

BANK DHOFAR SAOG

# BANK DHOFAR SAOG

## FINANCIAL STATEMENTS

31 DECEMBER 2017



بنك ظفار  
BankDhofar

**Registered and principal place of business:**

Bank Dhofar SAOG  
Central Business District  
P.O. Box 1507  
Ruwi 112  
Sultanate of Oman

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR  
ENDED 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> December 2016 to 3.11% at 31<sup>st</sup> December 2017; Non-performing loans, net of interest suspense, to gross loans & financing increased from 1.41 % at 31<sup>st</sup> December 2016 to 1.72 % at 31<sup>st</sup> 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 net profit before tax of RO 3.19 million (USD 8.29 million) compared to a net 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

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- Mr. Sohail Niazi has been promoted to Deputy General Manager, Chief Executive Islamic Banking Officer, Maisarah Islamic Banking Services
- Mr. Isamil Jama Bait Isihq 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 29<sup>th</sup> January 2018 proposed a cash dividend of 12% (2016: 13.5%) for the year ended 31<sup>st</sup> 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:

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

### **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.

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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

# BANK DHOFAR SAOG

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RO'000	2016 RO'000
<b>Assets</b>			
Cash and balances with Central Bank of Oman	5	326,819	265,889
Loans, advances and financing to banks	7	299,896	340,060
Loans, advances and financing to customers	8	3,248,873	2,988,592
Available-for-sale investments	9	35,812	36,236
Held-to-maturity investments	10	255,043	218,535
Intangible asset	11	1,191	1,589
Property and equipment	12	9,524	8,328
Other assets	13	69,552	92,814
<b>Total assets</b>		<b>4,246,710</b>	<b>3,952,043</b>
<b>Liabilities</b>			
Due to banks	14	387,742	350,549
Deposits from customers	15	3,068,409	2,885,189
Other liabilities	16	114,677	128,430
Subordinated loans	17	88,875	53,875
<b>Total liabilities</b>		<b>3,659,703</b>	<b>3,418,043</b>
<b>Shareholders' equity</b>			
Share capital	18 (a)	225,786	189,920
Share premium	19	77,564	59,618
Legal reserve	20 (a)	50,254	45,176
Special reserve	20 (d)	18,488	18,488
Special reserve – restructured loans	20 (e)	1,281	-
Subordinated loan reserve	20 (b)	42,325	31,550
Investment revaluation reserve	20 (c)	507	1,459
Retained earnings	21	55,302	72,289
<b>Total equity attributable to the equity holders of the Bank</b>		<b>471,507</b>	<b>418,500</b>
Perpetual Tier 1 Capital Securities	18 (b)	115,500	115,500
<b>Total equity</b>		<b>587,007</b>	<b>534,000</b>
<b>Total liabilities and equity</b>		<b>4,246,710</b>	<b>3,952,043</b>
<b>Net assets per share (Rial Omani)</b>	22	<b>0.209</b>	0.220
<b>Contingent liabilities and commitments</b>	32	<b>1,018,969</b>	1,045,948

The financial statements were authorised on 29 January 2018 for issue in accordance with a resolution of the Board of Directors.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili  
Chairman

Abdul Hakeem Omar Al Ojaili  
Chief Executive Officer

The attached notes 1 to 38 form part of these financial statements.

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## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RO'000	2016 RO'000
Interest income		161,499	141,536
Interest expense		(76,894)	(50,750)
<b>Net interest income</b>	23	<b>84,605</b>	90,786
Income from Islamic financing		18,842	12,774
Profit expenses		(10,321)	(5,900)
<b>Net income from Islamic financing and investment activities</b>		<b>8,521</b>	6,874
Fees and commission income		20,898	17,878
Fees and commission expense		(3,646)	(3,169)
<b>Net fees and commission income</b>		<b>17,252</b>	14,709
Other income	24	16,549	14,982
<b>Operating income</b>		<b>126,927</b>	127,351
Staff and administrative costs	25	(55,673)	(53,360)
Depreciation	12	(3,321)	(3,407)
<b>Operating expenses</b>		<b>(58,994)</b>	(56,767)
<b>Profit from operations</b>		<b>67,933</b>	70,584
Provision for loan impairment	26	(17,588)	(19,925)
Recoveries from allowance for loan impairment	26	6,047	5,364
Bad debts written-off		(3)	(1)
Impairment of available-for-sale investments	20 (c)	(358)	(1,593)
<b>Profit from operations after provision</b>		<b>56,031</b>	54,429
Income tax expense	27	(8,404)	(6,807)
<b>Profit for the year</b>		<b>47,627</b>	47,622
<b>Other comprehensive (expense) / income:</b>			
<i>Items that are or may be reclassified to profit or loss:</i>			
Net changes in fair value of available-for-sale investments	9	(1,266)	5
Reclassification adjustment on sale of available-for-sale investments	20 (c)	(44)	(466)
Impairment of available-for-sale investments	20 (c)	358	1,593
<b>Other comprehensive (expense) / income for the year, net of tax</b>		<b>(952)</b>	1,132
<b>Total comprehensive income for the year</b>		<b>46,675</b>	48,754
<b>Earnings per share basic and diluted (Rial Omani)</b>	28	<b>0.019</b>	0.019

The attached notes 1 to 38 form part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

*Attributable to equity holders of Bank*

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve - restructured loans 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
<b>Balances as at 1 January 2017</b>		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
<b>Other comprehensive expense for the year</b>												
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
<b>Total comprehensive income for the year</b>		-	-	-	-	-	-	(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
Transfer to special reserve – restructured loans	20	-	-	-	-	1,281	-	-	(1,281)	-	-	-
Payment towards Perpetual Tier 1 coupon		-	-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
<b>Transactions with owners recorded directly in equity</b>												
Dividend paid for 2016	38	-	-	-	-	-	-	-	(25,639)	(25,639)	-	(25,639)
Bonus shares issued for 2016	38	14,244	-	-	-	-	-	-	(14,244)	-	-	-
<b>Balances as at 31 December 2017</b>		<b>225,786</b>	<b>77,564</b>	<b>50,254</b>	<b>18,488</b>	<b>1,281</b>	<b>42,325</b>	<b>507</b>	<b>55,302</b>	<b>471,507</b>	<b>115,500</b>	<b>587,007</b>

The attached notes 1 to 38 form part of these financial statements.



# BANK DHOFAR SAOG

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

*Attributable to equity holders of Bank*

	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special 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	40,214	18,488	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
Total comprehensive income for the year	-	-	-	-	-	1,132	47,622	48,754	-	48,754
Transfer to legal reserve	20	-	4,962	-	-	-	(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	45,176	18,488	31,550	1,459	72,289	418,500	115,500	534,000

The attached notes 1 to 38 form part of these financial statements.

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## STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RO'000	2016 RO'000
<b>Operating activities</b>		
Interest, financing income, commission and other receipts	206,403	176,109
Interest payments, return on Islamic banking deposits	(83,705)	(48,037)
Cash payments to suppliers and employees	(52,050)	(64,813)
	<u>70,648</u>	<u>63,259</u>
<b>Movement in operating assets</b>		
Loans, advances and financing to customers	(271,822)	(273,849)
Loans, advances and financing to banks	77,145	(211,520)
Receipts from treasury bills and certificates of deposits (net)	(65,373)	(39,528)
	<u>(260,050)</u>	<u>(524,897)</u>
<b>Movement in operating liabilities</b>		
Deposits from customers	183,220	292,818
Due to banks	37,526	42,456
	<u>220,746</u>	<u>335,274</u>
<b>Net cash from operating activities</b>	31,344	(126,364)
Income tax paid	(5,733)	(6,212)
<b>Net cash from / (used in) operating activities</b>	<u>25,611</u>	<u>(132,576)</u>
<b>Investing activities</b>		
Investment income	7,483	3,795
Purchase of investments	(10,014)	(7,191)
Proceeds from sale of investments	9,128	6,296
Dividend received	352	798
Purchase of property and equipment	(4,573)	(3,161)
Proceeds from sale of property and equipment	60	269
	<u>2,436</u>	<u>806</u>
<b>Net cash from investing activities</b>	<u>2,436</u>	<u>806</u>
<b>Financing activities</b>		
Subordinated loan	35,000	(50,000)
Proceeds from rights issue of share capital, net of expenses	39,883	39,800
Additional tier 1 coupon	(7,912)	(7,912)
Dividend paid	(25,639)	(23,171)
	<u>41,332</u>	<u>(41,283)</u>
<b>Net cash from / (used in) financing activities</b>	<u>41,332</u>	<u>(41,283)</u>
<b>Net change in cash and cash equivalents</b>	69,379	(173,053)
Cash and cash equivalents at the beginning of the year	345,500	518,553
<b>Cash and cash equivalents at the end of the year</b>	<u>414,879</u>	<u>345,500</u>
Cash and balances with Central Bank of Oman (note 5)	326,819	265,889
Capital deposit with Central Bank of Oman	(500)	(500)
Loans, advances and financing to banks due within 90 days	89,145	52,164
Treasury bills within 90 days	-	28,865
Due to banks within 90 days	(585)	(918)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<u>414,879</u>	<u>345,500</u>

The attached notes 1 to 38 form part of these financial statements.

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## NOTES TO THE FINANCIAL STATEMENTS

As at 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.

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### 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
  - 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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### 2.5 New and amended standards and interpretations to IFRS

##### **IFRS 9 *Financial Instruments* (continued)**

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

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### 2.6 Standards issued but not yet effective (continued)

**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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial assets and liabilities (continued)

##### 3.2.1 Classification (continued)

###### (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'.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.2 Financial assets and liabilities (continued)**

##### **3.2.1 Classification (continued)**

###### **(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.



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial assets and liabilities (continued)

##### 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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial assets and liabilities (continued)

##### 3.2.2 Derivative financial instruments and hedging activities

###### *(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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial assets and liabilities (continued)

##### 3.2.4 Derecognition (continued)

###### *(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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Financial assets and liabilities (continued)

##### 3.2.7 Fair value measurement (continued)

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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.3 Identification and measurement of impairment of financial assets (continued)**

##### **(a) Assets carried at amortised cost (continued)**

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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.6 Property and equipment

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

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

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

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

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

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

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

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.



# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.21 Revenue and expense recognition (continued)**

##### **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 ratably 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.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

#### **(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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

#### **(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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
	<u>326,819</u>	<u>265,889</u>

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)	<u>(409)</u>	<u>(409)</u>
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
	<u>299,896</u>	<u>340,060</u>

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	<u>-</u>	<u>-</u>
Closing balance as on 31 December	<u>409</u>	<u>409</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
<b>Gross loans, advances and financing to customers</b>	<b>3,386,825</b>	3,107,474
Less: Impairment allowance	<b>(137,952)</b>	(118,882)
<b>Net loans, advances and financing to customers</b>	<b>3,248,873</b>	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	<b>90,740</b>	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	<b>47,212</b>	39,640
<b>Total impairment allowance</b>	<b>137,952</b>	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.



# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 8 Loans, advances and financing to customers (continued)

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)
<b>Total</b>	<b>3,248,873</b>	<b>299,896</b>	<b>2,988,592</b>	<b>340,060</b>

#### 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
<b>Total</b>	<b>82,128</b>	<b>49,189</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 8 Loans, advances and financing to customers (continued)

#### Impaired

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

#### 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

	<u>Cost</u>		<u>Fair value</u>	
	2017 RO'000	2016 RO'000	2017 RO'000	2016 RO'000
<b>Local listed equities and debts</b>				
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
<b>Total quoted investments</b>	<b>27,642</b>	<b>29,005</b>	<b>27,856</b>	<b>30,117</b>
<b>Foreign listed debts</b>				
Foreign fixed income bonds	5,545	3,927	5,520	3,811
<b>Total quoted investments</b>	<b>5,545</b>	<b>3,927</b>	<b>5,520</b>	<b>3,811</b>
<b>Un-quoted securities</b>				
Local securities	1	3	1	3
Unit funds	2,117	1,842	2,435	2,305
<b>Total Un-quoted investments</b>	<b>2,118</b>	<b>1,845</b>	<b>2,436</b>	<b>2,308</b>
<b>Total available for sale investments</b>	<b>35,305</b>	<b>34,777</b>	<b>35,812</b>	<b>36,236</b>

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

## BANK DHOFAR SAOG

### NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

#### 10 Held-to-maturity investments

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

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

	<b>2017</b>	2016
	<b>RO'000</b>	RO'000
1 January	<b>1,589</b>	1,986
Impaired during the year	<b>(398)</b>	(397)
	<u><b>1,191</b></u>	<u>1,589</u>

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.

## BANK DHOFAR SAOG

### NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

#### 12 Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in- progress RO'000	Total RO'000
<b>Cost</b>							
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)
<b>31 December 2017</b>	<b>140</b>	<b>1,573</b>	<b>14,138</b>	<b>1,308</b>	<b>23,726</b>	<b>1,612</b>	<b>42,497</b>
<b>Depreciation</b>							
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)
<b>31 December 2017</b>	<b>-</b>	<b>1,234</b>	<b>11,455</b>	<b>1,112</b>	<b>19,172</b>	<b>-</b>	<b>32,973</b>
<b>Carrying value</b>							
<b>31 December 2017</b>	<b>140</b>	<b>339</b>	<b>2,683</b>	<b>196</b>	<b>4,554</b>	<b>1,612</b>	<b>9,524</b>
31 December 2016	140	401	2,498	190	4,744	355	8,328

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 12 Property and equipment (continued)

	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in- progress RO'000	Total RO'000
<b>Cost</b>							
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)
<b>31 December 2016</b>	<b>140</b>	<b>1,573</b>	<b>13,159</b>	<b>1,324</b>	<b>22,012</b>	<b>355</b>	<b>38,563</b>
<b>Depreciation</b>							
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)
<b>31 December 2016</b>	<b>-</b>	<b>1,172</b>	<b>10,661</b>	<b>1,134</b>	<b>17,268</b>	<b>-</b>	<b>30,235</b>
<b>Carrying value</b>							
<b>31 December 2016</b>	<b>140</b>	<b>401</b>	<b>2,498</b>	<b>190</b>	<b>4,744</b>	<b>355</b>	<b>8,328</b>
31 December 2015	140	459	2,802	187	4,727	480	8,795

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
	<u>69,552</u>	<u>92,814</u>

### 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
	<u>387,742</u>	<u>350,549</u>

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
	<u>3,068,409</u>	<u>2,885,189</u>

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).

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 16 Other liabilities

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

### Employee terminal benefits

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

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

### 17 Subordinated loans

	<b>2017</b>	2016
	<b>RO'000</b>	RO'000
Subordinated loan - US Dollar	<b>28,875</b>	28,875
Subordinated loan - RO	<b>60,000</b>	25,000
	<hr/> <b>88,875</b> <hr/>	<hr/> 53,875 <hr/>

(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).

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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 Eng. Abdul Hafidh Salim Rajab	632,200,155	28.0%	531,776,387	28.0%
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.



# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 18 (b) Perpetual Tier 1 Capital Securities (continued)

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	<u>50,254</u>	<u>45,176</u>

(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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 20 Reserves (continued)

#### 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	<u>42,325</u>	<u>31,550</u>

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	<u>507</u>	<u>1,459</u>

#### 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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

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

### 23 Net interest income

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

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
	<u>16,549</u>	<u>14,982</u>

#### *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
	<u>9,232</u>	<u>6,475</u>

### 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
	<u>39,670</u>	<u>37,126</u>

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

#### (b) Administrative costs

Occupancy costs	3,883	3,814
Operating and administration cost	11,089	10,901
Impairment of goodwill	398	397
Others	633	1,122
	<u>16,003</u>	<u>16,234</u>
	<u>55,673</u>	<u>53,360</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
	<u>17,591</u>	<u>19,926</u>
Recoveries from provision for loan impairment (note 8)	(6,047)	(5,364)
Net impairment charge on loans, advances and financing to customer	<u>11,544</u>	<u>14,562</u>

### 27 Income tax

	2017 RO'000	2016 RO'000
<b>(a) Income tax expense:</b>		
<i>Current tax</i>		
Current year charge	9,036	7,525
Prior years	(632)	(718)
	<u>8,404</u>	<u>6,807</u>
<i>Deferred tax</i>		
Current year	(542)	-
Prior years	542	-
	<u>-</u>	<u>-</u>
Tax expense for the year	<u>8,404</u>	<u>6,807</u>

### (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	<u>8,404</u>	<u>6,807</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 27 Income tax (continued)

(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)	<u>62</u>	<u>-</u>	<u>62</u>

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

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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
<b>Loans and advances</b>		
Directors and shareholders holding 10% or more interest in the Bank	36,588	52,880
Other related parties	18,345	11,667
	<u>54,933</u>	<u>64,547</u>
<b>Subordinated loans</b>		
Directors and shareholders holding 10% or more interest in the Bank	36,663	21,663
Other related parties	31,775	17,775
	<u>68,438</u>	<u>39,438</u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding 10% or more interest in the Bank	176,576	264,633
Other related parties	129,123	139,414
	<u>305,699</u>	<u>404,047</u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding 10% or more interest in the Bank	308	793
Other related parties	2,767	2,210
	<u>3,075</u>	<u>3,003</u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration proposed	15	16
– sitting fees paid	10	10
Other Directors		
– remuneration proposed	107	107
– sitting fees paid	68	67
	<u>200</u>	<u>200</u>
<b>Other transactions</b>		
Rental payment to related parties	480	471
Other transactions	80	84
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	46	43
<b>Key management compensation</b>		
– salaries and other benefits	1,534	1,371

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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
<b>(a) Single borrower</b>		
Total direct exposure	179,415	164,661
Number of members	3	2
<b>(b) Senior members</b>		
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



# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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:

At 31 December 2017	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
<i>Derivatives:</i>			
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			
	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
<i>Derivatives:</i>			
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

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 34 Fair value information (continued)

#### 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).

<b>At 31 December 2017</b>	<b>Level 1 RO'000</b>	<b>Level 2 RO'000</b>	<b>Level 3 RO'000</b>	<b>Cost RO'000</b>	<b>Total RO'000</b>
<b><i>Available-for-sale investments</i></b>					
Equity instruments	10,354	3,116	-	13,167	13,470
Sukuk	12,144	10,198	-	22,138	22,342

At 31 December 2016

<b><i>Available-for-sale investments</i></b>					
Equity instruments	17,367	-	2,308	18,414	19,675
Sukuk	6,363	10,198	-	16,x363	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.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### **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:

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### Geographical concentrations

	Assets			Liabilities		
	<i>Gross loans, advances and financing to banks</i> RO'000	<i>Gross loans, advances and financing to customers</i> RO'000	<i>Investment securities</i> RO'000	<i>Deposits from customers</i> RO'000	<i>Due to banks</i> RO'000	<i>Contingent liabilities</i> RO'000
<b>31 December 2017</b>						
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
	<b>300,305</b>	<b>3,386,825</b>	<b>290,855</b>	<b>3,068,409</b>	<b>387,742</b>	<b>1,018,969</b>
<b>31 December 2016</b>						
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
	<b>340,469</b>	<b>3,107,474</b>	<b>254,771</b>	<b>2,885,189</b>	<b>350,549</b>	<b>1,045,948</b>

#### (a) Customer concentrations

	Assets			Liabilities		
	<i>Gross loans, Advances and financing to banks</i> RO'000	<i>Gross Loans, Advances and financing to customers</i> RO'000	<i>Investment Securities</i> RO'000	<i>Deposits from customers</i> RO'000	<i>Due to banks</i> RO'000	<i>Contingent liabilities</i> RO'000
<b>31 December 2017</b>						
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
	<b>300,305</b>	<b>3,386,825</b>	<b>290,855</b>	<b>3,068,409</b>	<b>387,742</b>	<b>1,018,969</b>
<b>31 December 2016</b>						
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
	<b>340,469</b>	<b>3,107,474</b>	<b>254,771</b>	<b>2,885,189</b>	<b>350,549</b>	<b>1,045,948</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### (b) Economic sector concentrations

	Assets		Liabilities	
	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000	
<b>31 December 2017</b>				
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	
	<b>3,386,825</b>	<b>3,068,409</b>	<b>1,018,969</b>	
<b>31 December 2016</b>				
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	
	<b>3,107,474</b>	<b>2,885,189</b>	<b>1,045,948</b>	

#### (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
<b>Total</b>	<b>3,386,825</b>	<b>3,107,474</b>	<b>3,623,226</b>	<b>2,973,100</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### (d) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
<b>31 December 2017</b>			
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
	<u>3,381,130</u>	<u>5,695</u>	<u>3,386,825</u>
<b>31 December 2016</b>			
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
	<u>3,101,807</u>	<u>5,667</u>	<u>3,107,474</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### (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
<b>31 December 2017</b>						
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
	<b>173,297</b>	<b>3,016,580</b>	<b>13,348</b>	<b>183,600</b>	<b>3,386,825</b>	<b>1,018,969</b>
<b>31 December 2016</b>						
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
	<b>146,303</b>	<b>2,743,094</b>	<b>20,817</b>	<b>197,260</b>	<b>3,107,474</b>	<b>1,045,948</b>



# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### (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 exposures RO'000
<b>31 December 2017</b>						
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
	<b>173,297</b>	<b>3,016,580</b>	<b>13,348</b>	<b>183,600</b>	<b>3,386,825</b>	<b>1,018,969</b>
<b>31 December 2016</b>						
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
	<b>146,303</b>	<b>2,743,094</b>	<b>20,817</b>	<b>197,260</b>	<b>3,107,474</b>	<b>1,045,948</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

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

	Performing loans RO'000	Non-performing loans RO'000	Collective provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
<b>31 December 2017</b>							
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	-
	<b>3,281,322</b>	<b>105,503</b>	<b>43,197</b>	<b>47,543</b>	<b>47,212</b>	<b>16,051</b>	<b>43</b>
<b>31 December 2016</b>							
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	-
	<b>3,024,139</b>	<b>83,335</b>	<b>41,700</b>	<b>37,542</b>	<b>39,640</b>	<b>16,005</b>	<b>129</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Credit risk (continued)

#### (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	Collective 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
<b>31 December 2017</b>							
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	-	-
	<u>3,386,825</u>	<u>105,503</u>	<u>43,197</u>	<u>47,543</u>	<u>47,212</u>	<u>16,051</u>	<u>43</u>
<b>31 December 2016</b>							
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	-	-
	<u>3,107,474</u>	<u>83,335</u>	<u>41,700</u>	<u>37,542</u>	<u>39,640</u>	<u>16,005</u>	<u>129</u>

#### (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
	<u>3,793,812</u>	<u>3,537,197</u>
<b>Off-balance sheet items</b>		
Financial guarantees	886,902	890,145
	<u>4,680,714</u>	<u>4,427,342</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35. Financial risk management (continued)

#### 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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Liquidity risk (continued)

##### Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
<b>31 December 2017</b>						
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
<b>Total assets</b>	<b>787,002</b>	<b>543,632</b>	<b>266,003</b>	<b>934,613</b>	<b>1,715,460</b>	<b>4,246,710</b>
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
<b>Total liabilities and shareholders' equity</b>	<b>540,784</b>	<b>752,569</b>	<b>559,648</b>	<b>1,295,429</b>	<b>1,099,280</b>	<b>4,246,710</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Liquidity risk (continued)

#### Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 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
<b>Total assets</b>	<b>688,505</b>	<b>600,616</b>	<b>261,786</b>	<b>858,735</b>	<b>1,542,401</b>	<b>3,952,043</b>
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
<b>Total liabilities and shareholders' equity</b>	<b>467,954</b>	<b>666,260</b>	<b>635,789</b>	<b>1,203,321</b>	<b>978,719</b>	<b>3,952,043</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### 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
	<u>115,487</u>	<u>27,010</u>

#### (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
	<u>13,732</u>	<u>12,949</u>	<u>27,463</u>	<u>25,898</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### Market risk (continued)

#### (b) Interest rate risk (continued)

#### 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
<b>31 December 2017</b>								
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
<b>Total assets</b>		<b>873,963</b>	<b>1,312,190</b>	<b>158,023</b>	<b>826,320</b>	<b>710,802</b>	<b>365,412</b>	<b>4,246,710</b>
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		<b>537,251</b>	<b>520,338</b>	<b>416,431</b>	<b>1,107,061</b>	<b>43,698</b>	<b>1,621,931</b>	<b>4,246,710</b>
<b>On-balance sheet gap</b>		<b>336,712</b>	<b>791,852</b>	<b>(258,408)</b>	<b>(280,741)</b>	<b>667,104</b>	<b>(1,256,519)</b>	<b>-</b>
<b>Cumulative interest sensitivity gap</b>		<b>336,712</b>	<b>1,128,564</b>	<b>870,156</b>	<b>589,415</b>	<b>1,256,519</b>	<b>-</b>	<b>-</b>



# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

#### (b) Interest rate risk (continued)

##### Interest rate sensitivity gap (continued)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2016								
Cash and balances with Central Bank of Oman	0.05%	104,009	-	-	-	500	161,380	265,889
Loans, advances and financing to banks	1.0%	95,582	243,103	-	-	-	1,375	340,060
Loans, advances and financing 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
<b>Total assets</b>		<b>766,736</b>	<b>1,330,147</b>	<b>116,468</b>	<b>790,561</b>	<b>662,970</b>	<b>285,161</b>	<b>3,952,043</b>
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
<b>Total liabilities and Equity</b>		<b>522,683</b>	<b>420,985</b>	<b>428,310</b>	<b>1,022,814</b>	<b>30,110</b>	<b>1,527,141</b>	<b>3,952,043</b>
<b>On-balance sheet gap</b>		<b>244,053</b>	<b>909,162</b>	<b>(311,842)</b>	<b>(232,253)</b>	<b>632,860</b>	<b>(1,241,980)</b>	
<b>Cumulative interest sensitivity gap</b>		<b>244,053</b>	<b>1,153,215</b>	<b>841,373</b>	<b>609,120</b>	<b>1,241,980</b>		

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35. Financial risk management (continued)

#### Market risk (continued)

##### (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.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35. Financial risk management (continued)

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.

# BANK DHOFAR SAOG

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 35 Financial risk management (continued)

- ❖ 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.

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 36 Capital risk management (continued)

#### Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2017 is 15.44% (2016: 14.41%).

<b>Capital structure</b>	<b>2017</b>	<b>2016</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>Common Equity Tier (CET) I/ TIER I CAPITAL</b>		
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
<b>CET I/Tier I Capital</b>	<b>442,625</b>	<b>391,402</b>
Additional Tier I regulatory adjustments:		
Deferred tax Assets	(62)	(62)
Goodwill	(1,191)	(1,589)
Negative investment revaluation reserve	(233)	(196)
<b>Total CET 1 capital</b>	<b>441,139</b>	<b>389,555</b>
Additional Tier I capital ( AT1)	115,500	115,500
<b>Total Tier 1 Capital (T1=CET1+AT1)</b>	<b>556,639</b>	<b>505,055</b>
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	275	682
General provision	43,606	42,109
Subordinated loan	46,550	22,325
<b>Total Tier II capital</b>	<b>90,431</b>	<b>65,116</b>
<b>Total eligible capital</b>	<b>647,070</b>	<b>570,171</b>
<b>Risk weighted assets</b>		
Banking book	3,881,383	3,674,545
Trading book	64,370	56,817
Operational risk	243,793	224,316
<b>Total</b>	<b>4,189,546</b>	<b>3,955,678</b>
Total Tier 1 Capital (T1=CET1+AT1)	556,639	505,055
Tier II capital	90,431	65,116
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>647,070</b>	<b>570,171</b>
<b>Common Equity Tier 1 ratio</b>	<b>10.53%</b>	<b>9.85%</b>
<b>Tier I capital ratio</b>	<b>13.29%</b>	<b>12.77%</b>
<b>Total capital ratio</b>	<b>15.44%</b>	<b>14.41%</b>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 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.

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

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 37 Segmental information (continued)

At 31 December 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	79,782	70,000	4,528	154,310
Other revenues	6,074	11,557	12,060	29,691
Segment operating revenues	<u>85,856</u>	<u>81,557</u>	<u>16,588</u>	<u>184,001</u>
Interest, Islamic Window Deposit expenses	<u>(21,088)</u>	<u>(28,355)</u>	<u>(7,207)</u>	<u>(56,650)</u>
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	<u>29,200</u>	<u>21,064</u>	<u>4,165</u>	<u>54,429</u>
Tax expenses	<u>(3,653)</u>	<u>(2,635)</u>	<u>(519)</u>	<u>(6,807)</u>
Net profit for the year	<u>25,547</u>	<u>18,429</u>	<u>3,646</u>	<u>47,622</u>
Segment assets	1,463,020	1,851,082	757,232	4,071,334
Less: Impairment allowance	<u>(54,838)</u>	<u>(64,044)</u>	<u>(409)</u>	<u>(119,291)</u>
Total segment assets	<u>1,408,182</u>	<u>1,787,038</u>	<u>756,823</u>	<u>3,952,043</u>
Segment liabilities	<u>1,050,501</u>	<u>1,962,844</u>	<u>404,698</u>	<u>3,418,043</u>

### Islamic Banking Window

At 31 December 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	7,290	11,414	138	18,842
Other revenues	186	603	1,565	2,354
Segment operating revenues	<u>7,476</u>	<u>12,017</u>	<u>1,703</u>	<u>21,196</u>
Profit expenses share of profit	<u>(452)</u>	<u>(9,511)</u>	<u>(358)</u>	<u>(10,321)</u>
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	<u>4,437</u>	<u>(1,802)</u>	<u>554</u>	<u>3,189</u>
Segment assets	157,839	233,266	139,318	530,423
Less: Impairment allowance	<u>(1,787)</u>	<u>(2,685)</u>	<u>-</u>	<u>(4,472)</u>
Total segment assets	<u>156,052</u>	<u>230,581</u>	<u>139,318</u>	<u>525,951</u>
Segment liabilities	<u>41,481</u>	<u>343,251</u>	<u>77,417</u>	<u>457,149</u>

# BANK DHOFAR SAOG

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 37 Segmental information (continued)

At 31 December 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
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	(1,723)	(2,445)	(917)	(5,085)
Operating expenses including depreciation	(234)	(353)	-	(587)
Impairment allowance	2,941	596	(356)	3,181
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).



**MAISARAH ISLAMIC BANKING SERVICES -  
WINDOW OF BANK DHOFAR SAOG  
FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

**Registered office and principal place of business:**

Head office, Ground Floor, Al Sahwa Tower – 1  
P.O. Box 1792  
PC 130  
Azaiba, Muscat  
Sultanate of Oman

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Statement of Financial Position

At 31 December 2017

	Note	2017 RO 000	2016 RO 000
<b>Assets</b>			
Cash and balances with Central Bank of Oman	5	81,398	38,949
Due from banks and financial institutions	6	41,606	68,355
Murabaha and other receivables	7	26,846	9,711
Mudaraba financing	8	23,259	24,608
Diminishing Musharaka financing	9	289,489	237,494
Investments at fair value through equity	10	22,342	16,561
Investment at amortised cost	11	10,000	10,000
Ijarah Muntahia Bittamleek	12	43,851	36,728
Property and equipment	13	1,401	1,474
Other assets	14	3,084	6,826
<b>Total assets</b>		<b>543,276</b>	<b>450,706</b>
<b>Liabilities, equity of investment accountholders and owners' equity</b>			
<b>Liabilities</b>			
Current accounts		72,155	39,886
Due to banks	15	71,950	79,340
Qard Hasan from Head office	16	23,956	17,420
Customer Wakala deposits		278,350	230,554
Other liabilities	17	8,407	9,291
<b>Total liabilities</b>		<b>454,818</b>	<b>376,491</b>
<b>Equity of investment accountholders</b>	18	<b>26,287</b>	<b>15,239</b>
<b>Owners' equity</b>			
Capital	19	55,000	55,000
Reserves		204	198
Retained Earnings		6,967	3,778
<b>Total owners' equity</b>		<b>62,171</b>	<b>58,976</b>
<b>Total liabilities, equity of investment accountholders and owners' equity</b>		<b>543,276</b>	<b>450,706</b>
<b>Contingent liabilities and commitments</b>	26	<b>12,780</b>	<b>10,169</b>

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.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Statement of income

For the year ended 31 December 2017

	Note	2017 RO 000	2016 RO 000
<b>Income</b>			
Income from Islamic finances and investments	21	19,932	13,844
Income on Wakala placements		138	13
		<b>20,070</b>	<b>13,857</b>
<b>Less:</b>			
Return on equity of investment accountholders		(201)	(119)
Return on customer Wakala deposits		(9,762)	(5,128)
Return on interbank Wakala deposit		(358)	(653)
		<b>(10,321)</b>	<b>(5,900)</b>
<b>Maisarah's share in income from investment as a Mudarib and Rabul Maal</b>		<b>9,749</b>	<b>7,957</b>
Revenue from banking services		940	819
Foreign exchange gain – net		184	77
Other revenues		2	-
<b>Total revenue</b>		<b>10,875</b>	<b>8,853</b>
Staff costs	22	(4,162)	(3,380)
General and administrative expenses	23	(1,796)	(1,328)
Provision for financing impairment	24	(1,319)	(587)
Depreciation	13	(409)	(377)
<b>Total expenses</b>		<b>(7,686)</b>	<b>(5,672)</b>
<b>Profit for the year before taxation</b>		<b>3,189</b>	<b>3,181</b>

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

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### 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
<b>Balance at 1 January 2017</b>	<b>55,000</b>	<b>198</b>	<b>3,778</b>	<b>58,976</b>
Profit for the year	-	-	3,189	3,189
Cumulative changes in fair value	-	6	-	6
	<b>55,000</b>	<b>204</b>	<b>6,967</b>	<b>62,171</b>
Addition of capital during the year	-	-	-	-
<b>Balance as at 31 December 2017</b>	<b>55,000</b>	<b>204</b>	<b>6,967</b>	<b>62,171</b>

  

	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)
	40,000	198	3,778	43,976
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2016	55,000	198	3,778	58,976

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

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Statement of sources and uses of charity fund

For the year ended 31 December 2017

	2017 RO 000	2016 RO 000
<b>Sources of charity funds</b>		
Undistributed charity funds at beginning of the year	153	7
Shari'a non-compliant income	201	153
Donations	-	-
Total sources of funds during the year	<u>354</u>	<u>160</u>
<b>Uses of charity funds</b>		
University and school students		-
Health related organizations	(153)	(7)
Aid to needy families		-
Total uses of funds during the year	<u>(153)</u>	<u>(7)</u>
Undistributed charity funds at end of the year	<u>201</u>	<u>153</u>

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

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Statement of cash flows

For the year ended 31 December 2017

	2017 RO 000	2016 RO 000
<b>Cash flows from operating activities</b>		
Profit for the year	3,189	3,181
<b>Adjustments for:</b>		
Depreciation	409	377
Depreciation on Ijarah assets	1,713	1,426
Gain on sale of property and equipment	(2)	-
Provision for financing impairment	1,319	587
Investment risk reserve	1	1
Profit equalization reserve	3	2
<b>Operating profit before changes in operating assets and liabilities</b>	<b>6,632</b>	<b>5,574</b>
<b>Operating assets and liabilities:</b>		
Murabaha and other receivables	(17,351)	3,167
Ijarah Muntahia Bittamleek assets	(9,537)	(6,954)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	619	1,241
Diminishing Musharaka financing	(53,038)	(87,438)
Mudaraba financing	1,371	(13,085)
Other asset	(936)	(677)
Other liabilities	3,730	515
Qard Hasan from Head Office	6,266	6,521
<b>Net cash used in operating activities</b>	<b>(62,244)</b>	<b>(91,136)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments at fair value through equity	(5,775)	-
Purchase of investment at amortised cost	-	-
<b>Net cash used in investing activities</b>	<b>(5,775)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Current account	32,269	(9,139)
Due to banks and financial institutions	(3,850)	3,850
Customer Wakala deposit	47,796	95,446
Unrestricted investment accountholders	11,044	7,209
Capital	-	15,000
<b>Net cash from financing activities</b>	<b>87,259</b>	<b>112,366</b>
<b>Cash and cash equivalents during the year</b>	<b>19,240</b>	<b>21,230</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>31,814</b>	<b>10,584</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>51,054</b>	<b>31,814</b>
<b>Cash and cash equivalents at the end of the year comprise:</b>		
Cash and balances with CBO	81,398	38,949
Due from banks and financial institutions	41,606	68,355
Due to banks	(71,950)	(75,490)
	<b>51,054</b>	<b>31,814</b>

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

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### 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.

#### 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

## 2 BASIS OF PREPARATION (continued)

### 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.



# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

*For the year ended 31 December 2017*

### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 Mudaraba 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.20 Revenue recognition (continued)

##### 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.

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:

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.23 Shari'a supervisory board (continued)

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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

*For the year ended 31 December 2017*

#### **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.



# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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
	<u>81,398</u>	<u>38,949</u>

#### 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
	<u>41,606</u>	<u>68,355</u>

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)
	<u>26,994</u>	<u>9,814</u>
Credit card receivables – self financed	242	71
Less: Impairment on portfolio basis (note 24)	(390)	(174)
	<u>26,846</u>	<u>9,711</u>

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)
	<u>23,259</u>	<u>24,608</u>

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

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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)	<u>(3,242)</u>	<u>(2,199)</u>
	<u><b>289,489</b></u>	<u><b>237,494</b></u>

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	<u>12,144</u>	<u>6,363</u>
	<u><b>22,342</b></u>	<u><b>16,561</b></u>

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	<u><b>10,000</b></u>	<u><b>10,000</b></u>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 12 Ijarah Muntahia Bittamleek

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

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

#### 13 Property and equipment

	2017				
	Furniture, fixtures & equipment	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
<i>Cost</i>					
At 1 January	875	54	1,487	3	2,419
Additions	164	7	113	58	342
Disposals / Transfers	-	-	-	(6)	(6)
At 31 December	<u>1,039</u>	<u>61</u>	<u>1,600</u>	<u>55</u>	<u>2,755</u>
<i>Accumulated depreciation</i>					
At 1 January	(351)	(36)	(558)	-	(945)
Provided during the year	(171)	(11)	(227)	-	(409)
Reversal of depreciation	-	-	-	-	-
At 31 December	<u>(522)</u>	<u>(47)</u>	<u>(785)</u>	<u>-</u>	<u>(1,354)</u>
<b>Net book value at 31 December</b>	<b><u>517</u></b>	<b><u>14</u></b>	<b><u>815</u></b>	<b><u>55</u></b>	<b><u>1,401</u></b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 13 Property and equipment (continued)

	2016				Total RO 000
	Furniture , fixtures & equipment RO 000	Motor vehicles RO 000	Computer equipment RO 000	Capital work in progress RO 000	
<i>Cost</i>					
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
<i>Accumulated depreciation</i>					
At 1 January	(188)	(24)	(356)	-	(568)
Provided during the year	(163)	(12)	(202)	-	(377)
Reversal of depreciation	-	-	-	-	-
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)	-
<b>Total</b>	<b>3,084</b>	<b>6,826</b>

#### 15 Due to banks

	2017 RO 000	2016 RO 000
Due to banks	71,950	79,340
<b>Total</b>	<b>71,950</b>	<b>79,340</b>

Due to banks comprises of Wakala deposits.

#### 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
<b>Total</b>	<b>23,956</b>	<b>17,420</b>

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.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 17 Other Liabilities

	2017	2016
	RO 000	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
<b>Total</b>	<b>8407</b>	<b>9,291</b>

#### 18 Equity of investment accountholders

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

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.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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
<b>Total</b>	<b>19,932</b>	<b>13,844</b>

\* 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
<b>Total</b>	<b>4,162</b>	<b>3,380</b>

#### 23 General and administrative expenses

	2017 RO 000	2016 RO 000
Occupancy cost	517	454
Operating and administration cost	1,279	874
<b>Total</b>	<b>1,796</b>	<b>1,328</b>

#### 24 Provision for financing impairment

In accordance with the directives of CBO, the movement in the financing 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
<b>Balance at the end of the year</b>	<b>3,747</b>	<b>3,017</b>
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)	-
<b>Balance at the end of the year</b>	<b>589</b>	<b>-</b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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
<b>Finances</b>		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	743	597
<b>Deposits and other accounts</b>		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	18,268	2,577
<b>Remuneration paid to Directors &amp; Shari'a Supervisor</b>		
Chairman		
– remuneration proposed	8	8
– sitting fees paid	3	3
Other Members		
– remuneration proposed	24	24
– sitting fees paid	7	8
<b>Other transactions</b>		
Rental payment to a related party	237	231
<b>Key management compensation</b>		
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
<b>Total</b>	<b>12,780</b>	<b>10,169</b>

##### (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).

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

#### 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
	<b>Contract / Notional Amount</b>	
<b>Forward exchange contracts</b>		
Currency forward - purchase contracts	-	17,325
Currency forward - sale contracts	-	17,335

As at 31 December 2017, fair value of the exchange contracts remains equivalent to its notional amount.

#### 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).

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



# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Fair value information (continued)

Fair value information	2016			Total RO 000
	Level 1 RO 000	Level 2 RO 000	Level 3 RO 000	
Investment at fair value through Equity	6,363	10,198	-	16,561
Total	6,363	10,198	-	16,561

#### 30 Financial risk management

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

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

#### Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board 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. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

### 29 Financial risk management (continued)

#### Credit risk (continued)

#### (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	-
	<b>41,606</b>	<b>71,950</b>	<b>26,287</b>

  

	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	-
	<b>68,355</b>	<b>79,340</b>	<b>15,239</b>

#### (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	-
	<b>41,606</b>	<b>27,236</b>	<b>23,481</b>	<b>292,731</b>	<b>44,333</b>

  

	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	-
	<b>68,355</b>	<b>9,885</b>	<b>24,852</b>	<b>239,693</b>	<b>37,128</b>

## BANK DHOFAR SAOG

### MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

#### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (continued)

##### Credit risk (continued)

#### (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	-
	<b>27,236</b>	<b>23,481</b>	<b>292,731</b>	<b>44,333</b>

	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	-
	<b>9,885</b>	<b>24,852</b>	<b>239,693</b>	<b>37,128</b>

#### (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

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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	-	-
	<b>27,236</b>	<b>23,481</b>	<b>292,731</b>	<b>44,333</b>	<b>12,780</b>

  

	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	-	-
	<b>9,885</b>	<b>24,852</b>	<b>239,693</b>	<b>37,128</b>	<b>10,169</b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 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	-
	<b>27,236</b>	<b>23,481</b>	<b>292,731</b>	<b>44,333</b>	<b>12,780</b>

  

	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	-
	<b>9,885</b>	<b>24,852</b>	<b>239,693</b>	<b>37,128</b>	<b>10,169</b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (continued)

##### Credit risk (continued)

##### (g) Distribution of past due and not past due 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 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 & 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)	-
	<b>27,236</b>	<b>23,481</b>	<b>290,837</b>	<b>44,298</b>	<b>1,929</b>	<b>(3,747)</b>	<b>(589)</b>

  

	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 made during the year RO 000	Specific provisions made during the year 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)	-
	<b>9,885</b>	<b>24,852</b>	<b>239,693</b>	<b>37,128</b>	<b>-</b>	<b>(3,017)</b>	<b>-</b>

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (continued)

##### Credit risk (continued)

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

	2017 RO 000	2016 RO 000
Due from banks and financial institutions	<u>41,606</u>	<u>68,355</u>

##### 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.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### 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					Total RO 000
	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	
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
<b>Total assets</b>	<b>139,727</b>	<b>41,859</b>	<b>49,343</b>	<b>176,156</b>	<b>136,191</b>	<b>543,276</b>
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
<b>Total liabilities and accountholders owners' equity</b>	<b>139,393</b>	<b>116,710</b>	<b>59,846</b>	<b>103,562</b>	<b>123,765</b>	<b>543,276</b>



# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### 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 (continued)

	2016					Total RO 000
	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	
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
<b>Total assets</b>	<b>119,780</b>	<b>31,439</b>	<b>29,827</b>	<b>170,140</b>	<b>99,520</b>	<b>450,706</b>
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
<b>Total liabilities and accountholders &amp; owners' equity</b>	<b>106,660</b>	<b>112,687</b>	<b>40,537</b>	<b>82,399</b>	<b>108,423</b>	<b>450,706</b>

##### 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.

# BANK DHOFAR SAOG

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## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

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### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (continued)

##### Market risk (continued)

##### (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.

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (continued)

##### Market 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
<b>Total assets</b>		<b>60,135</b>	<b>38,975</b>	<b>47,051</b>	<b>164,415</b>	<b>128,069</b>	<b>104,631</b>	<b>543,276</b>
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		<b>147,749</b>	<b>108,544</b>	<b>54,361</b>	<b>70,422</b>	<b>51,442</b>	<b>110,758</b>	<b>543,276</b>
<b>On-balance sheet gap</b>		<b>(87,614)</b>	<b>(69,569)</b>	<b>(7,310)</b>	<b>93,993</b>	<b>76,627</b>	<b>(6,127)</b>	<b>-</b>
<b>Cumulative profit sensitivity gap</b>		<b>(87,614)</b>	<b>(157,183)</b>	<b>(164,493)</b>	<b>(70,500)</b>	<b>6,127</b>	<b>-</b>	<b>-</b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

### 29 Financial risk management (continued)

#### Market 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
<b>Total assets</b>		<b>58,508</b>	<b>24,963</b>	<b>27,403</b>	<b>157,714</b>	<b>91,458</b>	<b>90,660</b>	<b>450,706</b>
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
<b>Equity of accountholders &amp; Total liabilities and shareholders' equity</b>		<b>109,431</b>	<b>103,799</b>	<b>37,085</b>	<b>59,784</b>	<b>43,225</b>	<b>97,382</b>	<b>450,706</b>
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	-	-

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 29 Financial risk management (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

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
<b>Total segment operating revenues</b>	<b>7,476</b>	<b>12,017</b>	<b>1,703</b>	<b>21,196</b>
<b>Profit expenses</b>	<b>(452)</b>	<b>(9,511)</b>	<b>(358)</b>	<b>(10,321)</b>
<b>Net operating income</b>				
<b>Segment cost</b>				
Operating expenses including depreciation	(2,202)	(3,374)	(791)	(6,367)
Provision for impairment	(385)	(934)	-	(1,319)
<b>Net profit for the year before tax</b>	<b>4,437</b>	<b>(1,802)</b>	<b>554</b>	<b>3,1889</b>
<b>Segment assets</b>	<b>157,836</b>	<b>233,133</b>	<b>156,643</b>	<b>547,612</b>
Less: Provision for impairment	(1,784)	(2,552)	-	(4,336)
<b>Total segment assets</b>	<b>156,052</b>	<b>230,581</b>	<b>156,643</b>	<b>543,276</b>
<b>Segment liabilities</b>	<b>15,934</b>	<b>342,511</b>	<b>96,373</b>	<b>454,818</b>

# BANK DHOFAR SAOG

## MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

### Notes to the financial statements

For the year ended 31 December 2017

#### 30 Segmental information (continued)

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