial statements and also hosts these and other relevant information on its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly and annual results are also published in two local newspapers 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.

13. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2017 compared with Muscat Securities Market Financial Sector Index is as follows:

	Bank Dhofar Share Price (OMR)			MSM financial sector Index
2017 Month	High	Low	Closing	Closing
January	0.260	0.257	0.260	7,947.80
February	0.255	0.253	0.254	8,164.63
March	0.222	0.220	0.221	7,834.31
April	0.230	0.230	0.230	8,055.71
May	0.240	0.236	0.237	8,061.56
June	0.224	0.220	0.221	7,677.10
July	0.220	0.220	0.220	7,529.59
August	0.212	0.212	0.212	7,453.19
September	0.212	0.212	0.212	7,509.40
October	0.197	0.197	0.197	7,145.02
November	0.202	0.200	0.201	7,451.72
December	0.228	0.208	0.222	7,474.16



b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2017:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	28.00%
2	Eng. Abdul Hafidh Salim Rajab Al Aujaili & his companies	21.28%
3	Civil Service Pension Fund	10.34%
4	Ministry of Defense Pension Fund	8.90%
5	Public Authority of Social Insurance	8.63%
6	H.E. Yousuf bin Alawi bin Abdullah & his Companies	6.85%
7	Qais Omani Establishment LLC	6.27%
8	Others	9.73%
	Total	100%

14. Profile of the Statutory Auditors

Ernst & Young (EY) is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 6,700 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY Middle East North Africa (MENA) forms part of EY's Europe, Middle East, India and Africa (EMEIA) practice, with over 4,500 partners and approximately 106,079 professionals. Globally, EY operates in more than 150 countries and employs 256,500 professionals in 728 offices. Please visit www.ey.com for more information about EY.

15. Other Matters

- The Statutory Auditors of the Bank are Ernst & Young. The Professional fees paid or payable to auditors for the financial year 2017 is OMR 67,323. This amount represents OMR 57,000 paid for audit services and OMR 10,323 paid for non-audit services. The total fees of OMR 67,323 includes an amount of OMR 9,000 paid, or payable, as Audit fees and Sharia fees relating to the Bank's Islamic Banking Window.
- The last Annual General Meeting was held on 27 March 2017. The meeting was conducted as per statutory requirements and attended by Eng. Abdul Hafidh Salim Rajab Al Aujaill, Sheikh Hamoud Mustahail Ahmed Al Mashani , Sheikh. Qais Mustahail Ahmed Al Mashani , Mr. Ahmed Said Mohammed Al Mahrezi, Mr. Mohammed Yousuf Alawi Al Ibrahim , Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili and Mr. Zakariya Mubarak Al Zadjali

16. Subordinated Loan

In May 2017, the Bank availed OMR 35 million unsecured subordinated loan for a tenor of 66 months. This facilities carries a fixed rate of interest payable semi-annually and principle to be repaid on maturity.

In September 2014, the Bank availed USD 75 million (OMR 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable semi-annually and principal to be repaid on maturity.

In December 2012, the Bank availed OMR 25 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable semi-annually and principle to be repaid on maturity.

17. Irish Stock Exchange

Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000(OMR 115,500,000).

The Tier 1 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 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 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.

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 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 Securities unless and until it has paid one interest payment in full on the Tier 1 Securities. The Tier 1 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.

18. 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 Aujaili
Chairman

0.3

MANAGEMENT DISCUSSION & ANALYSIS REPORT FOR THE YEAR ENDED 31ST DECEMBER 2017

Economic Scenario and Outlook

According to preliminary data, Oman's Gross Domestic Product (GDP) witnessed a good growth of 12.8% during the first half of 2017 compared to the same period of last year. The GDP for non-oil activities grew by 3.8%, while the GDP for oil activities was higher by 34.9% during the first half of 2017 as compared to first half of 2016. Aggregate Sultanate's GDP achieved during first half of 2017 was OMR 6.4 billion as compared to OMR 5.7 billion achieved in first half of 2016. Based on IMF World Economic Outlook report published on April 2017, it projected Oman's GDP to grow by 3.8% during year 2018.

The growth outlook for 2018 is cautiously optimistic. The government has estimated 2018 revenue at OMR 9.5 bn, based on oil price assumption of US$50 per barrel. Oil and gas sector is estimated to contribute revenues of OMR 6.8bn, accounting for 70 per cent while non-oil revenues is projected to contribute revenues of OMR 2.7bn. The total expenditure is likely to increase to OMR 12.5bn in 2018 estimating an overall fiscal deficit of OMR 3 bn.

Focusing on controlling spending and increasing the nation's non-oil revenue bases continues to be the main objective for the government through spending on number of strategic development projects which would benefit the economy in diversifying its revenue base. The government would continue spending on development projects that are of economic and social importance in order to enhance the investment climate in the country and maintaining overall welfare. The focus is to ensure timely completion of all ongoing projects, which in turn will boost the economic growth and result in creation of job opportunities. Government is extending maximum support to the National program for enhancing economic diversification 'Tanfeedh' and the Small and Medium Enterprises (SMEs) sector. The privatization process of selected government assets is likely to be in the agenda and government is also looking forward to make greater use of public- private- partnerships (PPP) to implement more projects.

Whole Sale 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.

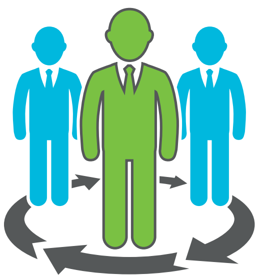
TOGETHER 2020 Best in Gulf

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

(i) Corporate Banking
(ii) Business Banking & Payment and Cash Management Services
(iii) Corporate Advisory & Investment Banking
(iv) Treasury & Financial Institutions
(v) Government Banking
(vi) 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 2018 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 our 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 & International 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.

Retail Banking Division

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

Branch Network

During the year 2017 BankDhofar rolled out the renovation plan for its distribution network which will continue for the coming years. The renovation process falls within our "Together 2020" journey, ensuring that the design is standardized across branches network with the aim of providing best banking experience to our customers. BankDhofar has a total of 69 branches including 59 conventional banking branches and 10 Maisarah Islamic Banking Services branches across the country

Retail Products, Business and Segments

During 2017, 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 order to drive growth in the overall assets portfolio, several best-in-class personal loan and housing loan product offers and campaigns were launched in 2017. 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 weekly prizes with 15 winners every week taking home OMR 1,000 each. Winners were selected region wise every week. In addition to weekly prizes, monthly prizes provided chances for two lucky winners to win OMR 10,000 each for general customers. Al Riadah customers had the chance to win OMR 25,000 in monthly draws for one winner and OMR 50,000 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.

E-banking

As part of Bank's strategy, BankDhofar is moving towards a digitalization plan to ensure providing best in-class services and customer experience a cross all channels.

Mobile banking statement view

BankDhofar was one of the first Banks in the country to launch this service which provide customers an easy and faster way to view their statement by using Mobile Banking application with the period of time required for the statement.

Loyalty program using mobile banking

BankDhofar was one of the first Banks in the country to add point viewing feature of loyalty program to its mobile banking application. The comprehensive loyalty program offers BankDhofar credit card users a wide array of exclusive privileges, including various added-value options for shopping, dining, holidays and travelling.

Wage Protection Service

The new Wage Protection System (WPS) is introduced in collaboration with Ministry of Manpower and the Central Bank. The new system will be able to track employees' salaries and their transfer to their accounts at local banks in accordance with stipulated laws and conditions in Labor Law. The new WPS focuses on creating an accurate database concerning working wages.

Corporate SMS

BankDhofar introduced a new service to its corporate customers, where they receive Short Message Service (SMS) as a notification to monitor their account activities. New Self-Series new Machines ATM & CDM,

BankDhofar has upgraded its old Automated Teller Machines (ATMs) & Cash Deposit Machine (CDM) with the latest Self-service Series machine which has a lot of new features. BankDhofar is the first bank in Oman to use the new series of CDMs which has the most advanced features in the market today.

- Add 3 new offsite ATMs
- Replaced/upgraded 33 ATMs with newer machines.
- Replaced/upgraded 7 CDMs with newer machines

Maisarah Internet Banking

Maisarah Internet Banking was launch to provide services such as balance enquiry, details of transactions of the account, statement of account, fund transfer between linked accounts or to third parties within Bank, request for cheque books, request for ATM cards, payment of utility bills and other facilities for retail and corporate customers.

Maisarah Mobile Banking (Pilot Stage)

Maisarah Mobile Banking channel delivers services that allow Maisarah retail customers to obtain information and make transactions directly without the need of face-to-face interaction with Maisarah employees. The services provided through mobile banking application include; viewing account information, performing transfers and making utility payments, fund transfers. Additionally, the application provides non-financial services such as exchange rate, deposit rates, prayer timing and qiblah direction.

Awards

In 2017 BankDhofar has announced of winning

- Best Digital Bank in Oman 2016 at the World Finance Digital Banking Awards.
- Excellence in E-Commerce Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program.

Segments

BankDhofar launched new Retail segments (Prestige & Privilege). The bank have completed designing phase of segmentation program which includes restructuring of the Bank's segmentation based on demography and value.

Building a culture of service excellence requires consistent and continuous effort to create value that contributes to the value perceived by customers. In 2017, the service excellence framework was established to support the "Together 2020" journey. Throughout the year, the team in Service Excellence successfully achieved the following:

- Development of Voice of Customer Framework (VOC)
- Development of Service Level Agreement Framework (SLA)
- Implementation of Branch Service Excellence Score
- Implement Service Standards on Retail Housing Loan and Personal Loan processes
- Launch the 2020 Champions Program

The journey of excellence continues as BankDhofar progresses in the transformation journey and it evolves around the mission of becoming the best bank in the Gulf in delivering the best customer experience.

Corporate Service Division

The corporate Service Division is one of the most vital divisions within BankDhofar's organizational structure. This division looks at various important departments such as:

Marketing and Corporate Communication (M&CC)

Marketing and Corporate communication unit 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 launched "Mithal & Qudwa" Campaign.

The department 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 "10 top reasons to bank with BankDhofar" campaign. The campaign highlighted main reasons laying behind being BankDhofar one of the best and preferred banks in Oman.

Additionally, M&CC department oversaw the branding of

- BankDhofar Branding at Muscat International Airport and Salalah Airport.
- First Al Riadah Prestige branch at Royal Opera House.
- BankDhofar vehicles.
- Renovation of branches network to ensure standardized design across all branches.
- Newly opened BankDhofar Performance Academy.

M&CC department also looks into the corporate social responsibility events and initiatives. Within this framework, "Go Green" with BankDhofar campaign was launched. The initiative aims at contributing in preserving the environment through a number of initiatives including recycling, clean-ups, among other environmental initiatives. BankDhofar believes that sustaining the environment guarantees a brighter future for the coming generations.

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 2017, the Bank provided support to a number of charitable organizations including; Oman Cancer Association, Oman Charitable Organization, Elderly Friends Association. The Bank also provided support to a number of social activities and initiatives; like Diabetics Awareness Program, beach Cleaning Campaign, Sohar Hospital with needed Equipment, Advanced Sewing Training Program, and supporting Youth Sport with Oman Automobile Association

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

- Free credit card.
- Savings Prize Draw
- Business Credit Card.
- Maisarah Prize Scheme.
- "Did you know" campaign for products and services awareness.
- Discount tie-ups.
- Rewards Program.
- Social media.
- Mobile Wallet.

Information Technology (IT)

"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 2017, BankDhofar further strengthened its technology leadership by taking up number of initiatives in line with the Bank's "Together 2020" journey and the digital transformation strategy.

In 2017, BankDhofar became the first and only bank in Oman to achieve the Payment Card Industry Data Security Standard Certification (PCI-DSS v3.2) for 2017-2018, demonstrating the highest level of security and controls related to card transactions. The ATM and CDM infrastructure have been upgraded with latest features for enhanced user experience and security for our customers. The bank also implemented additional security features in ATMs to prevent malware and other attacks. BankDhofar is also the first bank in Oman to have rolled out the new generation of ATMS and CDMs that enables the bank to deliver unparalleled self service capabilities to our customers.

The bank continued its digital transformation with the launch of mobile and internet banking services for Maisarah Islamic banking. The existing digital channels were further enhanced with the introduction of new services and additional features. The bank also launched mobile wallet for its customers as part of the Central Bank of Oman (CBO) initiative to promote mobile and digital payments in the country. The payment systems have also been upgraded with new direct debit facility and introduction of enhanced corporate salary payment system.

A number of new process automations have been rolled out through the Bank's business process automation platform (BPM), enhancing operational efficiencies and controls. The bank also undertook a number of technology initiatives to ensure compliance with latest regulations in areas such as Anti money laundering, Know Your Customer (KYC) and United States of America's legislation of Foreign Account Tax Compliance Act (FATCA).

Network infrastructure was upgraded to enhance connectivity, availability, performance and security.
As part of the bank's digital strategy and the commitment to future proofing by investing in latest technology, robotics process automation platform was implemented in 2017. A number of internal repetitive operational processes are being automated on this platform.

In line with the Bank's digital strategy and to crowd source technology ideas, "BD TechMind" contest was launched during the year targeting the millennial in Oman. The contest received a huge response with number of innovative ideas. The Ideas and the prototypes were independently evaluated by a panel of judges from Information Technology Authority, independent advisors and the Bank. The top three ideas were awarded cash prizes at an event attended by dignitaries from industry, banks and government."

Central Operation Division (COD)

Central Operations Division (COD) plays a major role in handling back-end functions and thus enabling the branches, business units to focus on customer service and business development. The volume of transactions processed at COD continued to grow in line with the Bank's overall growth. Continuous attempts are made to redesign processes by implementing lean processing modules, effective utilisation of technological solutions and thus increase the staff productivity.

Key Projects Implemented by COD in 2017:

1. Automation of Real-time Gross Settlement (RTGS)/ Automated Clearing House (ACH) Remittances through BPM.
2. Outward Remittance Management Authentication Process through BPM.
3. CBO mandated Project - ACH, Wage Protection System.

Summary of Initiatives Completed in 2017	Number
Processes Automated	4
Processes Re-engineered	9

Achievements during the year:

Society for Worldwide Interbank Financial Telecommunication (SWIFT) Communication Department, under COD received 'Straight-Through Processing Award' from one of our overseas correspondent banks, in recognition of achieving high rate in Straight-Through processing of our customer's commercial payments that facilitate expeditious processing of payments to beneficiaries around the world.

Card Services Centre

Card Services Centre, manage the issuance and operation of debit and credit cards, in addition to Point of Sale (POS) and ATM acquiring for BankDhofar and Maisarah customers. The Centre also manages Loyalty Program for BankDhofar credit cards. With Loyalty Program, credit card activation and spend has increased significantly.

Demonstrating its keenness in building on the existing relationships and strengthening ties with stakeholders, Cards Services Centre hosted in 2017 its second Annual Merchants gathering. The Centre also launched the first of its kind Corporate Credit Card and the exclusive credit cards that are customized for small and medium-sized enterprises (SMEs).

Business Continuity Management (BCM)

The Bank has in place a robust Business Continuity Planning (BCP) aiming at continued operations and customers services at all times. The 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, BankDhofar has taken a number of measures to strengthen the BCM implementation in the Bank. The key initiatives of the unit include:

- Business Impact Analysis (BIA) exercise is conducted on half yearly basis as per the CBO guideline. 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 an exclusive BCP Steering Committee, entrusted with the responsibility of overseeing BCM implementation and maintaining a sound BCP for the Bank. The Committee is now reporting to Board Risk Management Committee (BMRC). The Committee is meeting on quarterly basis to review that BCP formulated across the Bank are implemented and tested.
- Bank has set up an alternate BCP site to ensure business continuity for resuming critical business activities in emergent scenarios, besides serving as a secondary Data Back Up Centre as part of Bank Disaster Recovery (DR) Plan. As part of BCP testing initiative, various testing activities are undertaken to ensure the systems and other capabilities are working expected levels.
- 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.
- Various BCP testing are adopted to ensure that the Business Continuity Plan is logical and practically feasible. As part of this testing plan, Bank undertakes two major types of testing 1. BCP Simulation testing under partial disruption scenario (what if the primary data center is not accessible from current work location) 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 June & Sept 2017 for critical business units by relocating key staff 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. Additionally, the Table-top 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 / primary Data Centre Unavailable scenario. This year testing was conducted in Nov 2017. Business units are involved to get trained on processing critical services to extend such critical services during disaster times.
- Staff are provided periodical training on BCM aspects. Different programs are tailored for various target groups such as Board members, Senior Management, Heads of Department, Business continuity leaders, Branch Managers and general Business Continuity training is included within the induction program so that all staff are made aware of Business Continuity from the start of their career. Importantly, during the period under review, an exclusive high level BCM Awareness program was conducted for the Board of Directors & Senior Management at BCP Site. Chairman and other Board member and top management including CEO participated in the training. Also special training we designed and conducted for BCM leaders and Branch manager of all the regions. As part of promoting BCM Awareness, innovations are introduced.

- Additionally, there are few initiatives in pipeline such as, implementation of BCM software, undertaking Gaps analysis in the existing BCM implementation towards obtaining Quality BCM Certification -ISO 22301.
- 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 AGM and Head of Ops & Support Services	24788578; 99315453
Head of Risk Management	24 790 466 Ext: 744, 99414809
Head of BCM Department	24 70 3645; 99326879
Senior Manager - BCM	24 790 466 Ext. 754; 95763521

Credit Control Department

Credit Control Department's (CCD) primary objective includes strengthening of the credit risk management processes through independent review of loan portfolio so as to bring qualitative improvement in loan administration and controls on an ongoing basis. The Department is entrusted with the responsibility of implementation of Loan Review Mechanism (LRM) approved by the Bank's Board. LRM is a comprehensive and independent credit review process, distinct from Risk Management and Internal Audit functions. The scope of LRM covers independent evaluation of credit risk assessment and approval processes, review of adherence to loan policies/ procedures, sufficiency of loan documentation, overall quality of post-disbursement follow up / loan administration, identification of early warning signals, independent review of risk grading, loan loss provisioning etc. in respect of large and critical borrower accounts handled by various business units in the Bank's Wholesale Banking Division (Conventional and Maisarah Islamic Banking (Islamic Banking Window). Loan reviews are conducted within 3 months from the grant/release of credit facilities. Such review mechanism facilitates taking timely corrective measures for any deficiencies observed in specific reviews and also to improve upon any weaknesses / irregularities observed in various credit management processes. All major findings which remain pending for a long time, are reviewed before management committee including reporting to the Risk Management Committee of the Board. In terms of regulatory guidelines, at least 30-40% of the corporate loan portfolio has to be subjected to LRM in a year. During the year 2017, CCD has conducted loan reviews of the Corporate Loan portfolio much in excess of the regulatory requirement.

In 2017, CCD has also periodically conducted various portfolio reviews to ensure adherence with various sectorial ceilings defined in Credit Risk Policy. As per Risk Classification, Provisioning and Write off Policy of the Bank, proposals / exercise of Business divisions involving downgrade / classification and upgrade / declassification of Corporate and Retail accounts, are also independently reviewed by CCD. The impairment provisioning exercise of Recovery Department for ascertaining adequacy of loan loss provisions, is also periodically reviewed by CCD. The Department is also involved in continuous review, development and modification of various MIS on loans and advances with the objective of improving the quality of monitoring and controls.

In line with the given objectives, CCD will continue to play an important role in reviewing and strengthening various credit control measures in credit management processes.

Recovery Department

In keeping with the department mission statement of recovering maximum Non-Performing Assets (NPAs) in order to maximize the augmentation of Bank's working funds, the department ensures the proactive monitoring of all NPAs to maximize the recoveries by adopting the following methods;

- Negotiating with Customers for settlement of classified loans on mutually acceptable terms
- Rescheduling of NPAs
- Effective monitoring of all legal cases with our external law firms by having regular meetings with them to review the progress made on each cases.
- Coordinating with Royal Oman Police (ROP) / Regulatory Bodies in order to expedite the process

- Gathering / Maintaining market information to identify assets / investments of our defaulters.
- Passing Provision Entries as per CBO norms.
- Maintaining effective MIS system.

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: -

- 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; PPD serves as member to Management Risk Committee, and continues to contribute significantly in successful implementation of various projects assigned time to time.

Compliance Division

Compliance activities in the Bank are directed by Basel Committee and Central Bank of Oman (CBO) guidelines. The Board of Directors has established an effective compliance function in the Bank and enforce its activities through a set of Board approved policies and procedures. The Senior Management ensures effective management of compliance risk, at the same time, Compliance Division is entrusted to independently look after effective management of compliance risk in the Bank. 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 geopolitical dynamics in the region and BankDhofar's "Together 2020" vision, the Bank has undertaken fundamental restructuring of its Compliance function, aiming to be the best among its peers. In the last 2 years, compliance operational landscape has shifted to maintain 'zero' level compliance risk in the Bank. In order to strive towards robust compliance function in the Bank, in 2017 the Bank revisited its compliance policies and procedures to ensure complying with regulatory guidelines and relevant international standards and practices in letter and spirit. Moreover, 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 area. Many staff could achieve coveted certification in Advanced Certificate in Managing Sanctions Risk examination by International Compliance Association (ICA).

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) and sanctions. Customers of the Bank are risk rated, periodically reviewed and screened from the sanctions database. 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 of U.S Treasury for Foreign Account Tax Compliance Act (FATCA) Regulations.

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.

Risk Management Division

1. Risk Management Structure

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

The overall risk management has been delegated to an independent 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 and Capital Plan and risk appetite, 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 demand, 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:

i) 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 in conventional banking and through judgmental approach in Islamic Banking.
- The Bank has credit risk rating system and a risk

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

- Various credit risk models are used to assess the obligor risk as well as the facility risk in conventional banking. Thus, while assessing the credit risk of the borrower, both probability of default and loss given default is estimated. In case of Maisarah, obligor rating is undertaken.
- 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.

ii) 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.

iii) 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 of the conventional banking address 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 banking.

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 categorized under Available for Sale (AFS) or Held Till Maturity (HTM) 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 RMC.

iv) 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 2017, 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. RMD in association with functional units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking and for Maisarah as a whole. 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 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 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.

v) 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)

In pursuit of the Best Bank in the Gulf "BIG" Corporate vision, aligning Human Resources (HR) strategy and objectives continued to be a top priority for the team, BankDhofar has started implementing Human Resources "Together 2020" Journey with a clear plan in terms of Objectives, Strategies, Programs and Projects.

The Bank believes that people are the true source of competitive advantage. The commitment, engagement and motivation of talented staff will continue to be the key driver of sustained business performance. This has been recognized locally, regionally and internationally by winning a number of prestigious awards.

HR division is currently driving for developing Performance Culture which is one of the Key Pillars of the "Together 2020" Journey, through the various HR Transformation initiatives.

Talent Acquisition & Retention

In 2017, we have focused on recruiting and retaining the critical talents by providing career development opportunities, competitive rewards & recognition programs, and implementing learning & development programs that will enable them achieve their maximum potential. The Bank achieved Omanization level of over 92%. Further, the Bank has successfully retained critical talent and also recruited 87 staff during this year.

Focusing on Talent Management

With the aim of identifying, assessing and developing the talents in the Bank, Human Resource Division implemented MAWAHIB Program, which is talent development initiative.

In 2017, 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.

Learning & Development

In line with "Together 2020" Journey, the Human Resources Division has developed and implemented various strategic projects aimed at improving staff performance, productivity, and developing the talents. A key project that was implemented towards the end of 2017 was the establishment of BankDhofar Performance Academy. This world-class Performance Academy will transform learning & development capabilities and enable the Bank to create a high performance culture.

The Bank continued to innovate staff learning and development programs by delivering the required learning & development programs across all business functions. As part of its blended learning experience, the Bank has developed and introduced the concept of learning simulations through the Mock Branch, providing real and practical banking experience for the employees.

Capability Building

In order to build Omani Skills and Competencies, the Bank also implemented specialized banking programs, including, Master-class Program for Corporate Banking, Internal Audit and Train-the-Trainer Program, through internationally recognized training providers leading to modular certification.

To align with the Bank's strategy and "Together 2020" journey, during the year 2017, Learning and Development team organized the Lean Transformation programs across the Bank and built professional lean practitioners who will be Lean Champions for their respective businesses and operating units to achieve the Lean Operating Model.

In addition, the division has conducted and implemented more than 300 learning and development programs, involving more than 4000 participants representing staff across the organization.

Creating a Coaching & Learning Culture

In line with the Cultural Transformation Program that is being implemented by the Bank, the division developed and implemented Executive Coaching Program for the

Executive Leadership. Additionally, Mentoring Program was implemented for all key and critical positions and talents to prepare them to deliver outstanding results and performance across the organization.

Automation of HR Business Process

During 2017, Human Resource Division developed and automated 20 Key HR Processes, to enhance employee experience by enabling Employee-Self-Service through the new Tamayuz HR System. The objectives of this Project is to completely automate all staff credit facilities and benefits and provide a world-class services to the staff.

Financial Performance

Amidst the challenging Economic and financial environment, the bank continued to grow in all key areas in the year 2017. The Net Loans, Advances and Financing to customers reached OMR 3.25 billion (USD 8.44 billion) at December 2017, showing a significant growth of 8.7% from OMR 2.99 billion (USD 7.77 billion) at December 2016. To supplement the loan growth, customer deposits mobilized by the bank achieved a growth of 6.2% from OMR 2.89 billion (USD 7.51 billion) at the end of 2016 to reach OMR 3.07 billion (USD 7.97 billion) at the end of 2017. Total assets reached OMR 4.25 billion (USD 11.04 billion) at December 2017 compared to OMR 3.95 billion (USD 10.26 billion) at December 2016, which is a growth of 7.6%.

Non-Performing Loans (NPL) on the Bank balance sheet is OMR 105.50M at December 2017, compared to OMR 83.34M at December 2016. Non-performing loans to gross loans at the Bank level increased from 2.68% at the end of December 2016 to 3.11% at the end of December 2017, year-on-year. Non-performing loans, net of interest suspense, to gross loans increased from 1.41% at 31st December 2016 to 1.72% at 31st December 2017 year on year.

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

Description (OMR M)	31-Dec-17	31-Dec-16	Growth %
Gross Loans/Financing	3,386.83	3,107.47	8.99%
Retail Loans/ Financing	1,482.88	1,393.70	6.40%
WSB Loans/Financing	1,903.95	1,713.77	11.10%

Analysis of our Loan portfolio by product is presented below

Loans, advances and financing to customers (OMR 000)	31-Dec-17	31-Dec-16	Growth %
Overdrafts	173,297	146,303	18.45%
Loans	2,628,663	2,431,536	8.11%
Loans against trust receipts	116,350	113,992	2.07%
Bills discounted	13,348	20,817	(35.88%)
Advance against credit cards	8,516	7,746	9.94%
Others	58,734	75,522	(22.23%)
Islamic Banking Window financing	387,917	311,558	24.51%
Gross loans, advances and financing	3,386,825	3,107,474	8.99%
Less: Impairment allowance	(137,952)	(118,882)	16.04%
Net loans, advances and financing	3,248,873	2,988,592	8.71%

The customer deposits mobilized by the bank achieved a growth of 6.35% from OMR 2.89 billion (USD 7.51 billion) at the end of 2016 to reach OMR 3.07 billion (USD 7.97 billion) at the end of 2017. The analysis of our Key deposits by product is given below:

Deposits from customers (OMR 000)	31-Dec-17	31-Dec-16	Growth %
Current accounts	704,197	625,947	12.50%
Savings accounts	442,972	431,312	2.70%
Time deposits	1,493,204	1,487,674	0.37%
Margin accounts	51,253	54,582	-6.10%
Islamic Banking Window deposits	376,783	285,674	31.89%
Grand total	3,068,409	2,885,189	6.35%

The key profitability indicators showed increase of interest and financing income increased from OMR 154.31 million (USD 400.80 million) to OMR 180.34 million (USD 468.41 million) an increase of 16.87%, interest and financing expense increased by 53.96% from OMR 56.65 million (USD 147.14 million) to OMR 87.21 million (USD 226.52 million) higher interest and cost of funds influenced by overall upward trending interest rate environment. This reflected in a decline of 4.6% with net interest and financing income activities earned during the year 2017 was OMR 93.13 million (USD 241.89 million) as compared to OMR 97.66 million (USD 253.66 million) during 2016. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have grown 13.8% to reach OMR 33.8 million (USD 87.8 million) compared to OMR 29.69 million (USD 77.12 million) for the same period in 2016. This growth in this market condition reinforces the trust and confidence of customers towards BankDhofar products and services.

The Cost to Income ratio during the year 2017 was at 46.48% as compared to 44.57% in 2016. The provision for loan impairment, net of recovery, during the year 2017 decreased to OMR 11.5 million (USD 29.87 million) as against OMR 14.56 million (USD 37.82 million) for the year 2016. The impairment of investments during the year decreased to OMR 0.36 million (USD 0.94 million) from OMR 1.59 million (USD 4.13 million) in 2016.
The net profit for the year 2017 achieved by the Bank is OMR 47.63 million (USD 123.71 million) compared to OMR 47.62 million (USD 123.69 million) in 2016, showing a marginal year on year growth of 0.02 %.

Funding and Capital Raising initiatives

During 2017, in line with the planned on-going capital augmentation program, to continually strengthen its capital base, the Bank successfully raised capital in the following forms:

a) a rights issue of its ordinary shares by OMR 40 million which forms part of the Bank's Core Equity Tier 1 Capital (CET1); (2016: OMR 40 million).
b) a Tier 2 Sub-ordinated loan of OMR 35 million which forms part of Tier 2 Capital (2016: Nill).

Proposed Dividends

The Board of Directors in their meeting held on 29th January 2018 proposed a cash dividend of 12% (2016: 13.5%) for the year ended 31st December 2017 amounting to OMR 27.09 million (2016: OMR 25.64 million) and a bonus share issue of 8% (2016: 7.5%) amounting to 180,628,618 shares (2016: 142,440,105 shares) of OMR 0.100 each subject to regulatory and approvals of shareholders.

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

Year	2012	2013	2014	2015	2016
Cash Dividends	15%	14%	5%	15%	13.5%
Bonus Shares	10%	11%	15%	10%	7.5%

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FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

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Financial Highlights of Last Five Years

(OMR'000)	2017	2016	2015	2014	2013
Net interest income (conventional)	84,605	90,786	84,478	73,580	66,341
Net income from Islamic Financing and investment activities	8,521	6,874	5,729	3,208	173
Non interest/ income	33,801	29,691	25,019	22,063	23,044
Operating costs	58,994	56,767	51,199	46,163	45,316
Operating profit (before Impairment losses)	67,933	70,584	64,027	52,688	44,242
Profit from operations after provision	56,031	54,429	52,501	45,754	66,137
Net profit for the year	47,627	47,622	46,765	40,453	58,407

At year-end					
Total Assets	4,246,710	3,952,043	3,593,061	3,194,127	2,605,379
Net Loans, Advances and Financing	3,248,873	2,988,592	2,729,306	2,254,705	1,901,910
Customer Deposits	3,068,409	2,885,189	2,592,371	2,482,179	2,031,746
Total Equity	587,007	534,000	476,529	325,318	303,607
Share Capital	225,786	189,920	154,473	134,324	121,013
Full Service Branches	69	68	67	68	65
ATMs / CDMs / FFMs	179	180	187	197	187
Staff	1,514	1,478	1,371	1,340	1,350

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FINANCIAL RATIOS OF LAST FIVE YEARS

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Financial Ratio of Last Five Years

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013
I. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	8.50%	9.42%	11.66%	12.86%	20.67%
Return on Weighted Average Shareholders Equity	10.70%	12.22%	13.63%	12.86%	20.67%
Return on Weighted Average Paid-up Capital	22.91%	27.66%	32.39%	31.69%	50.56%
Return on Average Assets	1.16%	1.26%	1.38%	1.40%	2.46%
Non-Interest Income to Operating Income	26.63%	23.31%	21.71%	22.32%	25.73%
Operating Expenses to Operating Income	46.48%	44.58%	44.43%	46.70%	50.60%
II. LIQUIDITY					
Net Loans to Total Deposits	94.00%	92.36%	94.07%	84.84%	88.95%
Total Customer Deposits to Total Deposits	88.78%	89.17%	89.35%	93.41%	95.03%
III. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	4.07%	3.83%	3.49%	3.74%	4.07%
Non-Performing Loans to Total Loans	3.12%	2.68%	2.30%	2.55%	2.95%
Non-Performing Loans Net of Interest Reserve to Total Loans	1.72%	1.41%	1.10%	1.24%	1.45%
Loan Loss Provisions to Total Non-Performing Loans	130.76%	142.66%	151.88%	146.59%	137.91%
IV. CAPITAL ADEQUACY					
Common Equity Tier 1 Ratio	10.53%	9.85%	9.43%	10.76%	11.07%
Tier 1 capital ratio	13.29%	12.77%	12.68%	10.76%	11.07%
Total Capital Adequacy Ratio	15.44%	14.41%	14.70%	14.05%	14.09%
Shareholder's Equity/ Total Assets	11.10%	10.59%	10.05%	10.18%	11.65%

Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Muscat North Area			
Khoudh	Dir/ 24276000 - 24276001 - 24276002	24 545 268	761, PC 132 Khoudh
Seeb Town	Dir/ 24425851 - 24425852 - 24424434 - 24423373	24425627	347, PC 121 Al-Seeb
Ghala	Dir/ - 24216001 - 24216002	24216006	468, P.C 115 MSQ
Muscat International Airport	Dir/ 24510537-24510101- 24 510102	24510468	56, Pc Seeb PC 111
Mabellah	Dir/ 24451520-24451540-24451539	24451542	1507, PC 112 Ruwi
Mod Ghala	Dir/ 24316227- 24316038	24 316196	56,PC 111 MOD
Muscat Center Area			
MGM	Dir/ 24216666	24216600	1507 PC 112 Ruwi
Qurum	Dir/ 24568351 - 24567671 - 24567673	24567679	994, PC 116 Mina Al Fahal
New Bausher	Dir/24614768 - 24614786	24614764	895, PC 115 MSQ
Amarat	Dir/ 24877838-24876580 - 24876120	24875829	346 PC 119 Amerat
Bausher Polyclinic	Dir/24502606 - 24596994	24595323	568, PC 115 MSQ
Al Khuwair Ministry	Dir/ 24694710-24694725-24694715	24694730	1591, PC 130 Aziba
Muscat South Area			
MBD	Dir/ 24750516 - 24790466	24798621	1507, PC 112 Ruwi
Muscat	Dir/ 24 737865 - 24736614 - 24736606 -24 737066	24739166	1613, PC 114 Muttrah
Muttrah	Dir/ 24712970 -24714452 -24 714279	24713556	1441, PC 112 Ruwi
Quriyat	Dir/ 24845195-24845193-24845192	24845173	145, PC 120 Quriyat
Ruwi	Dir/24831090- 24835854	24831892	1442, PC 112 Ruwi
Wadi Kabir	Dir/24814127 - 24814126	24814128	1507, PC 112 Ruwi
Batinah South Area			
Barka	Dir/ 26884423 - 26884428	26884451	751, PC 320 Barka
Rustaq	Dir/ 26876039 - 26875117	26875591	25, PC 318 Rustaq
Suwaiq	Dir/ 26862001- 26862010	26862102	585, PC 315 Suwaiq
Muladdah	Dir/ 26868544 - 26868553	26868549	106 PC 341 Muladdah
Khadhra	Dir/26714164 - 26714162	26714163	505, PC 315 Al-Suwaiq

Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Batinah North Area			
Sohar	Dir/26943400 – 26943401-26943402	26943444	21, PC 311 Sohar
Khaboura	Dir/26801028-26801686	26805130	423, PC 326 Khaboura
Saham	Dir/ 26854400 - 26856699	26855277	92, PC 319 Saham
Hafeet	Dir/ 26817646 - 26817991 - 26817992	26817993	596 PC 319 Saham
Falaj Al Qabail	Dir/26750156-26750928-26751378	26750891	209,PC 322 Falaj Al Qabail
Shinas	Dir/ 26748302-26748306-26748308	26748304	434,PC 324 Shinas
Dakhlyah Area			
Nizwa	25410234-25411370	25411234	83, PC 611 Nizwa
Sumail	25350543-25351188	25350094	199, PC 620 Samail
Izki	25340089-25341016	25340204	412, PC 614 Izki
Bahla	25420021-25420292	25420387	661, PC 612 Bahla
Bid Bid	25369044-25369033	25369055	307, PC 613 Bid Bid
Adam	25215001	25215050	222, PC 618, Adam
Buraimi & Dhahira Area			
Buraimi	Dir/25652224 -25652227	25 651 115	278, PC 512 Buraimi
Buraimi Industrial Area	Dir/25669821 – 25669822 – 25669823 - 25669824	25669825	867, PC 512
Yanqul	25672018-25672031	25672041	440,PC500 Yanqul
Ibri	25689341-25689685	25690341	28, PC 511 Ibri
Sharqyah North Area			
Ibra	Dir/ 25571632 -25571631 - 25571632	25570646	514, PC 413 Ibra
Sinaw	Dir/ 25524663 - 25524367	25524823	296, PC 418 Sinaw
Samad A'Shan	Dir/ 25526736 - 25526529	25526574	123, PC 423 Samad
Al Muntrib	Dir/25583853- 25584049	25583510	154, PC 421 Mintrib
Mudhaibi	Dir/25578110 - 25578113	25578114	454,PC 420 Mudhaibi

Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Sharqyah South & Wosta Area			
Sur	Dir/ 25546677- 25541255 - 25540256	25540615	75, PC 411 Sur
J. B. B. Ali	Dir/ 25553414 - 25553440	25553446	10 PC416 Jalan
J. B. B. Hassan	Dir/ 25551020 - 25551025	25551181	222, PC 415 JBBH
kamil Al Wafi	Dir/ 25557134 - 25557501	25557962	294, PC 412 Al-Kamil
Al Duqum	Dir/25215801 -25215800	25215888	
Dhofar East Area			
Salalah	Dir/ 23290644 - 23292299 - 23294863 - 23291631	23295291	2334, PC 211 Salalah
Saada	Dir/ 23227177 - 23 225463 - 23225409	23225179	2334, PC 211 Salalah
Taqa	Dir/23258108 - 23258113	23258366	43 , PC 218 Salalah
Mirbat	Dir/23268007 - 23268038	23268080	199, PC 220 Salalah
Dhofar University Booth	Dir/23237789-23237785-23237782	23237745	2334, PC 211 Salalah
Dhofar West Area			
Salalah Gardens Mall	Dir/ 233818200 - 23381201	23381222	2334, PC 211 Salalah
Salalah commercial District	Dir/23380700-23380719-23380721	23202761	2334, PC 211Salalah
Salalah-Al Gharbiah	Dir/ 23298046-23297526-23297536	23295084	2334, PC 211 Salalah
Raysut	Dir/23219219-23219262-23219216	23219197	2334, PC 211 Salalah

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Al Riadah Branch Royal Opera House	24647070	24647007	1025, PC 130 Aziba

Maisarah Islamic Banking Services Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Azaiba	24212544	24212521	1792, PC 130, Azaiba
Salalah	23211100	23211186	2352, PC 211, Salalah
Sohar	26840929	26840818	1148, PC 311, Sohar
Birkat Al Mouz	25443365	25443462	97, PC 616, Birkat Al Mouz
Al Hail Branch	24287777	24287788	1792, PC 130, Al Hail
Greater Mutrah	24793297/24707959	24706103	1831, Ruwi 112, Matrah
Al Khuwair Centre	24484880 / 24480 008	24483366	2717, Ruwi 112, Al Khuwair
Sur Branch	25 545 867/ 25 541 912	25 543 710	323,Sur 411, Sur
Araqi Branch	25694126 / 25695071	25 695 047	90, Iraqi 515
New Salalah	23297492 / 23296158	23 294 263	2334,Salalah 211,

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DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II

TOGETHER 2020 Best in Gulf

Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF BANK DHOFAR SAOG IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman's (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Dhofar SAOG (the bank) as at and for the year ended 31 December 2017. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the 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. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2017 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young LLC

8 March 2018
Muscat

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
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P.O. Box 1750 - P.C. 112, Sultanate of Oman

EY

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PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF BANK DHOFAR SAOG (THE "BANK") IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES OF MAISARAH ISLAMIC BANKING SERVICES

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework and Central Bank of Oman's (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III Disclosures (the disclosures) of Maisarah Islamic Banking Services (Islamic Window) of the Bank as at and for the year ended 31 December 2017. The disclosures were prepared by the Islamic Window's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Islamic Window's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the 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. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2017 and does not extend to any financial statements of the Bank or its Islamic Window, taken as a whole or to any other reports of the Bank or its Islamic Window.

Ernst & Young LLC

8 March 2018
Muscat

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

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:

As per Basel II:

a. To maintain capital adequacy ratio (CAR) at a minimum of 12%;
b. To adopt the standardized approach for credit risk for implementing Basel II, using national discretion for:
   - o Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;
   - o Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)
   - o Treating all corporate exposures as unrated and assign 100% risk weight.
c. To adopt standardized approach for market risk and basic indicator approach for operational risk.
d. Capital Adequacy returns must be submitted to CBO on a quarterly basis; and
e. The Bank's external auditors must review capital adequacy returns.

As per Basel III

a. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component.
b. To maintain capital adequacy ratio (CAR) at a minimum of 13.250% (including the capital conservation buffer and the minimum of 12% under Basel II) as at 31st December 2017 and with effective from 01.01.2018, to maintain minimum capital adequacy ratio of 13.875% (including capital conservation buffer).
c. The capital conservation buffer shall be further enforced with 0.625% increase in 2019. The Bank is required to maintain at all times, the following minimum capital adequacy ratios:
   - o Within the overall requirement of 13.875% CAR, Tier 1 ratio is to be maintained at a minimum of 10.875%,
   - o Within the minimum Tier 1 ratio of 10.875%, minimum CET 1 ratio is to be maintained at 8.875%,
   - o Further, within the minimum overall capital ratio of 12%, Tier 2 capital can be admitted up to a maximum of 3% of RWA of the Bank.
   - o 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 14.50%.

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 12% of the RWA at all times. Within 12% 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 to be applied 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 at the end of this document.

3. Basel II Disclosures:

3.1. 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. 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 available for sale, goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale 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 1.25% of total risk weighted assets.

The details of capital structure are provided as under:

Capital structure :	RO'000 Amount
Paid up capital	225,786
Legal reserve	50,254
Share premium	77,564
Special reserve	18,488
Subordinated loan reserve	42,325
Retained earnings	**10,145**
Proposed bonus shares	**18,063**
Common Equity Tier (CET) I capital	**442,625**
Deferred Tax Assets	(62)
Less Goodwill	(1,191)
Cumulative unrealized losses recognized directly in equity	(233)
CET I Capital – Regulatory Adjustments	**(1,486)**
Total CET I capital	**441,139**
Additional Tier I Capital	**115,500**
Total Tier I Capital	**556,639**
Investment revaluation reserve (45% only)	275
General provision (Max of 1.25% of total risk weighted assets)	43,606
Subordinated loans	46,550
Total Tier II capital	**90,431**
Total eligible capital (Tier I + Tier II Capital)	**647,070**

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 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 15.44% as against the CBO requirement of 13.25% as at 31st December 2017. 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 regularly meets 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.

i) Position of various 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	4,524,041	4,361,955	3,412,099
2	Off balance sheet items	547,921	459,401	456,323
3	Derivatives	610,561	610,561	12,961
4	Total Credit Risk	**5,682,523**	**5,431,917**	**3,881,383**
5	Market Risk	-	-	**64,370**
6	Operational Risk	-	-	**243,793**
7	Total Risk Weighted Assets	-	-	**4,189,546**

* Net of provisions and, reserve interest

ii) Detail of Capital Adequacy:

Sl. No	Details	RO'000
1	Common Equity Capital	441,139
	Tier 1 Capital	556,639
2	Tier 2 Capital	90,431
3	Tier 3 Capital	-
4	**Total eligible capital**	**647,070**
5	Capital Requirement for Credit Risk	465,766
6	Capital Requirement for Market Risk	7,724
7	Capital Requirement for Operational Risk	29,255
8	**Total Required Capital**	**502,745**
9	Common Equity Capital Ratio	10.53%
10	Tier 1 Capital Ratio	13.29%
	Total Capital Adequacy Ratio	15.44%

3.3 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, 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.

3.3.1 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 Credit Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the Corporate, Business Banking and Project Finance credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned 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. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the loans categorized as Standard and Special Mention for meeting the latent loan losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal loans is created considering the heightened risk inherent in personal loans. Furthermore, all housing finance, other than that occupied by customer, is subject to a 2% general loss provision. In terms of International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, Bank shall adopt the new accounting standard with effective from 1st January 2018. The Bank has already placed necessary infrastructure to estimate the expected credit loss as per IFRS 9 guidelines and is well prepared to implement the same w.e.f. 1.1.2018 .

All lending decisions are made after giving due consideration to credit risk policy requirements.

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

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	Average Gross exposure 2017 RO'000	Average Gross exposure 2016 RO'000	Total Gross exposures 2017 RO'000	Total Gross exposures 2016 RO'000
	Conventional				
1	Overdrafts	**164,179**	154,004	**173,297**	146,303
2	Loans	**2,893,419**	2,360,079	**2,628,663**	2,431,536
3	Loans against trust receipts	**119,546**	115,204	**116,350**	113,992
4	Other	**64,931**	61,563	**58,734**	75,522
5	Bills purchased /discounted	**13,145**	10,312	**13,348**	20,817
6	Advance against credit cards	**7,986**	7,724	**8,516**	7,746
	Total	**3,263,206**	2,708,886	**2,998,908**	2,795,916
	Islamic				
7	Murabaha Receivables	**18,493**	8,777	**27,236**	9,885
8	Mudaraba Financing	**27,399**	15,651	**23,481**	24,852
9	Ijarah Assets	**42,118**	205,806	**44,334**	239,693
10	Diminishing Musharaka Financing	**272,010**	33,980	**292,866**	37,128
	Total Islamic	**360,020**	264,214	**387,917**	311,558
	TOTAL	**3,623,226**	2,973,100	**3,386,825**	3,107,474

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

Sl. No	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	171,181	-	-	-	-	-	171,181
2	Personal Loans	1,325,609	-	-	-	-	-	1,325,609
3	Loans against trust Receipts	116,350	-	-	-	-	-	116,350
4	Other Loans	1,308,346	5,340	-	-	-	-	1,313,686
5	Bills Purchased / negotiated	12,993	355	-	-	-	-	13,348
6	Any other	58,734	-	-	-	-	-	58,734
	Total	**2,993,213**	**5,695**	**-**	**-**	**-**	**-**	**2,998,908**
	Islamic							
7	Murabaha Receivables	27,236	-	-	-	-	-	27,236
8	Mudaraba Financing	23,481	-	-	-	-	-	23,481
9	Ijarah Assets	44,334	-	-	-	-	-	44,334
10	Diminishing Musharakah Financing	292,866	-	-	-	-	-	292,866
	Total Islamic	387,917	-	-	-	-	-	387,917
11	**Total**	**3,381,130**	**5,695**	**-**	**-**	**-**	**-**	**3,386,825**

Overdrafts and others includes in Personal loans and others
*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	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	13,957	74,610	-	11,380	99,947	24,578
2	Export Trade	93	584	-	-	677	3,729
3	Wholesale & Retail trade	12,371	37,701	-	3514	53,586	29,937
4	Mining & Quarrying	5,099	30,493	531	1,508	37,631	730
5	Construction	45,384	345,113	5,210	71,936	467,643	372,333
6	Manufacturing	13,584	121,173	1,132	23,883	159,772	34,860
7	Electricity, gas & water	295	65,072	-	276	65,643	80,711
8	Transport & Communication	512	10,688	-	-	11,200	7,053
9	Fin. Institutions	1,402	149,767	4,452	-	155,621	210,532
10	Services	24,644	143,737	-	1,798	170,179	67,972
11	Personal	2,116	1,472,584	-	8,182	1,482,882	184
12	Agriculture & Allied	3,647	6,887	-	1,149	11,683	339
13	Government	2,773	222,191	-	-	224,964	15,299
14	Non Resident lending	-	5,340	355	-	5,695	240
15	All others	47,420	330,640	1,668	59,974	439,702	170,472
16	**Total (1 to 15)**	**173,297**	**3,016,580**	**13,348**	**183,600**	**3,386,825**	**1,018,969**

iv) 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	Up to 1 month	8,665	45,437	13,348	2,122	69,572	392,125
2	1-3 months	8,665	210,389	-	6,362	225,416	50,609
3	3-6 months	8,665	45,178	-	1,635	55,478	44,454
4	6-9 months	8,665	5,520	-	13,320	27,505	34,345
5	9–12 months	8,665	30,989	-	4,219	43,873	22,540
6	1-3 years	43,324	109,208	-	66,314	218,846	168,162
7	3–5 years	43,324	167,962	-	20,407	231,693	223,087
8	Over 5 years	43,324	2,401,897	-	69,221	2,514,442	83,647
9	**TOTAL**	**173,297**	**3,016,580**	**13,348**	**183,600**	**3,386,825**	**1,018,969**

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

Sl. No.	Economic Sector	Gross loans & Financing RO'000	Of which NPLs / NPAs * RO'000	General provision held RO'000	Specific prov. Held RO'000	Reserve Interest / Profit RO'000	Specific Prov. made during the year RO'000	Adv. Written off during year** RO'000
1	Import Trade	89,215	10,732	909	1,269	9,089	186	-
2	Export Trade	671	6	1	4	2	-	-
3	Wholesale & Retail	27,058	26,528	287	4,932	21,720	15	-
4	Mining & Quarrying	37,622	9	366	253	4	1	-
5	Construction	462,162	5,481	4,424	4,634	2,917	780	-
6	Manufacturing	159,325	447	1,626	87	174	150	-
7	Electricity, gas & water	65,643	-	670	-	-	-	-
8	Transport & Communications	11,200	-	113	-	-	-	-
9	Financial Institutions	155,621	-	1,588	-	-	-	-
10	Services	169,350	829	1,717	464	211	260	-
11	Personal	1,429,437	53,445	24,648	29,983	11,773	13,712	43
12	Agriculture & Allied	11,675	8	119	5	3	-	-
13	Government	224,964	-	2,295	-	-	-	-
14	Non-Resident lending	355	5,340	4	4,429	915	-	-
15	All Others	437,024	2,678	4,430	1,483	404	947	-
16	**TOTAL (1 to 15)**	**3,281,322**	**105,503**	**43,197**	**47,543**	**47,212**	**16,051**	**43**

* Represents only on balance sheet NPLs.

vi) Geographical distribution of amount of impaired loans:

Sl. No.	Countries	Gross loans / financing RO'000	Of which NPLs/NPAs RO'000	General provisions held 25 RO'000	Specific provisions Held RO'000	Reserve Interest / Profit RO'000	Specific Provisions Made during the year RO'000	Advances Written off during year ** RO'000
1	Oman	3,381,130	100,163	43,193	43,114	46,297	16,051	43
2	Other GCC countries	5,695	5,340	4	4,429	915	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**TOTAL**	**3,386,825**	**105,503**	**43,197**	**47,543**	**47,212**	**16,051**	**43**

*excluding countries included in row 2

vii) Movement of Gross Loans/Financing:

(OR in 000's)

		Movement of Gross Loans/Financing during the year					
		Performing Loans		Non-performing Loans			
Sl. No.	Details	Standard RO'000	S.M. RO'000	Substandard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening Balance	2,862,420	161,719	6,823	9,511	67,001	3,107,474
2	Migration/ changes (+/-)	(135,242)	117,171	4,207	781	13,083	-
3	New Loans	1,442,885	15,391	260	528	6,947	1,466,011
4	Recovery Loans	(1,137,369)	(45,653)	(1,572)	(303)	(1,609)	(1,186,506)
5	Loans written off	-	-	-	-	(154)	(154)
6	**Closing Balance**	**3,032,694**	**248,628**	**9,718**	**10,517**	**85,268**	**3,386,825**
7	Provisions held*	43,476	3,974	2,340	4,348	37,011	91,149
8	Reserve Interest	-	-	377	717	46,028	47,122

*Indicate the general provisions held under performing loans and specific provisions under non-performing loans .At 31December 2017 performing restructured rescheduled loan provided Specific provision as per CBO OMR 3,844Mio

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

i) 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.

ii) 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 155.987 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).

Quantitative Disclosure

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

2017

Sl. No.	Risk bucket	0%	1%	5%	20%	35%	50%	75%	100%	150%	300%	Total
		RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns (Rated)	595,911	-	-	-	-	-	-	-	-	-	595,911
2	Banks (Rated)	-			206,130	-	47,726	-	46,200	249	-	300,305
3	Corporate	63,874	-	-	-	-	-	-	1,633,331	-	19,830	1,717,035
4	SME	-			-	-	-	130,228	-	-	3,651	133,879
5	Retail	3,593	-	-	-	-	-	-	906,383	-	-	909,976
6	Claims secured by residential property	-	-	-	-	310,010	-	-	209,451	-	-	519,461
7	Past due loans	-	-	-	-	-	-	-	105,367	-	-	105,367
8	Other assets	-	-	-	-	-	-	-	51,091	194	-	51,285
9	Un-drawn exposure	-	-	-	-	-	-	9,275	169,537	-	12,010	190,822
10	Derivative	-	469,444	141,117	-	-	-	-	-	-	-	610,561
11	Non funded-Bank	-	-	-	-	-	-	-	96,562	-	-	96,562
12	Non funded-Customers	88,520	-	-	10,639	-	297,873	-	51,249	-	-	448,281
13	Non funded-Sovereign	3,078	-	-	-	-	-	-	-	-	-	3,078
	Total	**754,976**	**469,444**	**141,117**	**216,769**	**310,010**	**345,599**	**139,503**	**3,269,171**	**443**	**35,491**	**5,682,523**

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

3.3.3 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 for conventional banking 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.

3.3.4 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 Bank Dhofar. 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, BankDhofar 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 43.092 Mn in OTC derivatives (such as currency option, interest rate swap and forward interest rate agreement) and risk weighted assets of RO 1.211 Mn as at 31 Dec 2017.

3.3.5 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:

i) 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 are placed to the ALCO and also to the Board Risk Management Committee of the Board 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	11.674	23.349
Economic Value of Equity	35.281	70.563
Impact on earning as a % of NII	12.28%	24.57%
Impact as a % of Bank's Net worth	6.07%	12.14%

ii) 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 a 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.

iii) 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 its profitability and capital adequacy and the same is placed to Board Risk Management Committee of Board of Directors on regular basis.

iv) Commodity Risk:

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

v) 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 million as on 31.12.2017, VaR works out to OMR 71K at 99% confidence level and 2.46% of the domestic quoted equity portfolio.

vi) 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	5,150
TOTAL	**5,150**

3.3.6 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 in conventional banking and through cash flow approach in Maisarah. 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 at a certain confidence level.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 35 of the Notes to financial statements).

3.3.7 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. Basel III Disclosures:

Capital Adequacy Norms

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

i. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
ii. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
iii. 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 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 31.12.2017
CET 1 Capital Ratio: 8.25% of risk weighted assets
Tier 1 Capital Ratio: 10.25% of risk weighted assets (Going concern capital)
Total Capital Ratio: 13.25% of risk weighted assets (Gone concern capital)

With effect from 01.01.2018
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: 13.875% of risk weighted assets (Gone concern capital)

Within the minimum overall capital of 12%, Tier 2 capital will be admitted up to a maximum of 3% of Risk Weighted Assets of the Bank.

With effect from 01-01-2016, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB shall be 2.5% of the total RWA and every year the buffer will 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 by the end 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 14.5% 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.

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.

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 80% on an ongoing basis with effect from 01.01.2017 and shall be increased by 10% in next two years till it reaches 100% by 2019. The Bank is already meeting the regulatory limit of LCR as at 31st December 2017 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 shall become effective from 1st January 2018, with a minimum ratio of 100%. Presently, the Bank endeavor to maintain the same in line with the LCR guidelines.

Statement I

Basel III Capital Disclosure Template

	Basel III common disclosure template to be used during the transition of regulatory adjustments 9i.e. from 1 January 2013 to 1 January 2018	(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	303,350.00	
2	Retained Earnings	28,208.00	
3	Accumulated other comprehensive income (and other reserves)	111,067.00	
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	442,625.00	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)*	1,191.00	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	233.00	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	62.00	
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	1,486.00
29	Common Equity Tier 1 capital (CET 1)	441,139.00
Additional Tier 1 Capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	115,500.00
31	of which: classified as equity under applicable accounting standards	115,500.00
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	115,500.00
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)	115,500.00
45	Tier 1 capital (T1 = CET 1 + AT 1)	556,639.00
Tier 2 capital: Instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	46,550.00
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	43,881.00
51	Tier 2 capital before regulatory adjustments	90,431.00
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)	90,431.00
59	Total Capital (TC = T 1 + T 2)	647,070.00
	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)	4,189,546.00
60a	of which: Credit Risk Weighted Assets	3,881,383.00
60b	of which: Market Risk Weighted Assets	64,370.00
60c	of which: Operational Risk Weighted Assets	243,793.00

Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.53%
62	Tier 1 (as a percentage of risk weighted assets)	13.29%
63	Total capital (as a percentage of risk weighted assets)	15.44%
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	8.25%
65	of which: capital conservation buffer requirement	1.25%
66	of which: bank specific countercyclical buffer requirement	0.00%
67	of which: D-SIB/ G-SIB buffer requirements	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.28%
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)	43,881.00
77	Cap on inclusion of provisions in Tier 2 under standardized approach	48,517.00
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)

Sr. No.	CA Report 1 (For CBO Use only)	
1	Common Equity Tier 1 Capital (CET1) before Regulatory Adjustments	442,625
2	Regulatory Adjustments to CET1	1,486
3	CET1	441,139
4	Additional Tier 1 Capital (AT1) before Regulatory Adjustments	115,500
5	Regulatory Adjustments to AT1	-
6	AT1	115,500
7	Tier 1 Capital (7=3+6) (minimum at 0.625%)	556,639
8	Tier 2 Capital before Regulatory Adjustments	90,431
9	Regulatory Adjustments to Tier 2 Capital	-
10	Tier 2 Capital (T2)	90,431
11	Total Capital (11=7+10)	647,070
12	Total Risk Weighted Assets (TRWA) (12=13+14+15)	4,189,546
13	Credit Risk Weighted Assets	3,881,383
14	Market Risk Weighted Assets	64,370
15	Operational Risk Weighted Assets	243,793
16	CET1 (as a percentage of TRWA) (in %) 7.625%	10.53
17	Tier 1 (as a percentage of TRWA) (in %) 9.625%	13.29
18	Total capital (as a percentage of TRWA) (in %) 12.625%	15.44

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	326,819.00		
Balances with bank and money at call and short notice	245,058.00		
Investments:	290,855.00		
Of which Held to Maturity	255,043.00		
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Available for Sale	35,812.00		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which Held for Trading			
Loans & Advances - Net	3,303,711.00		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks - Net	54,838.00		
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	9,524.00		
Other Asset	69,552.00		
Of which,			
Goodwill & Intangible Assets	1,191.00		a
Out of which			
Goodwill			

Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	4,246,710.00		
Capital & Liabilities			
Paid up capital	341,286.00		
of which:			
Amount eligible for CET 1	225,786.00		h
Amount eligible for AT1	115,500.00		i
Reserves & Surplus	245,721.00		j
Share Premium	77,564.00		k
Legal Reserve & Special Reserve	70,023.00		l
Subordinated loan reserve	42,325.00		m
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	507.00	(233.00)	n
Retained Earnings ((The proposed dividend payment amount is excluded from retained earnings)	55,302.00	28,208.00	o
Total Capital			
Deposits			
Of which,			
Deposit from Banks	387,742.00		
Customer Deposits	2,691,626.00		
Deposit of Islamic Banking Window	376,783.00		
Other deposits (pl specify)			
Borrowings			
Of which,			
From CBO			
From Banks			
From other Institutions & Agencies			
Borrowings in the form of bonds, debentures & Sukuks			
Others (Plz specify) (Subordinated Loans)	88,875.00	46,550.00	
Other liabilities & provisions	114,677.00		
Of which,			
DTLs related to goodwill			
DTLs related to intangible assets	238.00		
Total Liabilities	4,246,710.00		

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	225,786.00	h
2	Retained earnings	216,839.00	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	442,625.00	
7	Prudential valuation adjustments	233.00	n
8	Goodwill (net of related tax liability)	1,191.00	a

Annexure III

Main features template for capital instruments

Bank has two types of capital instruments viz., Common Shares 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)	225.786
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)	RO 25 Mn

9	Par Value of Instrument	RO 25 Mn
10	Accounting Classification	Subordinated Loan
11	Original date of issuance	17-Dec-12
12	Perpetual or dated	Dated
13	Original Maturity date	17-Jan-18
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	5.125% p.a.
19	Existence of a dividend stopper	Not applicable
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	No
31	If Write down, write down triggers	Not applicable
32	If Write down, full or partial	Not applicable
33	If Write down, permanent or temporary	Not applicable
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 and General Creditors
36	Non-compliant transitioned features	Yes
37	If yes, specify non complaint features (20.4 (ii) of CP1 of CBO guidelines)	Point of non-viability

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)	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 3

	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

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 English law. Subordination of the Capital Securities will be governed by the laws of Oman.
	Regulatory Treatment	
4	Transitional Basel III rules	Additional Tier I
5	Post-transitional Basel III rules	Additional Tier I
6	Eligible at solo/ group/ group & solo	Group & Solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Tier I Capital Securities
8	Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date)	USD 300 Mn

9	Par Value of Instrument	USD 300 Mn
10	Accounting Classification	Equity
11	Original date of issuance	27-May-15
12	Perpetual or dated	Perpetual
13	Original Maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Redeemable by the Bank at its discretion on 27 May 2020 or on any interest payment date thereafter subject to the prior consent of the regulatory authority
16	Subsequent call dates, if applicable	Any interest payment date occuring after 27 May 2020, means each 27 May and 27 November in each year, starting on (and including 27 November 2020
Coupons / Dividends		
17	Fixed or floating dividend coupon	Fixed
18	Coupon rate & any related index	Coupon is determined by adding a fixed margin of 5.128 % p.a. over the mid-swap rate. It has resulted into a rate of 6.850 per cent on the date of issue. The mid-swap rate will be reset every 5 years. The mid-swap rate for U.S. dollar swap transactions with a maturity of 5 years displayed on Reuters 3000 page "ISDAFIX1" at or around 11.00 a.m. (New York time) on the Determination Date, which will be 3 days prior to 27 May 2020 and every fifth anniversary thereafter.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable

27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write down features	Yes
31	If Write down, write down triggers	Write down will take place in case of a non-viability event that means: (a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank has determined that the Bank will become non-viable without a write-down; or (b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Bank will become non-viable.
32	If Write down, full or partial	Full
33	If Write down, permanent or temporary	Permanent
34	If temporary write down, description of write up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to ordinary shares and subordinate to Tier II instruments like Subordinated Debt
36	Non-compliant transitioned features	No
37	If yes, specify non complaint features	Not applicable

ANNEXURE

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 80% from 01.01.2017 till 31.12.2017. In compliance with the CBO guidelines, the Bank is meeting the regulatory limit of LCR as at 31 December 2017.

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

Sl. No.	BankDhofar Consolidated Disclosure for the Quarter ending: Dec 2017	LCR	Total Unweighted Value (average) OMR '000	Total Weighted Value (average) OMR '000
High Quality Liquid Assets				
1	Total High Quality Liquid Assets (HQLA)			464,104.13
Cash Outflows				
2	Retail deposits and deposits customers, from small business customer, of which:		534,701.15	38,712.03
3	Stable deposits		295,161.63	14,758.08
4	Less stable deposits		239,539.51	23,953.95
5	Unsecured wholesale funding, of which:		697,008.04	280,695.30
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks			
7	Non-operational deposits (all counterparties)		697,008.04	280,695.30
8	Unsecured debt			
9	Secured wholesale funding			
10	Additional requirements, of which		169,972.02	16,544.54
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		169,972.02	16,544.54
14	Other contractual funding obligations		23,547.34	23,547.34
15	Other contingent funding obligations		956,407.40	47,820.37
16	**TOTAL CASH OUTFLOWS**			**407,319.59**
Cash Inflows				
17	Secured lending (e.g. reverse repos)			
18	Inflows from fully performing exposures		502,027.42	245,638.63
19	Other cash inflows		9,906.89	9,906.89
20	**TOTAL CASH INFLOWS**		**511,934.31**	**255,545.53**
				Total Adjusted Value
21	**TOTAL HQLA**			**464,104.13**
22	**TOTAL NET CASH OUTFLOWS**			**151,774.06**
23	**LIQUIDITY COVERAGE RATIO (%)**			**305.79**

LCR is computed on a monthly basis and the same for BankDhofar (consolidated entity) was at 441.96% in October 2017, 264.16% in November 2017 and 259.93% in December 2017. 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 31.12.2017.

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS 31ST DECEMBER 2017

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INDEPENDENT AUDITOR'S 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"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance and 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the 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.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG (CONTINUED)

Key audit matters (continued)

1. Impairment of loans, advances and financing activities for customers

Key audit matters	How our audit addressed the key audit matters
Impairment of loans, advances and financing activities to customers (loans and receivables) is a highly subjective area due to the level of judgement applied by the management in determining the extent of credit losses related to such loans and receivables. The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables. Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential industry and regulatory requirements, this is considered a key audit matter. The basis of the Bank's impairment provision policy is presented in the accounting policies section and in Note 3 to the financial statements. Also, attention is drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 4 (c), 8 and 35 to the financial statements.	Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, validation of the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively. In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited any possible default risk that may affect meeting their scheduled repayment obligations. For collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management. We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG (CONTINUED)

Key audit matters (continued)

2. Impairment of available-for-sale investments

Key audit matters	How our audit addressed the key audit matters
The Bank's available-for-sale portfolio comprises investments made in equity and debt instruments. Investments are impaired only when there is an objective evidence of impairment. We considered impairment of available-for-sale investment as key audit matter given the complexity involved in such determination and its materiality to the financial statements. The accounting policy relating to available-for-sale investments, critical accounting estimates and judgements, and the disclosures relating to impairment of available-for-sale investments and fair value measurement are set out in notes 3, 4 (c) and 20 (c) to the financial statements.	Our audit procedures comprised, amongst others, of a critical assessment of the Bank's methodology and the appropriateness of the impairment computation performed by the management on the Bank's available-for-sale investments. We evaluated the Bank's assessment of whether any objective evidence of impairment exists for each investments. For equity investments, on a sample basis, we: • assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments; • evaluated the basis for determining the fair value of investments; • tested the valuations of investments; and • considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met. For debt instruments, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed the cash flows to consider any defaults based upon the contractual terms and conditions of the instruments. We also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG (CONTINUED)

Other information included in the Bank's 2017 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Bank's 2017 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2017 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis
- Financial statements of the Islamic Banking Window
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of the Islamic Banking Services

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

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

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

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 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.
- Conclude on the appropriateness of those charged with governance'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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Sanjay Kawatra
8 March 2018
Muscat

إرنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

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Statement of financial position

As at 31 December 2017

2017 US$ '000	2016 US$ '000		Notes	2017 RO'000	2016 RO'000
		Assets			
848,881	690,621	Cash and balances with Central Bank of Oman	5	**326,819**	265,889
778,951	883,273	Loans, advances and financing to banks	7	**299,896**	340,060
8,438,631	7,762,577	Loans, advances and financing to customers	8	**3,248,873**	2,988,592
93,018	94,119	Available-for-sale investments	9	**35,812**	36,236
662,449	567,623	Held-to-maturity investments	10	**255,043**	218,535
3,094	4,127	Intangible asset	11	**1,191**	1,589
24,738	21,631	Property and equipment	12	**9,524**	8,328
180,655	241,075	Other assets	13	**69,552**	92,814
11,030,417	10,265,046	**Total assets**		**4,246,710**	3,952,043
		Liabilities			
1,007,122	910,517	Due to banks	14	**387,742**	350,549
7,969,894	7,493,997	Deposits from customers	15	**3,068,409**	2,885,189
297,862	333,584	Other liabilities	16	**114,677**	128,430
230,844	139,935	Subordinated loans	17	**88,875**	53,875
9,505,722	8,878,033	**Total liabilities**		**3,659,703**	3,418,043
		Shareholder's equity			
586,457	493,299	Share capital	18 (a)	**225,786**	189,920
201,465	154,852	Share premium	19	**77,564**	59,618
130,530	117,340	Legal reserve		**50,254**	45,176
48,021	48,021	Special reserve		**18,488**	18,488
3,327	0	Special reserve - restrucutred loans		**1,281**	0
109,935	81,948	Subordinated loan reserve		**42,325**	31,550
1,317	3,790	Investment revaluation reserve		**507**	1,459
143,641	187,763	Retained earnings		**55,302**	72,289
1,224,693	1,087,013	**Total equity attributable to the equity holders of the Bank**		**471,507**	418,500
300,000	300,000	Perpetual Tier 1 Capital Securities	18 (b)	**115,500**	115,500
1,524,693	1,387,013	**Total equity**		**587,007**	534,000
11,030,417	10,265,046	**Total liabilities and equity**		**4,246,710**	3,952,043
2,646,673	2,716,748	**Contingent liabilities and commitments**	32	**1,018,969**	1,045,948
0.54	0.57	**Net assets per share (Rial Omani)**	22	**0.209**	0.220

The financial statements were authorised on 29 January 2018 for issue in accordance with a 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.

Statement of comprehensive income

For the year ended 31 December 2017

2017 US$ '000	2016 US$ '000		Notes	2017 RO'000	2016 RO'000
419,478	367,626	Interest income		**161,499**	141,536
(199,725)	(131,818)	Interest expense		**(76,894)**	(50,750)
219,753	235,808	**Net interest income**	23	**84,605**	90,786
48,940	33,179	Income from Islamic financing and investment activities		**18,842**	12,774
(26,808)	(15,325)	Unrestricted investment account holders' share of profit		**(10,321)**	(5,900)
22,132	17,854	**Net income from Islamic financing and investment activities**		**8,521**	6,874
54,280	46,436	Fees and commission income		**20,898**	17,878
(9,470)	(8,231)	Fees and commission expenses		**(3,646)**	(3,169)
44,810	38,205	**Net fees and commission income**		**17,252**	14,709
42,984	38,914	Other income	24	**16,549**	14,982
329,679	330,782	**Operating income**		**126,927**	127,351
(144,605)	(138,597)	Staff and administrative costs	25	**(55,673)**	(53,360)
(8,626)	(8,849)	Depreciation	12	**(3,321)**	(3,407)
(153,231)	(147,446)	**Operating expenses**		**(58,994)**	(56,767)
176,448	183,336	**Profit from operations**		**67,933**	70,584
(45,683)	(51,753)	Provision for loan impairment	26	**(17,588)**	(19,925)
15,706	13,932	Recoveries from allowance for loan impairment	26	**6,047**	5,364
(8)	(3)	Bad debts written-off		**(3)**	(1)
(930)	(4,138)	Impairment of available-for-sale investments	20 (c)	**(358)**	(1,593)
145,533	141,374	**Profit from operations after provision**		**56,031**	54,429
(21,830)	(17,682)	Income tax expense	27	**(8,404)**	(6,807)
123,703	123,694	**Profit for the year**		**47,627**	47,622
		Other comprehensive income:			
		Items that are or may be reclassified to statement of income:			
(3,288)	13	Net changes in fair value of available-for-sale investments	9	**(1,266)**	5
(114)	(1,210)	Reclassification adjustment on sale of available-for-sale investments	20 (c)	**(44)**	(466)
929	4,137	Impairment of available-for-sale investments	20 (c)	**358**	1,593
(2,473)	2,940	Other comprehensive (loss)/ income for the year, net of tax		**(952)**	1,132
121,230	126,634	**Total comprehensive income for the year**		**46,675**	48,754
0.05	0.05	**Earnings per share basic and diluted (Rials Omani)**	28	**0.019**	0.019

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

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	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.

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 USD'00	Special reserve - restructured Loan	Subordinated loans reserve USD'00	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 2016		**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.

Statement of changes in equity

For the year ended 31 December 2016

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2016		**154,473**	**40,018**	**18,488**	**40,214**	**62,025**	**327**	**45,484**	**361,029**	**115,500**	**476,529**
Profit for the year		-	-	-	-	-		47,622	47,622	-	47,622
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	5	-	5	-	5
Reclassification adjustment on sale of available-for-sale investments		-	-	-	-	-	(466)	-	(466)	-	(466)
Impairment of available-for-sale investments		-	-	-	-	-	1,593	-	1,593	-	1,593
		-	**-**	**-**	**-**	**-**	**1,132**	**47,622**	**48,754**	**-**	**48,754**
Transfer to legal reserve	20	-	-	-	4,762	-	-	(4,762)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	19,525	-	(19,525)	-	-	-
Transfer to retained earnings		-	-	-	-	(50,000)		50,000	-	-	-
Issue of right shares	19	20,000	19,600	-	-	-	-	-	39,600	-	39,600
Excess of receipts over rights issue expenses		-	-	-	200	-	-	-	200	-	200
Payment towards Perpetual Tier 1 coupon			-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity											
Dividend paid for 2015	38	-	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	38	15,447	-	-	-	-	-	(15,447)	-	-	-
Balances as at 31 December 2016		**189,920**	**59,618**	**18,488**	**45,176**	**31,550**	**1,459**	**72,289**	**418,500**	**115,500**	**534,000**

Statement of changes in equity

For the year ended 31 December 2016

	Notes	Share capital USD'000	Share premium USD'000	Special reserve USD'000	Legal reserve USD'00	Subordinated loans reserve USD'00	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 2016		**401,229**	**103,943**	**48,021**	**104,452**	**161,104**	**849**	**118,140**	**937,738**	**300,000**	**1,237,738**
Profit for the year		-	-	-	-	-		123,693	123,693	-	123,693
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	13	-	13	-	13
Reclassification adjustment on sale of available-for-sale investments		-	-	-	-	-	(1,210)	-	(1,210)	-	(1,210)
Impairment of available-for-sale investments		-	-	-	-	-	4,138	-	4,138	-	4,138
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**2,941**	**123,693**	**126,634**	**-**	**126,634**
Transfer to legal reserve	20	-	-	-	12,369	-	-	(12,369)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	50,714	-	(50,714)	-	-	-
Transfer to retained earnings		-	-	-	-	(129,870)		129,870	-	-	-
Issue of right shares	19	51,948	50,909	-	-	-	-	-	102,857	-	102,857
Excess of receipts over rights issue expenses		-	-	-	519	-	-	-	519	-	519
Payment towards Perpetual Tier 1 coupon			-	-	-	-	-	(20,551)	(20,551)	-	(20,551)
Transactions with owners recorded directly in equity											
Dividend paid for 2015	38	-	-	-	-	-	-	(60,184)	(60,184)	-	(60,184)
Bonus shares issued for 2015	38	40,122	-	-	-	-	-	(40,122)	-	-	-
Balances as at 31 December 2016		**493,299**	**154,852**	**48,021**	**117,340**	**81,948**	**3,790**	**187,763**	**1,087,013**	**300,000**	**1,387,013**

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

Statement of cash flows

For the year ended 31 December 2017

2017 US$ '000	2016 US$ '000		2017 RO'000	2016 RO'000
		Operating activities		
536,112	457,426	Interest, financing income, commission and other receipts	**206,403**	176,109
(217,416)	(124,771)	Interest payments, return on Islamic banking deposits	**(83,705)**	(48,037)
(135,195)	(168,346)	Cash payments to suppliers and employees	**(52,050)**	(64,813)
183,501	164,309		**70,648**	63,259
		Movement in operating assets		
(706,031)	(711,296)	Loans, advances and financing to customers	**(271,822)**	(273,849)
200,377	(549,403)	Loans, advances and financing to banks	**77,145**	(211,520)
(169,800)	(102,670)	Receipts from treasury bills and certificates of deposits (net)	**(65,373)**	(39,528)
(675,454)	(1,363,369)		**(260,050)**	(524,897)
		Movement in operating liabilities		
475,896	760,566	Deposits from customers	**183,220**	292,818
97,470	110,275	Due to banks	**37,526**	42,456
573,366	870,841		**220,746**	335,274
81,413	(328,218)	**Net cash from operating activities**	**31,344**	(126,364)
(14,891)	(16,135)	Income tax paid	**(5,733)**	(6,212)
66,522	(344,353)	**Net cash from/ (used in) operating activities**	**25,611**	(132,576)
		Investing activities		
19,436	9,857	Investment income	**7,483**	3,795
(26,010)	(18,678)	Purchase of investments	**(10,014)**	(7,191)
23,709	16,353	Proceeds from sale of investments	**9,128**	6,296
914	2,073	Dividend received	**352**	798
(11,878)	(8,210)	Purchase of property and equipment	**(4,573)**	(3,161)
156	699	Proceeds from sale of property and equipment	**60**	269
6,327	2,094	**Net cash from investing activities**	**2,436**	806
		Financing activities		
90,909	(129,870)	Subordinated loan	**35,000**	(50,000)
103,592	103,377	Proceeds from rights issue of share capital, net of expenses	**39,883**	39,800
(20,551)	(20,551)	Additional tier 1 coupon	**(7,912)**	(7,912)
(66,595)	(60,184)	Dividend paid	**(25,639)**	(23,171)
107,355	(107,228)	**Net cash (used in) / from financing activities**	**41,332**	(41,283)
180,205	(449,488)	**Net change in cash and cash equivalents**	**69,379**	(173,053)
897,403	1,346,891	Cash and cash equivalents at the beginning of the year	**345,500**	518,553
1,077,608	897,403	**Cash and cash equivalents at the end of the year**	**414,879**	345,500
848,881	690,621	Cash and balances with Central Bank of Oman (Note 5)	**326,819**	265,889
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	**(500)**	(500)
231,545	135,491	Loans, advances and financing to banks due within 90 days	**89,145**	52,164
-	74,974	Treasury bills within 90 days	**-**	28,865
(1,519)	(2,384)	Due to banks within 90 days	**(585)**	(918)
1,077,608	897,403	**Cash and cash equivalents for the purpose of the cash flow statement**	**414,879**	345,500

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

Notes to the financial statements

For the year ended 31 December 2017

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") Banks Additional Tier I Perpetual Bonds are Listed in the Irish Stock Exchange ('ISE"), and its principal place of business is the Head Office, 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 and 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 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 CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available-for-sale financial assets which are measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

2.3 Functional and presentation currency

Items included in the Bank's financial statements are measured using Rial Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 New and amended standards and interpretations to IFRS

For the year ended 31 December 2017, the Bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016
    - o Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of these standards and interpretations has not resulted in any major changes to the bank's accounting policies and has not affected the amounts reported for the current and prior periods.

2.6 Standards issued but not yet effective

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 2017:

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank's initial estimate of IFRS 9 is expected to impact equity attributable to the equity holders of the bank by 1 - 2% as of 1 January 2018. This is preliminary, because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change accordingly. The adjustments would be in Q1 2018 and would not affect the income statement.

(i) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The CBO has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing loan loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a loan loss impairment reserve from retained earnings as of 1 January 2018.
- In the subsequent years, where the allowance for loan loss impairment computed in accordance with CBO requirements is higher than the allowance for loan loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned loan loss impairment reserve from retained earnings.
- The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

(iii) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

(iv) Hedge accounting

Hedge accounting requirements of IFRS 9 are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

(v) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of

the adoption of IFRS
Other relevant standards which are expected to have implications on the Bank's are IFRS 15 and IFRS 16 and details are set out below:

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the modified retrospective approach. The Bank has performed an initial impact assessment and concluded that the impact is not material as in majority of the Bank's facility agreements with customers generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 is not expected to have any impact on the Bank's income and profit or loss.

IFRS 16 – Leases

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

3 Significant Accounting Policies

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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3.2 Financial assets and liabilities

3.2.1 Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

ii) The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in other operating income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the Effective Interest Rate ("EIR"), while dividend income is recorded in other operating income when the right to the payment has been established.

(b) Loans and receivables

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

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Loans and 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 rate method. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'provision for loan impairment'.

(c) Held to maturity

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 to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'impairment for investments'. Held to maturity investments include corporate bonds and treasury bills.

(d) Available-for-sale financial assets

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions

The Bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) for the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in impairment for investments and removed from the change in fair value of investments revaluation reserve.

3.2.2 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other income'.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'other income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the profit or loss.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.2.3 Recognition

The Bank initially recognises loans and advances, deposits, 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 Derecognition

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
    - The Bank has transferred substantially all the risks and rewards of the asset; or
    - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.2.5 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle 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 by the accounting standards or for gains and losses arising from a Bank of similar transactions.

3.2.6 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.

3.2.7 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 34.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

3.3 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention about the following loss events as well as considering the guidelines issued by the Central Bank of Oman:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

Future cash flows of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

(b) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to at (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments recognised in the profit or loss are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(c) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Bank, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition.

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:

	Years
Building	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 comprehensive income.

Repairs and renewals are charged to the statement of comprehensive income 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 comprehensive income 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 comprehensive income.

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 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, in which case it is recognised in equity.

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 repledge 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 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.15 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, if lower, at the present value of the minimum lease payments. 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 comprehensive income on a straight-line basis over the lease term.

3.16 Employee benefits

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

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

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest 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 down. 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 down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.19 Dividend on ordinary shares

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.21.1 Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "interest income' for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

3.21.2 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3.21.3 Dividends

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

3.21.4 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.

3.22 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. The Bank's main business segments are corporate and retail banking. Segmental information pertaining to Islamic Banking Window is also disclosed in note 37.

3.23 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.

3.24 Perpetual Bond

The bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as component within equity.

4 Critical Accounting Judgment and Key Sources of Estimation Uncertainty

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates were on:

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss, available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

(b) Fair value estimation

Fair value is based on quoted market prices at reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date. Specific fair value estimates are disclosed in note 34.

(c) Impairment

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

Impairment on due from banks

The Bank reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Bank considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Bank assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook

Impairment of available-for-sale equity investment

Management determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in equity price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(d) Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. 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 taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

5 Cash and balances with Central Bank of Oman

	2017 RO'000	2016 RO'000
Cash in hand	**30,085**	29,919
Balances with the Central Bank of Oman	**240,909**	131,961
Placements with Central Bank of Oman	**55,825**	104,009
	326,819	265,889

At 31 December 2017, cash and balances with Central Bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2016: RO 500,000) as capital deposit. This cannot be withdrawn without the Central Bank of Oman approval.

6 This note is intentionally left blank.

7 Loans, advances and financing to banks

	2017 RO'000	2016 RO'000
Syndicated loans to other banks	**55,247**	51,590
Less: impairment allowance (collective)	**(409)**	(409)
Net syndicated loans to other banks	**54,838**	51,181
Placements with other banks	**233,744**	271,355
Current clearing accounts	**11,314**	17,524
	299,896	340,060

At 31 December 2017, placement with one local bank individually represented 20% or more of the Bank's placements (2016: One local bank represented 20%.)

Movement of the impairment allowance as below:

	2017 RO'000	2016 RO'000
Opening balance as on 1 January	**409**	409
Less: Charge / (reversal) during the year	**-**	-
Closing balance as on 31 December	**409**	409

8 Loans, advances and financing to customers

	2017 RO'000	2016 RO'000
Overdrafts	**173,297**	146,303
Loans	**2,628,663**	2,431,536
Loans against trust receipts	**116,350**	113,992
Bills discounted	**13,348**	20,817
Advance against credit cards	**8,516**	7,746
Others	**58,734**	75,522
Islamic Banking Window financing	**387,917**	311,558
Gross loans, advances and financing to customers	**3,386,825**	3,107,474
Less: Impairment allowance	**(137,952)**	(118,882)
Net loans, advances and financing to customers	**3,248,873**	2,988,592
The movement in the impairment allowance is analysed below:		
(a) Allowance for loan impairment		
1 January	**79,242**	64,810
Allowance during the year	**17,588**	19,925
Released to the statement of comprehensive income during the year	**(6,047)**	(5,364)
Written off during the year	**(43)**	(129)
31 December	**90,740**	79,242
(b) Reserved interest		
1 January	**39,640**	33,808
Reserved during the year	**8,671**	7,004
Released to the statement of comprehensive income during the year	**(948)**	(824)
Written off during the year	**(151)**	(348)
31 December	**47,212**	39,640

Total impairment allowance	**137,952**	118,882

As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers /write off are not formula driven and are decided on case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees etc.
In 2017, the Bank has written off RO Nil (2016: RO Nil) as technical write off.

Interest is reserved by the Bank against loans and advances which are impaired.

Out of the total provisions of RO 137,952 thousand (2016: RO 118,882 thousand) a collective provision was made on portfolio basis amounting to RO 43,197 thousand (2016: RO 41,700 thousand). Collective provision includes RO 3,747 thousand towards financing of Islamic Banking Window (2016: RO 3,017 thousand).

At 31 December 2017, impaired loans and advances on which interest has been reserved amount to
RO 103,947 thousand (2016: RO 82,113 thousand) of which RO 22 thousand (2016: RO 309 thousand) is non funded impaired. Loans and advances on which interest is not accrued amounts to RO 1,578 thousand (2016: RO 1,531 thousand).

Loans advances and financing are summarised as follows:

	2017		2016	
	Loans, advances and financing to customers RO'000	**Loans, advances and financing to banks RO'000**	Loans, advances and financing to customers RO'000	Loans, advances and financing to banks RO'000
Neither past due nor impaired	**3,199,194**	**300,305**	2,974,950	340,469
Past due but not impaired	**82,128**	**-**	49,189	-
Impaired	**105,503**	**-**	83,335	-
Gross loans and advances	**3,386,825**	**300,305**	3,107,474	340,469
Less: Impairment allowance	**(137,952)**	**(409)**	(118,882)	(409)
Total	**3,248,873**	**299,896**	2,988,592	340,060

Loans, advances and financing to customers neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans, advances and financing to customers past due but not impaired

	2017 RO'000	2016 RO'000
Past due up to 30 days	**57,041**	30,164
Past due 30 – 60 days	**16,495**	10,574
Past due 60 – 89 days	**8,592**	8,451
Total	**82,128**	49,189

Impaired

	2017 RO'000	2016 RO'000
Substandard	**9,718**	6,823
Doubtful	**10,517**	9,511
Loss	**85,268**	67,001
Total	**105,503**	83,335

Fair value of collaterals

Upon initial recognition of loans, advances and financing, 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.

Loans, advances and financing renegotiated

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. Renegotiated loans that are classified as standard amounted to RO 61,510 thousand at 31 December 2017 (2016: RO 53,771 thousand).

9 Available-for-sale investments

	Cost		Fair Value	
	2017 RO'000	2016 RO'000	2017 RO'000	2016 RO'000
Local listed equities and debts				
Financial	**429**	655	**429**	657
Industrial	**2,036**	4,631	**1,910**	5,191
Services	**2,075**	7,343	**2,210**	7,676
Local fixed income bonds	**964**	13	**965**	32
Sukuk	**22,138**	16,363	**22,342**	16,561
Total quoted investments	**27,642**	29,005	**27,856**	30,117
Foreign listed debts				
Foreign fixed income bonds	**5,545**	3,927	**5,520**	3,811
Total quoted investments	**5,545**	3,927	**5,520**	3,811
Un-quoted securities Local securities	**1**	3	**1**	3
Unit funds	**2,117**	1,842	**2,435**	2,305
Total Un-quoted investments	**2,118**	1,845	**2,436**	2,308
Total available for sale investments	**35,305**	34,777	**35,812**	36,236

At 31 December 2017, the market value of the Sukuk approximates to the carrying value.

10 Held-to-maturity investments

	2017 RO'000	2016 RO'000
Treasury bills	**49,917**	28,865
Government development bonds	**195,126**	179,670
	245,043	208,535
Local – listed sukuk	**10,000**	10,000
	255,043	218,535

Government Development Bonds represents Oman Government Bonds having face value of RO 195.13 million (2016: 179.67 million) at average coupon rate of 4.34% maturing between 2018 and 2026.

Treasury bills represents United States Treasury bills having face value of RO 49.917 million (2016: 28.865 million) with maturity period of 91 days at 0.93% average yield.

11 Intangible asset

	2017 RO'000	2016 RO'000
1 January	**1,589**	1,986
Impaired during the year	**(398)**	(397)
3 1 December	**1,191**	1,589

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 398 thousand (2016: 397 thousand) was recognised during the year.

12 Property and equipment

	Freehold land RO'000	Buildings RO'000	Frunitrue 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/transfer	-	-	1,371	136	1,803	1,263	4,573
Disposals/transfer	-	-	(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 /transfer	-	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**
31 December 2016	140	401	2,498	190	4,744	355	8,328
Cost							
1 January 2016	140	1,573	12,659	1,356	20,232	480	36,440
Additions	-	-	1,025	113	1,976	47	3,161
Disposals	-	-	(525)	(145)	(196)	(172)	(1,038)
31 December 2016	140	1,573	13,159	1,324	22,012	355	38,563
Depreciation							
1 January 2016	-	1,114	9,857	1,169	15,505	-	27,645
Charge for the year	-	58	1,280	110	1,959	-	3,407
Disposals	-	-	(476)	(145)	(196)	-	(817)
31 December 2016	-	1,172	10,661	1,134	17,268	-	30,235
Carrying value 31 December 2016	140	401	2,498	190	4,744	355	8,328
31 December 2015	140	459	2,802	187	4,727	480	8,795

13 Other assets

	2017 RO'000	2016 RO'000
Acceptances	**50,661**	76,377
Interest receivable	**8,992**	9,093
Prepaid expenses	**2,045**	1,815
Positive fair value of derivatives (note 33)	**111**	616
Deferred tax assets (note 27)	**62**	62
Other receivables	**7,681**	4,851
	69,552	92,814

14 Due to banks

	2017 RO'000	2016 RO'000
Syndicated Inter bank borrowings	**215,600**	245,630
Inter bank borrowings	**171,557**	104,001
Payable on demand	**585**	918
	387,742	350,549

At 31 December 2017, Inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 71,950 thousand (2016: RO 79,340 thousand).

At 31 December 2017, inter bank borrowings with one bank individually represented 20% or more of the Inter bank's borrowings (2016: one bank). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

15 Deposits from customers

	2017 RO'000	2016 RO'000
Current accounts	**704,197**	625,947
Savings accounts	**442,972**	431,312
Time deposits	**1,493,204**	1,487,674
Margin accounts	**51,253**	54,582
Islamic Banking Window deposits	**376,783**	285,674
	3,068,409	2,885,189

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,292,654 thousand as at 31 December 2017 (2016: RO 1,148,429 thousand).

At 31 December 2017, deposits from customers include Islamic Window's current deposits, saving deposits and time deposits of RO 376,783 thousand (2016: RO 285,674 thousand).

16 Other liabilities

	2017 RO'000	2016 RO'000
Acceptances	**50,661**	76,377
Interest payable	**15,784**	12,274
Creditors and accruals	**36,451**	30,581
Income tax provision	**10,116**	7,820
Employee terminal benefits	**1,665**	1,378
	114,677	128,430

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

	2017 RO'000	2016 RO'000
1 January	**1,378**	1,279
Expense recognised in the statement of comprehensive income	**408**	303
Paid to employees	**(121)**	(204)
	1,665	1,378

17 Subordinated loans

	2017 RO'000	2016 RO'000
Subordinated loan - US Dollar	**28,875**	28,875
Subordinated loan - RO	**60,000**	25,000
	88,875	53,875

(i) In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. This facilities carries a fixed rate of interest payable half yearly with principle being repaid on maturity.

(ii) During December 2016, the Bank has repaid the unsecured subordinated loan amounting to RO 50 million upon maturity.

(iii) 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.

(iv) In December 2012, the Bank availed RO 25 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly with principle being repaid on maturity.

(v) Details regarding subordinated loan reserve are set out in note 20(b).

18 (a) Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2016: 2,200,000,000 ordinary shares of RO 0.100 each).

At 31 December 2017, the issued and paid up share capital comprise 2,257,857,722 ordinary shares of RO 0.100 each (2016: 1,899,201,401 ordinary shares of RO 0.100 each).

Shareholders

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

	2017 No. of shares	%	2016 No. of shares	%
Dhofar International Development and Investment Company SAOG	**632,200,155**	**28.0%**	531,776,387	28.0%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**480,433,078**	**21.3%**	399,532,141	21.0%
Civil Service Employees' Pension Fund	**233,552,136**	**10.3%**	197,232,693	10.4%
Total	**1,346,185,369**	**59.6%**	1,128,541,221	59.4%
Others	**911,672,353**	**40.4%**	770,660,180	40.6%
	2,257,857,722	**100%**	1,899,201,401	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 2017.

18 (b) Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 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 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 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.

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 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 Securities unless and until it has paid one interest payment in full on the Tier 1 Securities. The Tier 1 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 Share premium

(i) 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.

(ii) 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.

(iii) On 19 March 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.

(iv) In the year 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 176,92 thousand and RO 53,076 thousand, respectively.

20 Reserves

(a) Legal reserve

	2017 RO'000	2016 RO'000
1 January	**45,176**	40,214
Appropriation for the year (i)	**4,763**	4,762
Increase in legal reserve (ii), (iii)	**315**	200
31 December	**50,254**	45,176

(i) In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of 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.

(ii) During the year, the Bank received RO 432 thousand towards rights issue expenses and it incurred RO 117 thousand towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 315 thousand towards share issue expenses was transferred to the legal reserve.

(iii) During 2016, the Bank received RO 400 thousand towards the rights issue expenses and the Bank has incurred RO 200 thousand for the same. Accordingly, excess of receipts over expenses amounting to RO 200 thousand was transferred to legal reserve.

b) Subordinated loans reserve

	2017 RO'000	2016 RO'000
1 January	**31,550**	62,025
Appropriation for the year:		
Subordinated loan reserve	**10,775**	19,525
Transfer to retained earnings	**-**	(50,000)
31 December	**42,325**	31,550

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 movements in the investments revaluation reserve is analysed below:

	2017 RO'000	2016 RO'000
1 January	**1,459**	327
(Decrease) / increase in fair value	**(1,266)**	5
Net transfer to statement of comprehensive income on sale of available-for-sale investments	**(44)**	(466)
Impairment of available-for-sale investment	**358**	1,593
31 December	**507**	1,459

d) Special reserve

During 2013, the Bank recognised in its statement of comprehensive income, 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 10% 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.

21 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

22 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:

	2017	2016
Net assets (RO)	**471,507,000**	418,500,000
Number of shares outstanding at 31 December (Nos.)	**2,257,857,722**	1,899,201,401
Net assets per share (RO)	**0.209**	0.220

23 Net interest income

	2017 RO'000	2016 RO'000
Loans and advances to customers	**153,692**	137,138
Debt investments	**317**	76
Money market placements	**7,469**	4,312
Others	**21**	10
Total interest income	**161,499**	141,536
Deposits from customers	**(68,989)**	(45,405)
Money market deposits	**(7,905)**	(5,345)
Total interest expense	**(76,894)**	(50,750)
Net interest income	**84,605**	90,786

Interest income from debt investments represents interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 4,056 thousand (2016: RO 5,309 thousand).

24 Other income

	2017 RO'000	2016 RO'000
Foreign exchange	**4,357**	5,585
Investment income (see below)	**9,232**	6,475
Miscellaneous income	**2,960**	2,922
	16,549	14,982
Investment income		
Dividend income- available-for-sale investments	**352**	798
Gain on disposal of available-for-sale investments	**169**	668
Income on Sukuk	**1,228**	1,083
Interest income on Government Development Bonds and other bonds	**7,483**	3,926
	9,232	6,475

25 Staff and administrative costs

(a) Staff costs

	2017 RO'000	2016 RO'000
Salaries and allowances	**32,047**	30,108
Other personnel costs	**6,714**	5,988
Scheme costs	**566**	727
Non-Omani employees terminal benefit	**343**	303
	39,670	37,126

At 31 December 2017, the Bank had 1,514 employees (2016: 1,478 employees).

(b) Administrative costs

	2017 RO'000	2016 RO'000
Occupancy costs	**3,883**	3,814
Operating and administration cost	**11,089**	10,901
Impairment of goodwill	**398**	397
Others	**633**	1,122
	16,003	16,234

	55,673	53,360

26 Provision for loan impairment

	2017 RO'000	2016 RO'000
Provision for loan impairment (note 7 and 8)	**17,588**	19,925
Loans written-off	**3**	1
	17,591	19,926
Recoveries from provision for loan impairment (note 8)	**(6,047)**	(5,364)
Net impairment charge on loans, advances and financing to customer	**11,544**	14,562

27 Income tax

(a) Income tax expense:

	2017 RO'000	2016 RO'000
Current tax		
Current year charge	**9,036**	7,525
Prior years	**(632)**	(718)
	8,404	6,807
Deferred tax		
Current year	**(542)**	-
Prior years	**542**	-
	-	-
Tax expense for the year	**8,404**	6,807

(b) Reconciliation:

Perpetual Tier 1 coupon is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2017. The Bank had sought confirmation from the Secretariat General for Taxation (SGT) of the Bank's position on the deductibility of interest expense in Additional Tier 1 securities. However, in view of no confirmation received from the SGT in this regard, the Bank, on a conservative basis, has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

	2017 RO'000	2016 RO'000
Profit before tax	**56,031**	54,429
Tax liability at the rates mentioned above	**8,404**	6,528
Tax exempt revenue	**(53)**	(133)
Perpetual Tier 1 securities coupon	**-**	-
Non-deductible expenses	**143**	260
Current year tax	**(632)**	(718)
Deferred tax not recognised during the current year	**542**	870
Tax expense for the year	**8,404**	6,807

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

Particulars	2016 RO'000	Recognised in income	2017 RO'000
Property, plant and equipment	(223)	-	**(223)**
Intangible asset	(238)	-	**(238)**
Provisions (others)	523	-	**523**
Net deferred tax assets/(liability)	62	-	**62**

(d) Status of previous year returns:

The tax returns of the Bank for the years 2014 to 2016 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management 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 2017.

28 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:

	2017	2016
Profit for the year (RO)	**47,627,000**	47,622,000
Less : Additional Tier 1 Coupon	**(7,912,000)**	(7,912,000)
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities	**39,715,000**	39,710,000
Weighted average number of shares outstanding during the year	**2,073,819,084**	2,073,226,711
Earnings per share basic and diluted (RO)	**0.019**	0.019

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 10% bonus shares and bonus element in respect of right shares issued during the year. 142,440,105 shares represents the 7.5% bonus shares issued during the year.

29 Related parties transactions

In the ordinary course of business, the Bank conducts certain transactions 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:

	2017 RO'000	2016 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**36,588**	52,880
Other related parties	**18,345**	11,667
	54,933	64,547
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**36,663**	21,663
Other related parties	**31,775**	17,775
	68,438	39,438
Deposits and other accounts	**176,576**	264,633
Directors and shareholders holding 10% or more interest in the Bank	**129,123**	139,414
Other related parties	**305,699**	404,047
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**308**	793
Other related parties	**2,767**	2,210
	3,075	3,003
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**15**	16
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**107**	107
– sitting fees paid	**68**	67
	200	200
Other transactions		
Rental payment to related parties	**480**	471
Other transactions	**80**	84
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**46**	43
Key management compensation		

– salaries and other benefits	**1,534**	1,371

30 Fiduciary assets

At 31 December 2017 and 2016, there were no funds under management with the Bank.

31 Single borrower and senior members

	2017 RO'000	2016 RO'000
(a) Single borrower		
Total direct exposure	**179,415**	164,661
Number of members	**3**	2
(b) Senior members		
Total exposure:		
Direct	**60,052**	69,126
Indirect	**3,150**	3,003
	63,202	72,129
Number of members	**25**	29

32 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:

	2017 RO'000	2016 RO'000
Letters of credit	**132,067**	125,671
Guarantees and performance bonds	**886,902**	920,277
	1,018,969	1,045,948

At 31 December 2017, letters of credit, guarantees and other commitments amounting to RO 240,088 thousand (2016: RO 262,163 thousand) are counter guaranteed by other banks.

At 31 December 2017, the unutilised limits towards the loans, advances and financing to customers amounts to RO 960,137 thousand (2016: 832,992 thousand).

(b) Capital and investment commitments

	2017 RO'000	2016 RO'000
Contractual commitments for property and equipment	**1,157**	867

33 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:

		Fair value increase / decrease	
	Contract/notional amount RO'000	Assets RO'000	Liabilities RO'000
At 31 December 2017			
Derivatives:			
Currency forward - purchase contracts	**610,561**	**1,132**	**-**
Currency forward - sales contracts	**605,837**	**-**	**1,243**
Interest rate swaps	**86,185**	**6,558**	**6,396**
At 31 December 2016			
Derivatives:			
Currency forward - purchase contracts	493,998	175	-
Currency forward - sales contracts	490,450	-	791
Forward rate agreements	9,625	-	2
Interest rate swaps	15,400	167	154
Currency options – bought	4,474	215	-
Currency options – sold	4,474	-	215

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of comprehensive income.

	Assets		Liabilities	
	2017 RO'000	2016 RO'000	**2017 RO'000**	2016 RO'000

Expected cash flow less than 6 months	**-**	-	**111**	616

34 Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2017 are considered by the management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short term nature.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

Fair value versus carrying amounts

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 2017	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Cost RO'000	Total RO'000
Available-for-sale investments				-	
Equity instruments	**10,354**	**3,116**	**-**	**13,167**	**13,470**
Sukuk	**12,144**	**10,198**	**-**	**22,138**	**22,342**
At 31 December 2016					
Available-for-sale investments					
Equity instruments	17,367	-	2,308	18,414	19,675
Sukuk	6,363	10,198	-	16,363	16,561

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, level 2 and level 3 of the fair value hierarchy of available-for-sale investments during the year.

35 Financial risk management

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

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

Credit risk

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

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

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using external leading rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

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 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**
31 December 2016						
Sultanate of Oman	142,890	3,101,807	222,095	2,882,711	249,026	932,027
Other GCC countries	92,600	5,667	-	2,252	89,973	32,128
Europe and North America	60,011	-	32,676	5	-	45,695
Africa and Asia	44,968	-	-	221	11,550	36,098
	340,469	3,107,474	254,771	2,885,189	350,549	1,045,948

(a) 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 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**
31 December 2016						
Personal	-	1,393,700	-	601,045	-	195
Corporate	340,469	1,593,796	58,738	1,135,715	350,549	1,039,701
Government	-	119,978	196,033	1,148,429	-	6,052
	340,469	3,107,474	254,771	2,885,189	350,549	1,045,948

(b) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers banks RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000
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**
31 December 2016			
Personal	1,393,700	601,045	195
International trade	128,205	43,645	38,312
Construction	564,320	140,291	487,567
Manufacturing	233,535	38,603	64,075
Wholesale and retail trade	38,513	8,841	28,607
Communication and utilities	45,487	2,025	87,453
Financial services	180,735	82,480	234,532
Government	119,978	1,148,429	6,052
Other services	169,095	153,137	73,795
Others	233,906	666,693	25,360
	3,107,474	2,885,189	1,045,948

(c) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2017 RO'000	2016 RO'000	**2017 RO'000**	2016 RO'000
Overdrafts	**173,297**	146,303	**164,179**	154,004
Loans	**2,628,663**	2,431,536	**2,893,419**	2,360,079
Loans against trust receipts	**116,350**	113,992	**119,546**	115,204
Bills discounted	**13,348**	20,817	**13,145**	10,312
Advance against credit cards	**8,516**	7,746	**7,986**	7,724
Advance against receivable	**58,734**	75,522	**64,931**	61,563
Islamic Banking Window financing	**387,917**	311,558	**360,020**	264,214
Total	**3,386,825**	3,107,474	**3,623,226**	2,973,100

(d) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
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**
31 December 2016			
Overdrafts	146,303	-	146,303
Loans	2,426,306	5,230	2,431,536
Loans against trust receipts	113,992	-	113,992
Bills discounted	20,380	437	20,817
Advance against credit cards	7,746	-	7,746
Others	75,522	-	75,522
Islamic Banking Window financing	311,558	-	311,558
	3,101,807	5,667	3,107,474

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

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
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**	**183,600**	**3,386,825**	**1,018,969**
31 December 2016						
Import trade	12,214	92,741	-	15,258	120,213	29,792
Export trade	749	6,962	-	281	7,992	8,520
Wholesale/retail trade	10,243	25,179		3,091	38,513	28,607
Mining and quarrying	4,721	14,430	838	617	20,606	816
Construction	63,473	374,044	3,459	123,344	564,320	487,567
Manufacturing	13,358	171,658	7,356	41,163	233,535	64,075
Electricity, gas and water	207	29,955	-	5	30,167	80,532
Transport and Communication	831	14,489	-	-	15,320	6,921
Financial institutions	1,021	171,024	8,690	-	180,735	234,532
Services	20,854	147,119	-	1,122	169,095	73,795
Personal loans	3,223	1,382,937	-	7,540	1,393,700	195
Agriculture and allied Activities	3,927	8,496	37	1,735	14,195	2,052
Government	-	119,977	-	1	119,978	6,052
Non-resident lending	-	5,230	437	-	5,667	-

Others	11,482	178,853	-	3,103	193,438	22,492
	146,303	2,743,094	20,817	197,260	3,107,474	1,045,948

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

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2017						
Upto 1 month	**8,665**	**45,437**	**13,348**	**2,122**	**69,572**	**392,125**
1 - 3 months	**8,665**	**210,389**	**-**	**6,362**	**225,416**	**50,609**
3 - 6 months	**8,665**	**45,178**	**-**	**1,635**	**55,478**	**44,454**
6 - 9 months	**8,665**	**5,520**	**-**	**13,320**	**27,505**	**34,345**
9 - 12 months	**8,665**	**30,989**	**-**	**4,219**	**43,873**	**22,540**
1 - 3 years	**43,324**	**109,208**	**-**	**66,314**	**218,846**	**168,162**
3 – 5 years	**43,324**	**167,962**	**-**	**20,407**	**231,693**	**223,087**
Over 5 years	**43,324**	**2,401,897**	**-**	**69,221**	**2,514,442**	**83,647**
	173,297	**3,016,580**	**13,348**	**183,600**	**3,386,825**	**1,018,969**
31 December 2016						
Upto 1 month	7,315	36,450	20,817	1,378	65,960	405,945
1 - 3 months	7,315	193,788	-	7,722	208,825	43,447
3 - 6 months	7,315	36,916	-	5,607	49,838	35,652
6 - 9 months	7,315	5,575	-	11,978	24,868	19,917
9 - 12 months	7,315	308	-	16,152	23,775	23,515
1 - 3 years	36,576	147,750	-	84,913	269,239	202,547
3 – 5 years	36,576	138,529	-	9,942	185,047	249,092
Over 5 years	36,576	2,183,778	-	59,568	2,279,922	65,833
	146,303	2,743,094	20,817	197,260	3,107,474	1,045,948

(g) Distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans	Non-performing loans RO'000	General provisions	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
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**
31 December 2016							
Import trade	110,756	9,457	1,150	1,262	7,808	7	-
Export trade	7,987	5	71	4	2	-	-
Wholesale/retail trade	14,897	23,616	182	4,937	18,829	3	-
Mining and quarrying	20,599	7	207	878	3	299	-
Construction	561,106	3,214	5,688	4,128	2,442	3,846	-
Manufacturing	233,306	229	2,444	75	154	-	42
Electricity, gas and water	30,159	8	316	-	7	-	-
Transport and communication	15,320	-	160	-	-	-	-
Financial institutions	180,734	1	1,897	-	-	-	-
Services	168,611	484	1,693	140	159	61	-
Personal loans	1,353,687	40,013	24,485	21,143	9,210	11,379	87
Agriculture and allied activities	14,184	11	148	7	3	-	-
Government	119,978	-	1,259	-	-	-	-
Non-resident lending	437	5,230	6	4,429	910	-	-

Others	192,378	1,060	1,994	539	113	410	-
	3,024,139	83,335	41,700	37,542	39,640	16,005	129

(h) Distribution of impaired loans and gross loans by geographical distribution:

	Gross loans and financing to customers RO'000	Non-performing loans and financing RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision made during the year RO'000	Advances written off during the year RO'000
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**
31 December 2016							
Sultanate of Oman	3,101,807	78,105	41,694	33,113	38,730	16,005	129
Other countries	5,667	5,230	6	4,429	910	-	-
	3,107,474	83,335	41,700	37,542	39,640	16,005	129

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

	2017 RO'000	2016 RO'000
Treasury bills	**49,917**	28,875
Loans, advances and financing to banks	**299,896**	340,060
Loan, advances and financing to customers	**3,248,873**	2,988,592
Government development bonds	**195,126**	179,670
	3,793,812	3,537,197
Off-balance sheet items		
Financial guarantees	**886,902**	890,145
	4,680,714	4,427,342

At 31 December 2017, impairment losses would have increased by RO 2,288,000 (2016: RO 1,553,000) had collateral not been obtained by the Bank for the impaired loans and advances.

Liquidity risk

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

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

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

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

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 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**
Held-to-maturity investments	**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**

	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 2016						
Cash and balances with Central Bank of Oman	265,389	-	-	-	500	265,889
Loans and advances to banks	93,107	178,227	58,971	9,755	-	340,060
Loans and advances to customers	302,854	335,752	170,409	742,836	1,436,741	2,988,592
Available-for-sale investments	-	-	19,675	16,561	-	36,236
Held-to-maturity investments	9,615	19,250	12,251	89,523	87,896	218,535
Intangible asset	-	-	-	-	1,589	1,589
Property and equipment	-	-	-	-	8,328	8,328
Other assets	17,540	67,387	480	60	7,347	92,814
Total assets	688,505	600,616	261,786	858,735	1,542,401	3,952,043
Due to banks	68,708	81,641	200,200	-	-	350,549
Deposits from customers	361,007	457,994	434,291	1,027,239	604,658	2,885,189
Other liabilities	38,239	79,003	1,298	6,707	3,183	128,430
Subordinated loans	-	-	-	53,875	-	53,875

Total equity	-	47,622	-	115,500	370,878	534,000
Total liabilities and shareholders' equity	467,954	666,260	635,789	1,203,321	978,719	3,952,043

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

	2017 RO'000	2016 RO'000
Net assets denominated in US Dollars	**113,705**	22,165
Net assets denominated in other foreign currencies	**1,782**	4,845
	115,487	27,010

(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%	
	2017 RO'000	2016 RO'000	2017 RO'000	2016 RO'000
Omani Rials	**7,551**	7,829	**15,102**	15,658
US Dollars	**4,676**	4,971	**9,351**	9,942
Others currencies	**1,505**	149	**3,010**	298
	13,732	12,949	**27,463**	25,898

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 2017								
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
Held-to-maturity investments	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	-	-

	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 2016								
Cash and balances with Central Bank of Oman	0.05%	104,009	-	-	-	500	161,380	265,889
Loans and advances to banks	1.0%	95,582	243,103	-	-	-	1,375	340,060
Loans and advances to customers	5.2%	557,530	1,067,794	104,217	684,477	574,574	-	2,988,592
Available-for-sale Investments	4.84%	-	-	-	16,561	-	19,675	36,236
Held-to-maturity investments	2.5%	9,615	19,250	12,251	89,523	87,896	-	218,535
Intangible asset		-	-	-	-	-	1,589	1,589
Property and equipment		-	-	-	-	-	8,328	8,328
Other assets		-	-	-	-	-	92,814	92,814
Total assets		766,736	1,330,147	116,468	790,561	662,970	285,161	3,952,043
Due to banks	1.7%	314,338	36,211	-	-	-	-	350,549
Deposits from customers	1.8%	208,345	337,152	428,310	853,439	30,110	1,027,833	2,885,189
Other liabilities		-	-	-	-	-	128,430	128,430
Subordinated loan	5.3%	-	-	-	53,875	-	-	53,875
Shareholders' equity		-	47,622	-	115,500	-	370,878	534,000
Total liabilities and equity		522,683	420,985	428,310	1,022,814	30,110	1,527,141	3,952,043
On-balance sheet gap		244,053	909,162	(311,842)	(232,253)	632,860	(1,241,980)	-
Cumulative interest sensitivity gap		244,053	1,153,215	841,373	609,120	1,241,980	-	-

(c) Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity and debt investments. However, 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 to statement of comprehensive income.

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

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

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 638,380. (2016: decrease by RO 960,680).

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 35,120 (2016: decrease / increase by RO 23,065).

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 2017, 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 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 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.
- 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.
- 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.

36 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.

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, 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 18 to 21.

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 2017 is 15.44% (2016: 14.41%).

	2017 RO'000	2016 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**225,786**	189,920
Legal reserve	**50,254**	45,176
Share premium	**77,564**	59,618
Special reserve	**18,488**	18,488
Subordinated loan reserve	**42,325**	31,550
Retained earnings	**10,145**	32,406
Proposed bonus shares	**18,063**	14,244
CET I/Tier I Capital	**442,625**	391,402
Additional Tier I regulatory adjustments:		
Deferred tax Assets	**(62)**	(62)
Goodwill	**(1,191)**	(1,589)
Negative investment revaluation reserve	**(233)**	(196)
Total CET 1 capital	**441,139**	389,555
Additional Tier I capital (AT1)	**115,500**	115,500
Total Tier 1 Capital (T1=CET1+AT1)	**556,639**	505,055
TIER II CAPITAL		
Investment revaluation reserve	**275**	682
General provision	**43,606**	42,109
Subordinated loan	**46,550**	22,325
Total Tier II capital	**90,431**	65,116
Total eligible capital	**647,070**	570,171
Risk weighted assets		
Banking book	**3,881,383**	3,674,545
Trading book	**64,370**	56,817
Operational risk	**243,793**	224,316
Total	**4,189,546**	3,955,678
Total Tier 1 Capital (T1=CET1+AT1)	**556,639**	505,055
Tier II capital	**90,431**	65,116
Tier III capital	**-**	-
Total regulatory capital	**647,070**	570,171
Common Equity Tier 1 ratio	**10.53%**	9.85%

Tier I capital ratio	**13.29%**	12.77%
Total capital ratio	**15.44%**	14.41%

37 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.

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
At 31 December 2017				
Segment operating revenues	85,705	86,424	8,212	180,341
Other revenues	5,527	14,479	13,795	33,801
Segment operating revenues	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)	(58,9943)
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

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
At 31 December 2016				
Segment operating revenues	79,782	70,000	4,528	154,310
Other revenues	6,074	11,557	12,060	29,691
Segment operating revenues	85,856	81,557	16,588	184,001
Interest, Islamic Window Deposit expenses	(21,088)	(28,355)	(7,207)	(56,650)
Net operating income	64,768	53,202	9,381	127,351
Segment cost				
Operating expenses including depreciation	(27,872)	(25,272)	(3,623)	(56,767)
Impairment for loans and investment net recoveries from allowance for loans impairment	(7,696)	(6,866)	(1,593)	(16,155)
Profit from operations after provision	29,200	21,064	4,165	54,429
Tax expenses	(3,653)	(2,635)	(519)	(6,807)
Net profit for the year	25,547	18,429	3,646	47,622
Segment assets	1,463,020	1,851,082	757,232	4,071,334
Less: Impairment allowance	(54,838)	(64,044)	(409)	(119,291)
Total segment assets	1,408,182	1,787,038	756,823	3,952,043
Segment liabilities	1,050,501	1,962,844	404,698	3,418,043

Islamic Banking Window

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
At 31 December 2017				
Segment operating revenues	**7,290**	**11,414**	**138**	**18,842**
Other revenues	**186**	**603**	**1,565**	**2,354**
Segment operating revenues	**7,476**	**12,017**	**1,703**	**21,196**
Profit expenses share of profit	**(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**

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
At 31 December 2016				
Segment operating revenues	5,100	7,661	13	12,774
Other revenues	105	673	1,201	1,979
Segment operating revenues	5,205	8,334	1,214	14,753
Profit expenses share of profit	(307)	(4,940)	(653)	(5,900)
Net operating income	4,898	3,394	561	8,853
Segment cost				
Operating expenses including depreciation	(1,723)	(2,445)	(917)	(5,085)
Impairment allowance	(234)	(353)	-	(587)
Net profit for the year	2,941	596	(356)	3,181
Segment assets	127,480	191,598	134,645	453,723
Less: Impairment allowance	(1,399)	(1,618)	-	(3,017)
Total segment assets	126,081	189,980	134,645	450,706
Segment liabilities	9,136	270,321	97,034	376,491

38 Dividends – proposed and declared

The Board of Directors in their meeting held on 29 January 2017 proposed a cash dividend of 12% (2016: 13.5%) for the year ended 31 December 2017 amounting to RO 27.09 million (2016: RO 25.64 million) and a bonus share issue of 8% (2016: 7.5%) amounting to 180,628,618 shares (2016: 142,440,105 shares) of RO 0.100 each.

During the year, unclaimed dividend amounting to RO 64,389 (2016: RO 11,446) 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 2017 approved the issuance of 7.5% bonus shares comprising 142,440,105 shares of par value RO 0.100 each (2016: 154,472,855 shares of par value RO 0.100 each) and 13.5% (2016 – 15%) as cash dividend of the paid share capital of the Bank amounting to RO 25,639 thousand for the year ended 31 December 2016. (2016 – RO 23,171 thousand for the year ended 31 December 2015).

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MAISARAH ISLAMIC BANKING

ميسرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

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ANNUAL REPORT OF **SHARI'A SUPERVISORY BOARD** 31ST DECEMBER 2017

ميسرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

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 31/12/2017:

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 31/12/2017. We have also conducted our review to form an opinion as to whether the MIBS has complied with Shari'a 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 Shari'a 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 contacts, transactions and dealings entered into by the Maisarah during the year ended 2017 that we have reviewed are in compliance with Shari'a principles;
b) 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 Shari'a principles;
c) 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 Shari'a 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 2017, however more focus is required for training of new and existing staff in 2018;
b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;
c) As MIBS operations are expected to increase in 2018, therefore, management should further focus on ensuring highest standard of Shari'a compliance;
d) The SSB advises MIBS to actively participate in Shari'a 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 Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan
Member

Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati
Member

Sheikh Dr. Abdullah bin Mubarak Al Abri
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Annexure (as per IBRF 2.2.2.14)

Fatwas Issued by the Shari'a Supervisory Board (SSB) of Maisarah Islamic Banking Services during the year 2017

S.No.	Fatwa Reference Number	Fatwa Title	Executive Summary	Shari'a evidence/bases
1	24/1/2017	Wakala Deposit with Advance Profit	SSB has issued a Fatawa for approving the Wakala Deposit with Advance Profit product. This product is based on the Islamic concept of Wakala whereby Maisarah Islamic Banking Services (MIBS) will be appointed as a Wakil by the customer to invest the funds in Shari'a compliant business. However, MIBS can pay the anticipated profit to the customer (Principle) in advance at the time of accepting the deposit. This advance payment of profit will be considered as on account basis and will be subject to actual settlement based on actual return generated from the investments.	AAOIFI Sharia Standard No. 45 Al-Wakalah Bi Al-Istithmar
2	25/2/2017	Early Settlement Charges	SSB has issued a Fatwa for approving the following scenarios for early settlements 1. Under Diminishing Musharaka (DM) product, MIBS can sell its share at a mutually agreed price at the time of actual sale. MIBS may agree a predefined formula with the customer to calculate the selling price. 2. Under Ijarah product, MIBS can sell the asset to customer at a mutually agreed price at the time of actual sale. MIBS may agree a predefined formula with the customer to calculate the selling price. 3. Under Murabaha, Musawama, Mudarabah and Service Ijarah, MIBS at its discretion may give rebate to customer.	AAOIFI Shari'a Standard No. 8 Murabaha, AAOIFI Sharia Standard No. 9 Ijarah and Ijarah Muntahia Bittamleek and AAOIFI Sharia Standard No. 13 Mudarabah
3	26/3/2017	Ijarah product for corporate customers	SSB has issued a Fatwa for approving the corporate Ijarah product. This product is based on the Islamic concept of Ijarah wherein MIBS will lease the asset to customer.	AAOIFI Shari'a Standard No. 9 Ijarah and Ijarah Muntahia Bittamleek
4	27/4/2017	Wakala Finance	SSB has issued a Fatwa for approving the corporate Wakala product. Under the subject product, MIBS (Principal) will appoint Customer as its agent (investment agent) for investing the funds provided by MIBS in its (agent's) Shari'a Compliant business to generate an anticipated profit and MIBS will provide a fee to customer for providing the services as an agent.	AAOIFI Shari'a Standard No. 45 Al-Wakalah Bi Al-Istithmar
5		Golden Group Sukuk	SSB has issued a fatwa approving the Golden Group Sukuk. The subject sukuk is based on the Islamic concept of Wakala.	AAOIFI Shari'a Standard No. 45 Al-Wakalah Bi Al-Istithmar

Disclaimer: if further detailed information is required about the fatwas kindly contact Maisarah Islamic Banking Services.

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 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

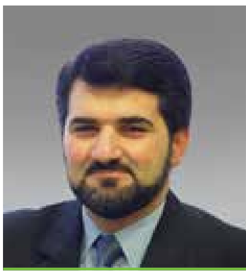
Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Dr. Abdullah bin Mubarak Al Abri

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
- Maisarah Islamic Banking Services

Ismail Jama Ismail Bait Isihaq
Chief Operating Officer

Yousuf Mohammed Suleiman Al Balushi
Head of Treasury

Jamsheed Hamza
Head of Retail

Fawaz Rajab Al Ojaili
Head of Corporate Banking

1.0

MANAGEMENT DISCUSSION & ANALYSIS REPORT 31ST DECEMBER 2017

مـيْـسـرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

MAISARAH ISLAMIC BANKING 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 now operates with total network of 10 branches strategically located across Sultanate of Oman.

In recognition of its contribution towards growth of Islamic Banking, its community, strong financial performance and commitment to the highest level of customer satisfaction through its product and services, Maisarah was topped with the following awards in 2017:

- Best Islamic Bank in Oman at the EMEA Finance's Achievement Awards 2017.
- Best Islamic Community Support Bank 2017 by Global Financial Market Review

The major units operating under Maisarah and Maisarah Financial performance as at December 2017 is given as under;

MAISARAH WHOLESALE BANKING GROUP (WBG)

In order to provide customized financial solutions to the customers, the WBG is categorized into two segments, namely Corporate and SME. There is a dedicated team for each business segment that offers banking solutions to corporate customers covering working capital requirements, term finance, and project finance. Syndicate arrangements and trade finance solutions in easy and practical ways.

Despite tough economic indicators and prevalent market challenges, during the fiscal year 2017, WBG-MIBS was able to further consolidate their market position and recorded strong performance. Portfolio has been increased from OMR 184.63 Million to OMR 230.51 Million (increase of 45.88 million), thus indicating and aggregate growth of 24.85% while also 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 Tourism, Education, Quarry & Mining, Trading, Health, oil and gas, contracting and Manufacturing Sectors. The geographic coverage was achieved through increased branch network and a shifting of dedicated Corporate Office in central area of Salalah.

New products introduced during the year included Inventory Finance and Wakala which provided great flexibility to the Customers and also increase the outreach of WSBG. The WBG products have been designed after careful consideration of the Omani market and business requirements. These products will provide further options and flexibility to the existing and potential clientele including Corporate, SME and even Individual entrepreneurs. WBG will look to arrange corporate seminars, personalize get-together with key personnel's of business entities during the coming year to maintain a close liaison with the existing clientele and introduce the offerings to potential customers.

Although there were remain several challenges during FY-17 however Year 2018 is a year filled with positivity and a challenge to increase our presence and dynamics given the stabilizing anticipation, confidence and the strength of the portfolio for another strong year.

MAISARAH RETAIL BANKING SERVICES

Retail Banking Services started off the year with a strong footing of 10 branches across Oman which include Azaiba, Salalah, Sohar, Birkat Al Mouz, Al Hail, New Salalah, Araqi, Sur, Greater Muttrah & Al Khuwair. In addition, Maisarah Retail products were developed to meet every customer needs. Retail portfolio registered a growth of 23.9% in assets and 75.0% in liabilities in spite of the challenging market conditions.

During the year many initiatives were rolled out which include Instant Card Issuance, Internet Banking and enhanced Prize Account for customers. All these initiatives helped to exceed customer expectation.

INVESTMENT & CAPITAL MARKETS

As part of the growth strategy of Maisarah, Investment Banking and Capital Markets department was established in 2017. The focus of this department besides investments is to create and distribute Shari'a 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 department managed to secure an advisory deal and Debt Capital Market (Sukuk) transaction. The Sukuk transaction was mandated to Maisarah's Investment Banking & Capital Market by Golden Group Holding LLC. The deal is to structure an OMR 200 million Sukuk program. Besides being the lead issue manager for this transaction, Maisarah was also appointed as the Security Agent and Shari'a Advisor. This has been a unique transaction as it will be the first secured Sukuk program in Oman.

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 Shari'a compliant.

MAISARAH – TREASURY

Maisarah's Treasury continued to make further improvement and drive the bank's balance sheet despite facing liquidity pressures from the local and GCC markets. Maisarah's Treasury ensured to meet all regulatory ratios with regards to liquidity, financing and the overall Asset and Liability mismatch.

Maisarah Treasury contributed to the overall profitability of the bank by ensuring that the Bank always maintains the optimal level of required liquidity. Despite the lack of short term liquidity instruments in the local market, Maisarah's treasury was able to generate positive returns by placing funds within the local interbank market. In addition, Maisarah's treasury also participated in Oman's USD denominated Sukuk in order to expand its USD balance sheet.

As a result, Maisarah was able to improve the overall performance of the bank and establish itself as a leading Islamic Banking Entity in the Sultanate of Oman.

SHARI'A SUPERVISORY BOARD

Maisarah's Shari'a Supervisory Board (SSB) is the highest authority in Maisarah to decide on the Shari'a related matters. With the aim of upholding the highest Shari'a standards, SSB held 5 meetings during the year including 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 Shari'a compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Shari'a governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Shari'a Compliance and the Audit Department.

SHARI'A COMPLIANCE AND AUDIT DEPARTMENT

A full-fledged Shari'a Compliance and Audit department is working under the supervision of Shari'a Supervisory Board (SSB), in order to ensure that all the business operations conducted by Maisarah are in-line with the Shar'ia principles and as per the Shari'a Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Shari'a Compliance Unit and Shari'a Audit Unit.

To implement Shari'a controls and ensure highest standards of Shari'a compliance, the Shari'a department works closely with all departments and management within Maisarah to ensure all activities, operations and transactions are conducted in accordance with Shari'a rules, principles and IBRF guidelines.

As a part of its role, the Shari'a 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 Shari'a Compliance and Audit department. Furthermore, Maisarah has entered into an engagement with an External Shari'a Auditor that conducted a third party independent Shari'a audit and review to ensure highest standards of Shari'a compliance are maintained within Maisarah. The Shari'a 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

In the preceding year MO&SS has achieved several mile stones. It has undertaken several projects that enhanced the efficiency of operations, lowered turnaround time, and improved customer service.

- Wage Protection System
- ACH Credit update
- Funds transfer compliance tracking
- PCI-DSS (Masking of Debit & Credit card)

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&S 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 sound infrastructure support.

Product Development

As a part of the core strategy for providing complete range of Shari'a compliant products and services, Maisarah has established a dedicated product development department that focuses on developing new and innovative product along with enhancing the existing products through continuous research and customer feedback. The main objective of product development is to design product structures that meets the customer requirements in the best possible manner, whilst helping Maisarah expand its business.

During the year, Product Development department has successfully launched Prize Scheme for 2017 under Prize Account product for its retail customers based on the Shari'a structure of Mudarabah. The Scheme provides chances for customers to win prizes, which are paid from shareholder's funds. For wholesale banking customers, Maisarah product development developed an innovative Wakalah based term finance solution to provide financing for customer's working capital requirements.

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:

- Mobile Banking
- Instant Issuance of Debit Card

- Internet Banking
- Wage Protection System
- ACH New System
- Safe Watch
- PCI-DSS
- FATCA/KYC/AML

Maisarah - Financial Performance

Maisarah Islamic Banking Services has posted a solid growth in balance sheet footings during the year 2017. Its Total Assets has grown to OMR 543.28 million at December 2017 from OMR 450.71 million at December 2016, a growth of 20.54% over the last year. Gross Financing portfolio has increased by 24.47% to OMR 387.78 million at December 2017 from OMR 311.55M at the December 2016. As compared to previous year end Customer deposits have increased to OMR 376.78 million at December 2017 from OMR 285.67 million at December 2016, a growth of 31.89%. Maisarah Investment portfolio also registered a growth of 21.76%; total investment in Sukuk at December 2017 stood at OMR 32.34 million compared to OMR 26.56 million at December 2016.

A brief analysis of our diverse financing portfolio as at December 31, 2017 is as follows:

Particulars	OMR in Million	
	2016	2017
Murabaha & Other receivables	9.81	**26.99**
Mudaraba financing	24.85	**23.48**
Diminishing Musharaka financing	239.69	**292.74**
Ijarah Muntahia Bittamleek	37.13	**44.33**
Credit Card receivable	0.07	**0.24**
Gross Financing to customers	311.55	**387.78**
Less: Allowance for impairment	(3.02)	**(4.34)**
Net Financing	308.53	**383.44**

Customer deposits of Maisarah as at December 31, 2017 comprises of the following:

Particulars	OMR in Million	
	2017	2016
Current accounts	**70.24**	37.84
Margin accounts	**1.91**	2.05
Saving accounts	**26.28**	15.23
Term deposits	**278.35**	230.55
Total customer deposits	**376.78**	285.67

- **Assigned capital**

Maisarah started its operations in 2013 with the assigned capital of OMR 10 million. With further capital allocation, the total capital as at 31st December 2017 is at OMR 55 million.

• Income Statement

Particulars	OMR in Million	
	2017	**2016**
Net financing income	**9.75**	7.96
Fees, commissions & other income	**1.13**	0.89
Total Operating Income	**10.88**	8.85
Total operating costs	**(6.37)**	(5.08)
Net operating profit / (loss)	**4.51**	3.77
Impairment allowance	**(1.32)**	(0.59)
Net profit / (loss) before tax	**3.19**	3.18

Maisarah key profitability indicators also recorded a growth compared to the previous year. The net financing income increased to OMR 9.75 million as at December 2017 compared to OMR 7.96 million achieved in the previous year of 2016, thus recording a growth of 22.48%. Non funded income has also increased by 26.97% to OMR 1.13 million in 2017 from OMR 0.89 million in 2016.

For the year 2017, Maisarah Islamic Banking Services declared a net profit before tax of OMR 3.19 million compared to a net profit before tax of OMR 3.18 million in 2016.

1.1

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 BankDhofar S.A.O.G (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, share premium, Additional Tier 1 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).

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt 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 Amount
Paid up capital	55,000
Share Premium	-
Legal Reserve	-
Subordinated Debt Reserve	-
Retained earnings	6,967
Proposed Stock Dividend	-
Common Equity Tier 1 Capital (CET1)	**61,967**
Additional Tier 1 Capital (AT1)	-
Total Tier 1 Capital (T1=CET1+AT1)	**61,967**
Tier 2 Capital (T2) : Instruments and provisions	
Subordinated Debt	-
General Provisions (upto 1.25% of risk-weighted assets)	3,747
PER & IRR	9
Total Tier 2 Capital (T2)	**3,756**
Total Regulatory Capital (TC=CET1+AT1+ T2)	**65,723**

Unrestricted IAH Funds	RO'000 Amount
PER (Shareholders Component)	3
PER (IAH Component)	4
IRR	2

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 14.01% as against the CBO requirement of 12%. 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) Position of various Risk weighted Assets (RWA) 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	568,323	567,598	419,149
2	Off balance sheet items	15,180	15,180	6,520
3	Derivatives	-	-	-
4	Total Credit Risk (RWA)	**583,503**	**582,778**	**425,669**
5	Market Risk (RWA)			12,913
6	Operational Risk (RWA)			30,501
7	Total Risk Weighted Assets			**469,083**

* Net of specific provisions and reserve profit

ii) Detail of Capital Adequacy:

Sl. No	Details	RO'000
1	Tier 1 Capital	61,967
2	Tier 2 Capital	3,756
3	**Total Regulatory Capital**	**65,723**
4	Capital Requirement for Credit Risk	51,080
5	Capital Requirement for Market Risk	1,550
6	Capital Requirement for Operational Risk	3,660
7	**Total Required Capital**	**56,290**
8	Tier 1 Capital Ratio	13.21%
9	Total Capital Adequacy Ratio	14.01%

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	27,236	26,846	26,756
2	Mudaraba Financings	23,481	23,259	106,472
3	Ijarah Assets	44,333	43,851	31,590
4	Diminishing Musharaka Financing	292,731	289,489	231,910

* Net of provisions and reserve profit

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.

3.3.1 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 Credit 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 external 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. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the financing categorized as Standard and Special Mention for meeting the latent financing losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal financing is created considering the heightened risk inherent in retail finance. In terms of International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, Maisarah shall adopt the new accounting standard with effective from 1st January 2018. Maisarah has put in place necessary infrastructure to estimate the expected credit loss as per IFRS 9 guidelines.

All financing decisions are made after giving due consideration to credit risk policy requirements.

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	Average Gross exposure RO'000	Total Gross exposures RO'000	Percentage of total financing %
1	Murabaha and Other Receivables	18,493	27,236	7.02%
2	Mudaraba Financing	27,399	23,481	6.06%
3	Ijarah Assets	42,118	44,333	11.43%
4	Diminishing Musharaka Financing	271,931	292,731	75.49%
	TOTAL	**359,941**	**387,781**	**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	Murabaha and other Receivables	27,236	-	-	-	27,236
2	Mudaraba Financing	23,481	-	-	-	23,481
3	Ijarah Assets	44,333	-	-	-	44,333
4	Diminishing Musharakah Financing	292,731	-	-	-	292,731
	Total	**387,781**	**-**	**-**	**-**	**387,781**

*excluding countries included in column 2

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

Economic Sector	Murabaha and other receivables RO'000	Mudaraba Financing RO'000	Diminishing Musharaka 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 and quarrying	-	455	1,279	-	-
Construction	1,262	13,234	107,561	-	4,728
Manufacturing	7,215	4,519	6,832	-	3,615
Transport and Communication	130	-	336	-	-
Services	54	1,986	66,456	-	725
Retail	8,555	-	104,382	44,333	-
Others	-	-	3,025	-	-
Total	**27,236**	**23,481**	**292,731**	**44,333**	**12,780**

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

	Murabaha and other receivables RO'000	Mudaraba Financing RO'000	Diminishing Musharaka 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	-
Total	**27,236**	**23,481**	**292,731**	**44,333**	**12,780**

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

	Performing Murabaha and other receivables RO'000	Performing Mudaraba Financing RO'000	Performing Diminishing Musharaka Financing RO'000	Performing Ijarah Muntahia Bittamleek RO'000	Non-Performing Financing RO'000	General provisions made during the year RO'000	Specific provisions made during the year 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 and 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 and communication	130	-	336	-	-	(3)	-
Financial institutions	-	77	-	-	-	(1)	-
Services	54	1,986	66,456	-	-	(670)	-
Personal finance	8,555	-	104,326	44,298	91	(1,761)	(23)
Agriculture and allied activities	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-
Non resident lending	-	-	-	-	-	-	-
Others	-	-	3,025	-	-	(31)	-
Total	**27,236**	**23,481**	**290,837**	**44,298**	**1,929**	**(3,747)**	**(589)**

vi) Financing by type of counterparty:

Segment	RO in 000's	%
Retail	157,270	40.56%
Corporate	230,511	59.44%

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

i) 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.

ii) 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) are assigned 100% risk weight.

Sl. No.	Risk bucket	0%	1%	20%	35%	50%	75%	100%	150%	300%	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Sovereigns (Rated)	103,543									103,543
2	Banks (Rated)			41,606							41,606
3	Corporate							22,688		19,830	42,518
4	Retail							8,555			8,555
5	SME						68,581	-		3,651	72,232
6	Claims secured by residential property				99,120			49,504			148,624
7	Claims secured by commercial property							113,923			113,923
8	Past due loans							1,929			1,929
9	Other assets							14,236			14,236
10	Un-drawn exposure						4,119	5,028		12,010	21,157
11	Off-balance sheet items			6,921		6,246		2,013			15,180
	Total	**103,543**	**-**	**48,527**	**99,120**	**6,246**	**72,700**	**217,876**	**-**	**35,491**	**583,503**

3.3.3 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.

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.

3.3.4 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.

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

i) 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.

ii) 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.

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.

iii) Commodity Risk:

Presently Maisarah has no exposure to the commodity market.

iv) Equity Position Risk:

Presently Maisarah has no exposure to the Equity market.

v) 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 12,913k, thus the capital charge for various components of market risk in Maisarah is RO 1,033K.

3.3.5 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.

3.3.6 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 Operational Risk Management 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 86 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 2,440K.

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	Amount RO in 000's
Saving Account	26,278
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 IRR 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 2017, 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 6 times (including one meeting with Board of Directors) in the year 2017 and the remuneration paid for the year ended 31 December 2017 for SSB members are as follows:

	2017 RO'000	2016 RO'000
Remuneration paid to SSB members		
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**3**	3
Other Members		
– remuneration proposed	**24**	24
– sitting fees paid	**7**	8

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 201k 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	0.028%
2	IRR to PSIA Ratio	0.008%

4.3) Movement in PER & IRR

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

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

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.

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:

Sl. No.	Details	2017 %	2016 %	2015 %	2014 %	2013 %
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	0.624	0.732	2.142	1.950	-4.40
2	Return on Equity (ROE) i.e. Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity	5.129	5.394	15.502	15.996	-21.39

4.6) Movement of Mudaraba Based Deposit Rate

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

	Position as at Dec 2013	Position as at Dec 2014	Position as at Dec 2015	Position as at Dec 2016	Position as at Dec 2017	Average rate over the 5 year period
Saving accounts (RO)	0.05%	0.86%	0.98%	1.67%	0.95%	0.90%
Saving accounts (USD)		0.78%	0.89%	1.03%	0.19%	0.72%
Prize Saving Account				1.06%	0.99%	1.02%
Mudaraba 1-M		0.85%				0.85%
Mudaraba 3-M	0.06%	0.96%	1.10%	1.25%		0.84%
Mudaraba 6-M	0.07%	1.07%				0.57%
Mudaraba 12-M	0.09%	1.30%	1.48%			0.95%

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.

Rate of return risk

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

	2017							
	Effective average Profit 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-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
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	-	-

The Bank provides Shari'a compliant services and products through a window under the name of "Maisarah Islamic Banking Services (MIBS)". LCR for Maisarah Islamic Banking Services is separately computed and is given below:

Sl. No.	Maisarah Islamic Banking Services (MIBS) LCR Disclosure for the quarter ended Dec 2017	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		74,184.52
Cash Outflows			
2	Retail deposits and deposits from small business customer, of which:	31,178.27	2,253.78
3	Stable deposits	17,280.89	864.04
4	Less stable deposits	13,897.3	1,389.74
5	Unsecured wholesale funding, of which:	126,706.53	69,439.46
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	126,706.53	69,493.46
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which	93,155.43	9,052.62
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	93,155.43	9,052.62
14	Other contractual funding obligations	7,448.83	7,448.83
15	Other contingent funding obligations	19,028.26	952.61
16	**TOTAL CASH OUTFLOWS**		**89,147.61**
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	120,184.97	41,678.46
19	Other cash inflows	1,909.86	1,909.86
20	**TOTAL CASH INFLOWS**	**122,094.83**	**43,588.32**
			Total Adjusted Value
21	**TOTAL HQLA**		**74,184.52**
22	**TOTAL NET CASH OUTFLOWS**		**45,559.29**
23	**LIQUIDITY COVERAGE RATIO (%)**		**162.83**

As stated above, the LCR is computed on a monthly basis and the same for MIBS was at 241.23% in October 2017, 238.49% in November 2017 and 119.01% in December 2017. 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 31.12.2017.

Further to the above, LCR is monitored for US Dollar book of BankDhofar as a Consolidated entity and MIBS on standalone basis. The exposure in US Dollar assets as a proportion of total assets (all currencies) at the consolidated level is 18.53% as at 31st December 2017. Keeping in view the exposure in USD, the Bank endeavors to meet its liquidity requirements in USD on an ongoing basis.

1.2

FINANCIAL STATEMENTS 31ST DECEMBER 2017

ميسرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
Bank Dhofar SAOG (the "Bank")

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2017, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2017, and 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 Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board 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 Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2017, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2017 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

8 March 2018
Muscat

ارنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Statement of Financial Position

At 31 December 2017

2017 USD'000	2016 USD'000		Note	2017 RO'000	2016 RO'000
		Assets			
211,423	101,166	Cash and balances with Central Bank of Oman	5	**81,398**	38,949
108,068	177,545	Due from banks and financial institutions	6	**41,606**	68,355
69,730	25,223	Murabaha and other receivables	7	**26,846**	9,711
60,413	63,917	Mudaraba financing	8	**23,259**	24,608
751,919	616,868	Diminishing Musharaka financing	9	**289,489**	237,494
58,031	43,016	Investments at fair value through equity	10	**22,342**	16,561
25,974	25,974	Investment at amortised cost	11	**10,000**	10,000
113,899	95,397	Ijarah Muntahia Bittamleek	12	**43,851**	36,728
3,639	3,829	Property and equipment	13	**1,401**	1,474
8,010	17,730	Other assets	14	**3,084**	6,826
1,411,106	1,170,665	**Total assets**		**543,276**	450,706
		Liabilities, equity of investment accountholders and owners' equity			
		Liabilities			
187,416	103,600	Current accounts		**72,155**	39,886
186,883	206,078	Due to banks	15	**71,950**	79,340
62,223	45,247	Qard Hasan from Head office	16	**23,956**	17,420
722,987	598,842	Customer Wakala deposits		**278,350**	230,554
21,836	24,132	Other liabilities	17	**8,407**	9,291
1,181,345	977,899	**Total liabilities**		**454,818**	376,491
68,278	39,582	**Equity of investment accountholders**	18	**26,287**	15,239
		Owners' equity			
142,857	142,857	Capital	19	**55,000**	55,000
530	514	Reserves		**204**	198
18,096	9,813	Retained Earnings		**6,967**	3,778
161,483	153,184	**Total owners' equity**		**62,171**	58,976
1,411,106	1,170,665	**Total liabilities, equity of investment accountholders and owners' equity**		**543,276**	58,976
33,195	26,413	**Contingent liabilities and commitments**	26	**12,780**	10,169

The Financial statements were approved by the Board of Directors on 29 January 2018 and signed on their behalf by

Chairman

Chief Executive Islamic Banking

The attached notes 1 to 30 form part of these financial statements.

Statement of Income

For the year ended 31 December 2017

2017 USD'000	2016 USD'000		Note	2017 RO'000	2016 RO'000
		Income			
51,771	35,958	Income from Islamic finances and investments	21	**19,932**	13,844
359	34	Income on Wakala placements		**138**	13
52,130	35,992			**20,070**	13,857
		Less:			
(522)	(309)	Return on equity of investment accountholders		**(201)**	(119)
(25,356)	(13,319)	Return on customer Wakala deposits		**(9.762)**	(5,128)
(930)	(1,696)	Return on interbank Wakala deposit		**(358)**	(653)
(26,808)	(15,324)			**(10,321)**	(5,900)
25,322	20,668	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**9,749**	7,957
2,442	2,127	Revenue from banking services		**940**	819
478	200	Foreign exchange gain – net		**184**	77
5	-	Other revenues		**2**	-
28,247	22,995	**Total revenue**		**10,875**	8,853
(10,811)	(8,779)	Staff costs	22	**(4,162)**	(3,380)
(4,665)	(3,449)	General and administrative expenses	23	**(1,796)**	(1,328)
(3,426)	(1,525)	Provision for financing impairment	24	**(1,319)**	(587)
(1,062)	(979)	Depreciation	13	**(409)**	(377)
(19,964)	(14,732)	**Total expenses**		**(7,686)**	(5,672)
8,283	8,263	**Net profit for the year before taxation**		**3,189**	3,181

The attached notes 1 to 30 form part of these financial statements.

Statement of changes in owners' equity

For the year ended 31 December 2017

	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**
Profit for the year	**-**	**-**	**3,189**	**3,189**
Cumulative changes in fair value	**-**	**6**	**-**	**6**
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**
Profit for the year	**-**	**-**	**8,283**	**8,283**
Cumulative changes in fair value	**-**	**16**	**-**	**16**
Balance as at 31 December 2017	**142,857**	**530**	**18,096**	**161,483**

	31 December 2016			
	Capital RO'000	Investment Revaluation Reserve RO'000	Retained Earnings RO'000	Total RO'000
Balance at 1 January 2016	40,000	229	597	40,826
Profit for the year	-	-	3,181	3,181
Cumulative changes in fair value	-	(31)	-	(31)
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2016	55,000	198	3,778	58,976

	31 December 2016			
	Capital USD'000	Investment Revaluation Reserve USD'000	Retained Earnings USD'000	Total USD'000
Balance at 1 January 2016	103,986	595	1,550	106,041
Profit for the year	-	-	8,263	8,263
Cumulative changes in fair value	-	(81)	-	(81)
Addition of capital during the year	38,961	-	-	38,961
Balance as at 31 December 2016	142,857	514	9,813	153,184

The attached notes 1 to 30 form part of these financial statements.

Statement of sources and uses of charity fund

For the year ended 31 December 2017

2017 USD'000	2016 USD'000		2017 RO'000	2016 RO'000
		Sources of charity funds		
397	18	Undistributed charity funds at beginning of the year	**153**	7
521	397	Shari'a non-compliant income	**201**	153
-	-	Donations	**-**	-
918	415	Total sources of funds during the year	**354**	160
		Uses of charity funds		
-	-	University and school students	**-**	-
(397)	(18)	Health related organizations	**(153)**	(7)
-	-	Aid to needy families	**-**	-
(397)	(18)	Total uses of funds during the year	**(153)**	(7)
521	397	Undistributed charity funds at end of the year	**201**	153

The attached notes 1 to 30 form part of these financial statements.

Statement of cash flows

For the year ended 31 December 2017

2017 USD'000	2016 USD'000		2017 RO'000	2016 RO'000
		Cash flows from operating activities		
8,283	8,263	Profit for the year	**3,189**	3,181
		Adjustments for:		
1,062	979	Depreciation	**409**	377
4,449	3,704	Depreciation on Ijarah assets	**1,713**	1,426
(5)	-	Gain on sale of property and equipment	**(2)**	-
3,426	1,525	Provision for financing impairment	**1,319**	587
3	2	Investment risk reserve	**1**	1
8	5	Profit equalisation reserve	**3**	2
17,226	14,478	**Operating profit before changes in operating assets and liabilities**	**6,632**	5,574
		Operating assets and liabilities:		
(45,068)	8,226	Murabaha and other receivables	**(17,351)**	3,167
(24,771)	(18,062)	Ijarah Muntahia Bittamleek assets	**(9,537)**	(6,954)
1,608	3,223	Proceeds from sale of Ijarah Muntahia Bittamleek assets	**619**	1,241
(137,761)	(227,112)	Diminishing Musharaka financing	**(53,038)**	(87,438)
3,561	(33,987)	Mudaraba financing	**1,371**	(13,085)
(2,430)	(1,758)	Other asset	**(936)**	(677)
9,689	1,336	Other liabilities	**3,730**	515
16,275	16,938	Qard Hasan from Head Office	**6,266**	6,521
(161,671)	(236,718)	**Net cash used in operating activities**	**(62,244)**	(91,136)
		Cash flows from investing activities		
(15,000)	-	Purchase of investments at fair value through equity	**(5,775)**	-
-	-	Purchase of investment at amortised cost	**-**	-
(15,000)	-	**Net cash used in investing activities**	**(5,775)**	-
		Cash flows from financing activities		
83,816	(23,738)	Current account	**32,269**	(9,139)
(10,000)	10,000	Due to banks and financial institutions	**(3,850)**	3,850
124,145	247,912	Customer Wakala deposit	**47,796**	95,446
28,685	18,725	Unrestricted investment accountholders	**11,044**	7,209
-	38,961	Increase in allocated capital	**-**	15,000
226,646	291,860	**Net cash from financing activities**	**87,259**	112,366
49,975	55,142	**Cash and cash equivalents during the year**	**19,240**	21,230
82,633	27,491	**Cash and cash equivalents at the beginning of the year**	**31,814**	10,584
132,608	82,633	**Cash and cash equivalents at the end of the year**	**51,054**	31,814
		Cash and cash equivalents at the end of the year comprise:		
211,423	101,166	Cash and balances with CBO	**81,398**	38,949
108,068	177,545	Due from banks and financial institutions	**41,606**	68,355
(186,883)	(196,078)	Due to Head office and other banks	**(71,950)**	(75,490)
132,608	82,633		**51,054**	31,814

The attached notes 1 to 31 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2017

1- LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah's operations commenced on 3 March 2013 and it currently operates through 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 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 seperate legal entity, the seperate financial statements of Islamic Banking Window has been prepared to comply with the requirements of Article 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").

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.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are 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 recognized 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 New standards, interpretations and amendments

For the year ended 31 December 2017, 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 2017.

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 2017, 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 01 January 2020, with early adoption permitted.

However, during the year, the CBO has issue a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply 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.

The Islamic window has assessed the estimated impact of the initial application of IFRS 9 and its initial estimate is expected to impact total owner's equity by 0.11% as of 01 January 2018. This is preliminary, because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 01 January 2018 may change accordingly.

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 income.

3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

3.3 De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognized when:

(i) the right to receive cash flows from the asset has expired;

(ii) Maisarah has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(iii) A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3.4 Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Maisarah establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

3.5 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, balances with central bank (excluding mandatory reserves) and due from/ to banks and financial institutions with an original maturity of ninety days or less.

3.6 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.

3.7 Murabaha and other receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, 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.

Notes to the financial statements

For the year ended 31 December 2017

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.

3.8 Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

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.

3.9 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 impairment.

3.10 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 will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.11 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, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of income when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of income as an expense when incurred.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 Earnings prohibited by Shari'a
All the funds mobilized 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.

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

3.18 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".

3.19 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.

3.20 Revenue recognition

3.20.1 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 income.

3.20.2 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 income.

3.20.3 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 income on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of income.

3.20.4 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 income.

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

3.20.6 Fee and Commission income
Fee and commission income is recognised when earned.

3.20.7 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.

3.20.8 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.

3.21 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. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.21 Taxation (Continued)

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

3.22 Employees' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah'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 recognized 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 recognized as an expense in statement of income as incurred.

3.23 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. 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

3.24 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.25 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. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.26 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) Impairment provisions against financing contracts with customers

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(c) Impairment of investments at fair value through equity

The Islamic Window treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Islamic Window evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

(d) 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

	2017 RO'000	2016 RO'000
Cash in hand	**2,024**	1,812
Balances with Central Bank of Oman	**79,374**	37,137
	81,398	38,949

6- Due from banks and financial institutions

	2017 RO'000	2016 RO'000
Wakala placement – jointly financed	**23,100**	25,015
Qard Hasan placement – jointly financed	**17,325**	41,965
Current clearing account – jointly financed	**1,181**	1,375
	41,606	68,355

During 2016, Qard Hasan placement and Current clearing account were classified under self-financed.

7- Murabaha and other receivables

	2017 RO'000	2016 RO'000
Gross Murabaha receivables – jointly financed	**29,743**	11,106
Gross Ujrah receivables – jointly financed	**4**	-
Less: Unearned income – jointly financed	**(2,753)**	(1,292)
	26,994	9,814
Credit card receivables – self financed	**242**	71
Less: Impairment on portfolio basis (note 24)	**(390)**	(174)
	26,846	9,711

Murabaha and other receivables past due but not impaired amounts to RO 185 thousand (2016: RO 447 thousand).

8- Mudaraba financing

	2017 RO'000	2016 RO'000
Mudaraba financing – jointly financed	**23,481**	24,852
Less: Impairment on portfolio basis (note 24)	**(222)**	(244)
	23,259	24,608

Mudaraba financing past due but not impaired amounts to RO Nil (2016: Nil).

9- Diminishing Musharaka financing

	2017 RO'000	2016 RO'000
Diminishing Musharaka – jointly financed	**292,731**	239,693
Less: Impairment on portfolio basis (note 24)	**(3,242)**	(2,199)
	289,489	237,494

Diminishing Musharaka past due but not impaired amounts to RO 36,913 thousand (2016: RO 14,672 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- Investment at fair value through equity

	2017 RO'000	2016 RO'000
Local listed Sukuk – jointly financed	**10,198**	10,198
Sovereign Sukuk – jointly financed	**12,144**	6,363
	22,342	16,561

During the year, Maisarah has invested RO 5.775 million in internationally listed Sovereign Sukuk issued by Sovereign Sukuk SAOC.

At 31 December 2017, the market values of local and internationally listed Sovereign Sukuk were RO 1.000 per unit (2016: RO 1.000 per unit) and RO 100.113 per unit respectively. Whereas, the market value of the Modern Sukuk was RO 101.975 per unit (2016: RO 101.975 per unit).

11- Investment at amortised cost

	2017 RO'000	2016 RO'000
Sovereign Sukuk – jointly financed	**10,000**	10,000

12- Ijarah Muntahia Bittamleek

	2017 RO'000	2016 RO'000
Cost – jointly financed		
At 1 January	**40,838**	35,220
Additions	**9,537**	6,954
Disposals	**(753)**	(1,336)
At 31 December	**49,622**	40,838
Accumulated depreciation – jointly financed		
At 1 January	**3,710**	2,379
Charge for the period	**1,713**	1,426
Disposals	**(134)**	(95)
At 31 December	**5,289**	3,710
Net book value at 31 December	**44,333**	37,128
Less: Impairment on portfolio basis (note 24)	**(482)**	(400)
Net Ijarah Muntahia Bittamleek	**43,851**	36,728

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,516 thousand (2016: RO 1,642 thousand).

Notes to the financial statements
For the year ended 31 December 2017

13- Property and equipment

	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)
At 31 December	(522)	(47)	(785)	-	(1,354)
Net book value at 31 December	517	14	815	55	1,401

	2016				
	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	573	42	1,116	45	1,776
Additions	302	12	371	129	814
Disposals / Transfers	-	-	-	(171)	(171)
At 31 December	875	54	1,487	3	2,419
Accumulated depreciation					
At 1 January	(188)	(24)	(356)	-	(568)
Provided during the year	(163)	(12)	(202)	-	(377)
At 31 December	(351)	(36)	(558)	-	(945)
Net book value at 31 December	524	18	929	3	1,474

14- Other assets

	2017 RO'000	2016 RO'000
Ijarah rental receivables	**37**	37
Other profit receivables	**1,584**	975
Prepayments	**142**	146
Others	**975**	412
Acceptances	**582**	5,256
Less: Reserve for suspended profit	**(136)**	-
Less: Provision against other assets	**(100)**	-
Total	**3,084**	6,826

15- Due to banks

	2017 RO'000	2016 RO'000
Due to banks	**71,950**	79,340
Total	**71,950**	79,340

16- Qard Hasan from Head Office

	2017 RO'000	2016 RO'000
Qard e Hasan from Head Office (16.1)	**20,000**	15,000
Current clearing account (16.2)	**3,956**	2,420
Total	**23,956**	17,420

16.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of its liquidity management.

16.2 This amount represents the vostro account of Head Office opened with Maisarah.

17- Other Liabilities

	2017 RO'000	2016 RO'000
Payables	**650**	313
Accrued expenses	**853**	702
Profit payables	**6,065**	2,802
Others	**56**	65
Charity Payable	**201**	153
Acceptances contra	**582**	5,256
Total	**8,407**	9,291

18- Equity of investment accountholders

	2017 RO'000	2016 RO'000
Saving account	**26,278**	15,229
Term deposit	**-**	5
Profit equalisation reserve	**7**	4
Investment risk reserve	**2**	1
Total	**26,287**	15,239

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 2017 and 2016 as follows:

	2017	2016
Equity of investment accountholders share	**50%**	60%
Mudarib's share	**50%**	40%

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 equalization 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 equalization 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 on the Maisarah expenses.

19- Capital

During 2017, there was no increase in assigned capital to Maisarah from the core paid up capital of the shareholders. Whereas during 2016, the assigned capital to Maisarah was increased to OMR 55 million.

20- Fiduciary assets

There were no funds under management with Maisarah (2016: RO Nil).

21- Income from Islamic finances and investments

	2017 RO'000	2016 RO'000
Murabaha receivables	**925**	451
Mudaraba	**1,493**	737
Ijarah muntahia bittamleek – net*	**2,073**	1,590
Diminishing Musharaka	**14,213**	9,983
Profit on investments at fair value through equity	**878**	732
Profit on investment at amortised cost	**350**	351
Total	**19,932**	13,844

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,713 thousand (2016: RO 1,426 thousand).

22- Staff costs

	2017 RO'000	2016 RO'000
Salaries and allowances	**3,471**	2,835
Other personnel cost	**635**	501
Non-Omani employee terminal benefit	**56**	44
Total	**4,162**	3,380

23- General and administrative expenses

	2017 RO'000	2016 RO'000
Occupancy cost	**517**	454
Operating and administration cost	**1,279**	874
Total	**1,796**	1,328

24- Provision for financing impairment

In accordance with the directives of CBO, the movement in the inancing impairment provision is analysed as below:

	2017 RO'000	2016 RO'000
A- Impairment provision on portfolio basis		
Balance at the beginning of the year	**3,017**	2,430
Provided during the year	**730**	587
Balance at the end of the year	**3,747**	3,017
B- Impairment provision on specific basis		
Balance at the beginning of the year	**-**	-
Provided during the year	**810**	-
Less: provision written back during year	**(221)**	-
Balance at the end of the year	**589**	-

25 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:

	2017 RO'000	2016 RO'000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**743**	597
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**18,268**	2,577
Remuneration paid to Directors & Shari'a Supervisor		
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**3**	3
Other Members		
– remuneration proposed	**24**	24
– sitting fees paid	**7**	8
Other transactions		
Rental payment to a related party	**237**	231
Key management compensation		
Salaries and other benefits	**216**	132
End of service benefits	**13**	6

26- Contingent liabilities and commitments

(a) Credit related contingent items

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

	2017 RO'000	2016 RO'000
Letters of credit	**5,103**	3,413
Guarantees	**7,677**	6,756
Total	**12,780**	10,169

(b) Capital and investment commitments

	2017 RO'000	2016 RO'000
Contractual commitments for property and equipment	**44**	41

(c) The unutilised limits of Maisarah's financing for the year ended 31 December 2017 amounts to RO 110,693 thousand (2016: 95,463 thousand).

27- 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:

	2017 RO'000	2016 RO'000
	Contract / Notional Amount	
Forward exchange contracts		
Currency forward - purchase contracts	-	17,325
Currency forward - sale contracts	-	17,335

As at 31 December 2017, the Islamic window has no forward exchange contracts.

28- 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).

	2017			
Fair value information	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Investments at fair value through Equity	**12,144**	**10,198**	**-**	**22,342**
Total	**12,144**	**10,198**	**-**	**22,342**

	2016			
Fair value information	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Investments at fair value throughEquity	6,363	10,198	-	16,561
Total	6,363	10,198	-	16,561

29- 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.

29- Financial risk management (Continued)

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 Credit 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.

(a) Geographical concentrations

	2017		
	Due from banks and financial institutions RO'000	Due to banks and financial Institutions 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**	**-**
Total	**41,606**	**71,950**	**26,287**

	2016		
	Due from banks and financial institutions RO'000	Due to banks and financial Institutions RO'000	Equity of investment accountholders RO'000
Sultanate of Oman	59,280	47,000	15,239
Other GCC Countries	7,967	20,790	-
Europe and North America	1,108	-	-
Africa and Asia	-	11,550	-
Total	68,355	79,340	15,239

29- Financial risk management (Continued)

Credit risk (Continued)

(b) Customer concentrations

Customer concentrations on asset (Gross)

	2017				
	Due from banks and financial institutions RO'000	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Ijarah Muntahia Bittamleek RO'000
Retail	-	8,555	-	104,382	44,333
Corporate	41,606	18,681	23,481	188,349	-
Total	41,606	27,236	23,481	292,731	44,333

	2016				
	Due from banks and financial institutions RO'000	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Ijarah Muntahia Bittamleek RO'000
Retail	-	5,422	-	84,374	37,128
Corporate	68,355	4,463	24,852	155,319	-
Total	68,355	9,885	24,852	239,693	37,128

(c) Economic sector concentrations (Gross)

	2017			
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka 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	-
Other services	54	1,986	66,456	-
Others	10,150	3,742	7,500	-
Total	27,236	23,481	292,731	44,333

29- Financial risk management (Continued)

Credit risk (Continued)

(c) Economic sector concentrations (Gross) (Continued)

	2016			
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka financing RO'000	Ijarah Muntahia Bittamleek RO'000
Personal	5,422	-	84,374	37,128
Construction	226	10,607	104,868	-
Manufacturing	-	-	2,863	-
Other services	45	2,514	41,899	-
Others	4,192	11,731	5,689	-
Total	9,885	24,852	239,693	37,128

(d) Gross credit exposure

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

	2016	
	Total gross exposure RO'000	Monthly average gross exposure RO'000
Murabaha and other receivables	9,885	8,777
Mudaraba financing	24,852	15,651
Diminishing Musharaka Financing	239,693	205,806
Ijarah Muntahia Bittamleek	37,128	33,980

29- Financial risk management (Continued)

Credit risk (Continued)

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

	2017				
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka 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
Transport & communication	130	-	336	-	-
Financial institutions	-	77	-	-	-
Services	54	1,986	66,456	-	725
Retail	8,555	-	104,382	44,333	-
Others	-	-	3,025	-	-
Total	27,236	23,481	292,731	44,333	12,780

	2016				
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka Financing RO'000	Ijarah Muntahia Bittamleek RO'000	Off balance sheet exposures RO'000
Import trade	4,074	3,148	38	-	3,421
Export trade	-	6,848	-	-	-
Wholesale & retail trade	18	893	739	-	1
Mining & quarrying	-	842	4,601	-	-
Construction	226	10,607	104,868	-	5,352
Manufacturing	-	-	2,863	-	1,298
Transport & communication	51	-	143	-	-
Financial institutions	-	-	-	-	-
Services	45	2,514	41,899	-	97
Retail	5,422	-	84,374	37,128	-
Others	49	-	168	-	-
Total	9,885	24,852	239,693	37,128	10,169

29- Financial risk management (Continued)

Credit risk (Continued)

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

	2017				
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka 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**	**-**
Total	**27,236**	**23,481**	**292,731**	**44,333**	**12,780**

	2016				
	Murabaha and other receivables RO'000	Mudaraba financing RO'000	Diminishing Musharaka Financing RO'000	Ijarah Muntahia Bittamleek RO'000	Off balance sheet exposures RO'000
Upto 1 month	510	24,852	-	-	1,060
1 - 3 months	1,388	-	530	-	2,125
3 - 6 months	2,029	-	-	-	3,227
6 - 9 months	145	-	70	-	1,363
9 - 12 months	18	-	52	-	1,131
1 - 3 years	587	-	7,287	161	1,263
3 – 5 years	949	-	17,411	450	-
Over 5 years	4,259	-	214,343	36,517	-
Total	9,885	24,852	239,693	37,128	10,169

29- Financial risk management (Continued)

Credit risk (Continued)

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

	2017						
	Performing Murabaha and other receivables RO'000	Performing Mudaraba Financing RO'000	Performing Diminishing Musharaka 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)	-
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)
Others	-	-	3,025	-	-	(31)	-
Total	27,236	23,481	290,837	44,298	1,929	(3,747)	(589)

29- Financial risk management (Continued)

Credit risk (Continued)

(g) Distribution of performing and non-performaing financing by type of industry: (Continued)

	2016						
	Performing Murabaha and other receivables RO'000	Performing Mudaraba Financing RO'000	Performing Diminishing Musharaka 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	4,074	3,148	38	-	-	(64)	-
Export trade	-	6,848	-	-	-	(60)	-
Wholesale & retail trade	18	893	739	-	-	(14)	-
Mining & quarrying	-	842	4,601	-	-	(48)	-
Construction	226	10,607	104,868	-	-	(1,013)	-
Manufacturing	-	-	2,863	-	-	(25)	-
Transport & communication	51	-	143	-	-	(2)	-
Financial institutions	-	-	-	-	-	-	-
Services	45	2,514	41,899	-	-	(390)	-
Retail	5,422	-	84,374	37,128	-	(1,399)	-
Others	49	-	168	-	-	(2)	-
Total	9,885	24,852	239,693	37,128	-	(3,017)	-

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

	2017 RO'000	2016 RO'000
Due from banks and financial institutions	**41,606**	68,355

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 2017

29- Financial risk management (Continued)
Liquidity risk (Continued)

Maturity profile of assets and liabilities

	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
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

29- Financial risk management (Continued)

Liquidity risk (Continued)

Maturity profile of assets and liabilities (continued)

	2016					
	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	38,949	-	-	-	-	38,949
Due from banks and financial institutions	68,355	-	-	-	-	68,355
Murabaha and other receivables	4,170	531	584	3,537	889	9,711
Mudaraba financing	1,243	2,485	2,424	12,426	6,030	24,608
Diminishing Musharaka financing	4,507	23,039	25,247	114,695	70,006	237,494
Investments at fair value through equity	-	-	-	16,561	-	16,561
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	279	1,393	1,572	12,921	20,563	36,728
Property and equipment	-	-	-	-	1,474	1,474
Other asset	2,277	3,991	-	-	558	6,826
Total assets	119,780	31,439	29,827	170,140	99,520	450,706
Current accounts	9,616	13,243	7,568	-	9,459	39,886
Due to banks	67,790	11,550	-	-	-	79,340
Qard Hasan from Head Office	2,420	-	-	15,000	-	17,420
Customer Wakala Deposit	20,768	82,380	31,446	59,784	36,176	230,554
Other liabilities	5,300	3,991	-	-	-	9,291
Equity of unrestricted investment accountholders	766	1,523	1,523	7,615	3,812	15,239
Owner's equity	-	-	-	-	58,976	58,976
Total liabilities and accountholders & owners' equity	106,660	112,687	40,537	82,399	108,423	450,706

29- Financial risk management (Continued)

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

(a) Currency risk
Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

(b) Profit rate risk
Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.
Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap
Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

29- Financial risk management (Continued)

Market risk (Continued)

(b) Profit rate risk (Continued)

Profit rate sensitivity gap (continued)

	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
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	-	-

29- Financial risk management (Continued)

Market risk (Continued)

(b) Profit rate risk (Continued)

Profit rate sensitivity gap (continued)

	2016							
	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	-	-	-	-	-	-	38,949	38,949
Due from banks and financial institutions	0.49%	25,015	-	-	-	-	43,340	68,355
Murabaha and other receivables	4.97%	4,099	531	584	3,537	889	71	9,711
Mudaraba financing	4.98%	24,608	-	-	-	-	-	24,608
Diminishing Musharaka Financing	4.96%	4,507	23,039	25,247	114,695	70,006	-	237,494
Investments at fair value through equity	4.84%	-	-	-	16,561	-	-	16,561
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek	4.70%	279	1,393	1,572	12,921	20,563	-	36,728
Property and equipment	-	-	-	-	-	-	1,474	1,474
Other asset	-	-	-	-	-	-	6,826	6,826
Total assets		58,508	24,963	27,403	157,714	91,458	90,660	450,706
Current accounts	1.97%	5,639	9,869	5,639	-	7,049	11,690	39,886
Due to banks	1.08%	67,790	11,550	-	-	-	-	79,340
Qard Hasan from Head office	-	-	-	-	-	-	17,420	17,420
Customer Wakala deposit	2.97%	20,768	82,380	31,446	59,784	36,176	-	230,554
Other liabilities	-	-	-	-	-	-	9,291	9,291
Equity of unrestricted investment accountholders	1.09%	15,234	-	-	-	-	5	15,239
Owner's equity	-	-	-	-	-	-	58,976	58,976
Equity of accountholders & Total liabilities and shareholders' equity		109,431	103,799	37,085	59,784	43,225	97,382	450,706
On-balance sheet gap		(50,923)	(78,836)	(9,682)	97,930	48,233	(6,722)	-
Cumulative profit sensitivity gap		(50,923)	(129,759)	(139,441)	(41,511)	6,722	-	-

29- Financial risk management (Continued)

Market risk (Continued)

(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.

30- 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

30- Segmental information (Continued)

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

	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

30- Segmental information (Continued)

	2016			
	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	5,102	7,661	13	12,776
Other revenues	103	673	1,201	1,977
Total segment operating revenues	5,205	8,334	1,214	14,753
Profit expenses	(307)	(4,940)	(653)	(5,900)
Net operating income	4,898	3,394	561	8,853
Segment cost				
Operating expenses including depreciation	(1,723)	(2,445)	(917)	(5,085)
Provision for impairment	(234)	(353)	-	(587)
Net profit for the year before tax	2,941	596	(356)	3,181
Segment assets	127,480	191,598	134,645	453,723
Less: Provision for impairment	(1,399)	(1,618)	-	(3,017)
Total segment assets	126,081	189,980	134,645	450,706
Segment liabilities	9,136	270,321	97,034	376,491

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