MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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Statement of financial position
At 31 December

	Note	**2019**	2018
		RO 000	*RO 000*
Assets			
Cash and balances with Central Bank of Oman	5	**43,881**	38,810
Due from banks and financial institutions	6	**24,745**	30,361
Murabaha and other receivables	7	**19,558**	24,513
Mudaraba financing	8	**18,716**	26,301
Diminishing Musharaka financing	9	**321,929**	281,649
Investments	10	**52,461**	31,425
Investment at amortised cost	11	**10,000**	10,000
Wakala financing	12	**39,919**	18,733
Ijarah Muntahia Bittamleek	13	**45,883**	45,888
Property and equipment	14	**1,147**	1,309
Other assets	15	**6,693**	3,438
Total assets		**584,932**	512,427
Liabilities, equity of investment accountholders and owners' equity			
Liabilities			
Current accounts		**112,498**	56,040
Due to banks	16	**68,900**	56,425
Qard Hasan from Head office	17	**26,181**	26,150
Customer Wakala deposits		**253,404**	263,319
Other liabilities	18	**9,935**	9,385
Total liabilities		**470,918**	411,319
Equity of investment accountholders	19	**39,339**	34,040
Owners' equity			
Allocated share capital	20	**55,000**	55,000
Investment revaluation reserve		**88**	(549)
Retained earnings		**19,587**	12,617
Total owners' equity		**74,675**	67,068
Total liabilities, equity of investment Accountholders and owners' equity		**584,932**	512,427
Contingent liabilities and commitments	28	**26,619**	16,571

The financial statements were approved by the Board of Directors on 28 January 2020 for issue in accordance with a resolution of Board of Directors and signed on their behalf by

Chairman

Chief Executive Islamic Banking

The attached notes on pages 7 to 66 form an integral part of these financial statements.
Independent auditors report – Page 1.

Statement of comprehensive income
For the year ended 31 December

	Note	**2019**	2018
Income		***RO 000***	*RO 000*
Income from Islamic finances and investments	22	**26,087**	23,197
Income on Wakala placements		**153**	301
		26,240	23,498
Less:			
Return on equity of investment accountholders before Maisarah's share as Mudarib		**(1,130)**	(860)
Maisarah's share as Mudarib		**232**	198
Return on customer Wakala deposits	23	**(11,445)**	(10,766)
Return on inter bank Wakala deposit		**(1,479)**	(619)
		(13,822)	(12,047)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		**12,418**	11,451
Revenue from banking services		**1,808**	1,413
Foreign exchange gain – net		**414**	242
Other revenues		**159**	23
Total revenue		**14,799**	13,129
Staff costs	24	**(4,936)**	(4,643)
General and administrative expenses	25	**(1,658)**	(1,571)
Depreciation	14	**(498)**	(460)
Total expenses		**(7,092)**	(6,674)
Net impairment on financial instruments		**(734)**	(516)
Bad debts written off		**(3)**	-
Profit for the year		**6,970**	5,939
Other comprehensive income / (loss) for the year			
Items that are or may not be reclassified to profit or loss			
Gain / (loss) from change in fair value of Debt instrument at FVOCI	10	**637**	(753)
Other comprehensive income / (loss) for the year		**637**	(753)
Total comprehensive income for the year		**7,607**	5,186

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Independent auditors report – Page 1.

Statement of changes in owners' equity
For the year ended 31 December 2019

	31 December 2019			
	Allocated share capital *RO 000*	**Investment revaluation reserve** *RO 000*	**Retained earnings** *RO 000*	**Total** *RO 000*
Balance at 31 December 2018	**55,000**	**(549)**	**12,617**	**67,068**
Total comprehensive income for the year				
Net profit for the year	-	-	6,970	**6,970**
Other comprehensive income for the year				
Fair value change on FVOCI debt investments	-	637	-	**637**
Total comprehensive income	-	637	6,970	**7,607**
Balance as at 31 December 2019	**55,000**	**88**	**19,587**	**74,675**

	31 December 2018			
	Allocated share capital *RO 000*	Investment revaluation reserve *RO 000*	Retained earnings *RO 000*	Total *RO 000*
Balance at 31 December 2017	55,000	204	6,967	62,171
Adjustment on initial adoption of IFRS 9	-	-	(289)	(289)
Restated balance at 1 January 2018	55,000	204	6,678	61,882
Total comprehensive income for the year				
Net profit for the year	-	-	5,939	5,939
Other comprehensive income for the year				
Fair value adjustment against available for sale instruments	-	(753)	-	(753)
Total comprehensive income	-	(753)	5,939	5,186
Balance as at 31 December 2018	55,000	(549)	12,617	67,068

The attached notes on pages 7 to 66 form an integral part of these financial statements.
Independent auditors report – Page 1.

Statement of sources and uses of charity fund
For the year ended 31 December 2019

	2019	2018
	RO 000	*RO 000*
Sources of charity funds		
Undistributed charity funds at beginning of the year	**17**	201
Shari'a non-compliant income	**5**	17
Total sources of funds during the year	**22**	218
Uses of charity funds		
Distributed to charity organizations	**(17)**	(201)
Total uses of funds during the year	**(17)**	(201)
Undistributed charity funds at end of the year	**5**	17

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Statement of cash flows
For the year ended 31 December 2019

	2019	2018
	RO 000	*RO 000*
Cash flows from operating activities		
Profit for the year	**6,970**	5,939
Adjustments for:		
Depreciation	**498**	460
Depreciation on Ijarah assets	**3,360**	1,913
Gain on sale of property and equipment	**-**	(3)
Net impairment on financial instruments	**734**	516
Bad debts written off	**3**	-
Amortisation of premium on investment	**8**	-
Profit equalisation reserve and Investment risk reserve	**6**	5
Operating profit before changes in operating assets and liabilities	**11,579**	8,830
Operating assets and liabilities:		
Murabaha and other receivables	**4,940**	2,612
Ijarah Muntahia Bittamleek assets	**(3,573)**	(4,191)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	**190**	613
Diminishing Musharaka financing	**(41,309)**	7,216
Mudaraba financing	**7,689**	(3,104)
Wakala financing	**(21,248)**	(18,762)
Other asset	**(2,993)**	(213)
Other liabilities	**484**	492
Qard Hasan from Head Office	**(269)**	1,621
Net cash used in operating activities	**(44,510)**	(4,886)
Cash flows from investing activities		
Purchase of investments	**(43,500)**	(20,010)
Sale proceed from maturity of investments at FVOCI	**23,142**	10,000
Net cash used in investing activities	**(20,358)**	(10,010)
Cash flows from financing activities		
Current account	**56,458**	(16,115)
Due to banks	**42,350**	-
Customer Wakala deposit	**(9,915)**	(15,031)
Unrestricted investment accountholders	**5,293**	7,748
Net cash generated from / used in financing activities	**94,186**	(23,398)
Increase / (Decrease) in cash and cash equivalents	**29,318**	(38,294)
Cash and cash equivalents at the beginning of the year	**12,760**	51,054
Cash and cash equivalents at the end of the year	**42,078**	12,760
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**43,881**	38,810
Due from banks and financial institutions	**24,747**	30,375
Due to banks	**(26,550)**	(56,425)
	42,078	12,760

The attached notes on pages 7 to 66 form an integral part of these financial statements.
Independent auditors report – Page 1.

Notes to the financial statements

For the year ended 31 December

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in the Sultanate of Oman as window of Bank Dhofar SAOG ("the Bank"). Maisarah's operations commenced on 3 March 2013 and it currently operates through 10 (2018: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking Shari'a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework issued by CBO.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB").

These financial statements pertains to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2.4 Use of estimates and judgements

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

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

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

2.5 Change in accounting policy

The accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2019, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2019.

The adoption of these standards has not resulted in changes to the Islamic Window accounting policy and has not affected the amounts reported for the current and prior periods.

Standards issued and effective from 01 January 2019

FAS 28 *Murabaha and Other Deferred Payment Sales*

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale". The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. This standard is effective for the financial periods beginning on or after 1 January 2019 with early adoption permitted.

Maisarah has applied the standard prospectively from its mandatory adoption date, and the impact is immaterial on the financial information of Maisarah.

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

Standards issued but not effective from 01 January 2019

FAS 30 Impairment, Credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions.

The standard will be effective from financial periods beginning on or after 1 January 2020 with early adoption permitted.

CBO earlier issued its circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued . Maisarah had adopted the IFRS 9, which are similar to FAS 30, with effect from 1 January 2018 and as permitted by IFRS 9, Maisarah elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period.

Since the window already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 is not expected to result in significant changes.

FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not expected to have a material impact on the on Maisarah's financial statements.

FAS 32 Ijara

AAOIFI has issued FAS 32 Ijara in 2020. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted.

Maisarah is currently evaluating the impact of this standard.

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

Standards issued but not effective from 01 January 2019 *(continued)*

FAS 33 Investment in Sukuk, shares and similar instruments

AAOIFI has issued FAS 33 Investment in Sukuk, shares and similar instruments in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

Maisarah is currently evaluating the impact of this standard.

FAS 34 Financial reporting for Sukuk-holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

Maisarah is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs / the institutions). The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

Maisarah is currently evaluating the impact of this standard.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from and due to banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.4 Murabaha and other receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a Murabaha transaction by buying goods (which represents the object of the Murabaha) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Other receivables include credit card receivable which is based on the Islamic financial principle of profit-free Qard Hasan, and travel and education finance which is based on the on Islamic financial principle of Ujrah.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 Diminishing Musharaka

Diminishing Musharaka is a contract, based on *Shirkat-ul-Mulk,* between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3.7 Wakala

Wakala is a contract where the Bank (the Muwakil) will enter into Wakala Agreement with the customer (the Wakil) and will establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skills to manage the business.

3.8 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.9 IFRS 9 – Financial instruments

Classification and measurement of financial assets and financial liabilities

Financial assets are classified into one of the following three categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- Amortised cost; and
- Fair value through profit or loss (FVTPL).

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Business model assessment

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

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.

- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

Maisarah makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Islamic window's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Islamic window's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Assessment whether contractual cash flows are solely payments of principal and profit *(continued)*

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

Modifications of financial assets

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

Fair Value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.

- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

Impairment

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

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Impairment *(continued)*

- financing commitments issued; and
- other assets (acceptances and accrued profit).

No impairment loss is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

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

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

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

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

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Impairment *(continued)*

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Measurement of ECL

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

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

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

However, for unfunded exposures, ECL is measured as follows:

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Restructured financial assets

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

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

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

Credit impaired financial assets

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

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

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

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Credit impaired financial assets *(continued)*

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

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

Forward-looking information

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

Macroeconomic factors

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

Assessment of significant increase in credit risk

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 IFRS 9 – Financial instruments *(continued)*

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;

- Debt instruments measured at fair value through other comprehensive income: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and

- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

Definition of default

Maisarah considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Islamic window in full without recourse by the Islamic window to actions such as realising security held (if any); or

- The counterparty is past due more than 90 days on any material credit obligation to the Islamic window.

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty is in default, the Islamic window considers indicators that are:

- Qualitative – e.g. breaches of covenant;

- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and

- Based on data developed internally and obtained from external sources.

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

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

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

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

3.11 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.12 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

3.13 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib's share, to cater against future losses for equity of investment accountholders.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.15 Earnings prohibited by Shari'a

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari’a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari’a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.16 Zakah

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

3.17 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the equity of investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.18 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.19 Revenue recognition

3.19.1. Murabaha and Musawama receivables

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

3.19.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised when Bank’s right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank’s ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Revenue recognition *(continued)*

3.19.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.19.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.19.5 Wakala financing

Wakala profit is estimated reliably and recognized on time-apportioned basis so as to yield the expected rate of return based on the Wakala capital outstanding. In case of default, negligence or violation of any of the terms and conditions of Wakala agreement, the Wakil would bear the loss, otherwise the loss would be borne by the Muwakil.

3.19.6 Dividends

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

3.19.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.19.8 Maisarah’s share as a Mudarib

Maisarah’s share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.19.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

3.20 Taxation

Maisarah is an Islamic banking window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 Taxation *(continued)*

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah’s financial results, accordingly income tax is accounted for as per IFRS in financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah’s result for the year at the statutory effective tax rate would amount to RO 1,046 thousand (2018: RO 890 thousand).

3.21 Employees' benefits

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

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

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

3.22 Shari’a supervisory board

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

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

3.23 Trade date accounting

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.24 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.25 Fiduciary assets

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

4 Critical Accounting Judgment and Key Sources Of Estimation Uncertainty

(a) Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(b) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Resegmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

(c) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Notes to the financial statements
For the year ended 31 December

4 Critical Accounting Judgment and Key Sources of Estimation Uncertainty *(continued)*

(d) Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

(e) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5 Cash and balances with Central Bank of Oman

	2019	2018
	RO 000	*RO 000*
Cash in hand	**2,773**	2,356
Balances with Central Bank of Oman	**41,108**	36,454
	43,881	38,810

6 Due from banks and financial institutions

	2019	2018
Wakala placement – jointly financed	**23,100**	27,335
Current clearing account – self financed	**1,647**	3,040
	24,747	30,375
Less: Impairment allowance for ECL (note 26)	**(2)**	(14)
	24,745	30,361

At 31 December 2019, placement with two overseas banks individually represented 20% or more of the Islamic window's placements (2018: Three banks represented 20%).

Notes to the financial statements
For the year ended 31 December

7 Murabaha and other receivables

	2019 RO 000	2018 RO 000
Gross Murabaha receivables – jointly financed	**22,673**	27,199
Gross Ujrah receivables – jointly financed	**19**	2
	22,692	27,201
Less: Deferred income – jointly financed	**(3,602)**	(3,018)
	19,090	24,183
Credit card receivables – self financed	**596**	442
Less: Profit suspended	**(2)**	(1)
Less: Impairment allowance for ECL (note 26)	**(126)**	(111)
	19,558	24,513

Murabaha and other receivables past due but not impaired amounts to RO 659 thousand (2018: RO 657 thousand).

Deferred income at 1 January 2019	**3,018**
Sales revenue during the year	**17,147**
Cost of sales during the year	**(15,295)**
Profit recognised in income	**(1,254)**
Profit waived off	**(12)**
Profit amortized during the year	**(1,266)**
Profit suspended	**(2)**
Deferred income at 31 December 2019	**3,602**

8 Mudaraba financing

Mudaraba financing – jointly financed	**18,896**	26,585
Less: Impairment allowance for ECL (note 26)	**(180)**	(284)
	18,716	26,301

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

9 Diminishing Musharaka financing

Diminishing Musharaka – jointly financed	**326,824**	285,515
Less: Impairment allowance for ECL (note 26)	**(4,895)**	(3,866)
	321,929	281,649

Diminishing Musharaka past due but not impaired amounts to RO 66,248 thousand (2018: RO 36,567 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Notes to the financial statements
For the year ended 31 December

10 Investments

	2019	2018
	RO 000	*RO 000*
Fair value through other comprehensive income:		
Local listed Sukuk – jointly financed	**10,000**	10,000
International listed Sukuk – jointly financed	**15,873**	10,010
Sovereign Sukuk – jointly financed	**26,713**	11,589
	52,586	31,599
Less: Impairment provision for ECL (note 26)	**(125)**	(174)
Total Sukuk – jointly financed	**52,461**	31,425

During the year movement in investments at fair value through other comprehensive income:

	2019	2018
Debt type instruments		
At 1 January	**31,599**	22,342
Additions	**43,500**	20,010
Disposals and redemptions	**(23,142)**	(10,000)
Gain / (Loss) from change in fair value	**637**	(753)
Amortisation of discount / premium	**(8)**	-
At 31 December	**52,586**	31,599

11 Investment at amortised cost

	2019	2018
Sovereign Sukuk – jointly financed	**10,000**	10,000

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

12 Wakala financing

	2019	2018
Wakala financing – jointly financed	**40,010**	18,762
Less: Impairment allowance for ECL (note 26)	**(91)**	(29)
	39,919	18,733

Wakala financing past due but not impaired amounts to RO 549 thousand (2018: RO Nil).

13 Ijarah Muntahia Bittamleek

	2019	2018
Cost – jointly financed		
at 1 January	**52,766**	49,622
Additions	**3,573**	4,191
Disposals	**(1,762)**	(1,047)
at 31 December	**54,577**	52,766
Accumulated depreciation – jointly financed		
at 1 January	**6,768**	5,289
Charge for the period	**3,360**	1,913
Disposals	**(1,572)**	(434)
at 31 December	**8,556**	6,768
Net book value at 31 December	**46,021**	45,998
Less: Impairment allowance for ECL (note 26)	**(138)**	(110)
Net Ijarah Muntahia Bittamleek	**45,883**	45,888

Notes to the financial statements
For the year ended 31 December

13 Ijarah Muntahia Bittamleek *(continued)*

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,304 thousand (2018: RO 994 thousand).

14 Property and equipment

	2019				
	Furniture, fixtures & equipment	**Motor vehicles**	**Computer equipment**	**Capital work in progress**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cost					
at 1 January	**1,224**	**78**	**1,817**	**2**	**3,121**
Additions	**81**	**-**	**186**	**120**	**387**
Disposals / Transfers	**(25)**	**-**	**-**	**(51)**	**(76)**
at 31 December	**1,280**	**78**	**2,003**	**71**	**3,432**
Accumulated depreciation					
at 1 January	**(702)**	**(60)**	**(1,050)**	**-**	**(1,812)**
Charge for the year	**(196)**	**(10)**	**(292)**	**-**	**(498)**
Disposal	**25**	**-**	**-**	**-**	**25**
at 31 December	**(873)**	**(70)**	**(1,342)**	**-**	**(2,285)**
Net book amount at 31 December	**407**	**8**	**661**	**71**	**1,147**

	2018				
	Furniture, fixtures & equipment	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Cost					
at 1 January	1,039	61	1,600	55	2,755
Additions	187	17	217	204	625
Disposals / Transfers	(2)	-	-	(257)	(259)
at 31 December	1,224	78	1,817	2	3,121
Accumulated depreciation					
at 1 January	(522)	(47)	(785)	-	(1,354)
Charge for the year	(182)	(13)	(265)	-	(460)
Reversal of depreciation	2	-	-	-	2
at 31 December	(702)	(60)	(1,050)	-	(1,812)
Net book amount at 31 December	522	18	767	2	1,309

As of 31 December 2019, cost of computer equipment includes software cost of RO 1,651 thousand (31 December 2018: RO 1,520 thousand). Accumulated depreciation against these software is RO 1,076 thousand (31 December 2018: RO 835 thousand).

Notes to the financial statements
For the year ended 31 December

15 Other assets

	2019 RO 000	2018 RO 000
Ijarah rental receivables	**64**	84
Other profit receivables	**3,918**	1,933
Prepayments	**314**	350
Murabaha and Musawama inventory	**946**	-
Advances	**909**	713
Others	**116**	171
Acceptances	**865**	537
	7,132	3,788
Less: Reserve for suspended profit (note 26)	**(390)**	(248)
Less: Allowance against other assets	**-**	(80)
Less: Impairment allowance for ECL on accrued profit (note 26)	**(49)**	(22)
Total	**6,693**	3,438

16 Due to banks

Due to the Bank (Bank Dhofar SAOG)	**33,100**	17,550
Due to banks	**35,800**	38,875
Total	**68,900**	56,425

Due to Head Office and banks comprises of Wakala deposits.

At 31 December 2019, inter bank borrowings with 2 banks including Bank Dhofar SAOG individually represented 20% or more of the Islamic window's due to banks (2018: Three banks including Bank Dhofar SAOG represented 20%).

17 Qard Hasan from Head Office

Qard Hasan from Head Office (17.1)	**25,000**	25,000
Current clearing account (17.2)	**1,181**	1,150
Total	**26,181**	26,150

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

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

18 Other liabilities

Payables	**518**	939
Accrued expenses	**1,277**	1,118
Profit payables	**6,960**	6,215
Others	**41**	28
Charity payable	**5**	17
Acceptances	**865**	537
Impairment allowance for ECL on non-funded exposure (note 26)	**269**	531
Total	**9,935**	9,385

Notes to the financial statements
For the year ended 31 December

19 Equity of investment accountholders

	2019	2018
	RO 000	*RO 000*
Saving account	**39,319**	34,026
Profit equalisation reserve	**16**	11
Investment risk reserve	**4**	3
Total	**39,339**	34,040

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2019 and 2018 as follows:

	2019	2018
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

19.1 Movement in profit equalisation reserve

	2019	2018
	RO 000	*RO 000*
Balance as at 1 January	**11**	7
Apportioned during the year	**5**	4
Balance as at 31 December	**16**	11

19.2 Movement in investment risk reserve

Balance as at 1 January	**3**	2
Apportioned during the year	**1**	1
Balance as at 31 December	**4**	3

20 Allocated share capital

During 2018 and 2019, there was no increase in assigned capital to Maisarah from the core paid up capital of the shareholders.

Notes to the financial statements
For the year ended 31 December

21 Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

22 Income from Islamic finances and investments

	2019	2018
	RO 000	*RO 000*
Murabaha receivables	**1,254**	1,278
Mudaraba	**1,333**	1,351
Ijarah muntahia bittamleek – net*	**2,429**	2,395
Diminishing Musharaka	**17,110**	15,769
Wakala financing	**1,707**	462
Musawama	**17**	-
Ujrah fees	**1**	-
Profit on investments at FVOCI	**1,886**	1,592
Profit on investment at amortised cost	**350**	350
	26,087	23,197

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 3,360 thousand (2018: RO 1,913 thousand).

23 Return on customer Wakala deposits

Return allocated to Wakala depositors	**11,444**	10,737
Hiba for Wakala depositors	**1**	29
	11,445	10,766

24 Staff costs

Salaries and allowances	**4,195**	3,929
Other personnel cost	**695**	660
Non-Omani employee terminal benefits	**46**	54
	4,936	4,643

25 General and administrative expenses

Occupancy cost	**622**	602
Operating and administration cost	**1,036**	969
	1,658	1,571

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses

26.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2019 and 2018:

31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Gross exposure				
Balances with Central Bank of Oman	**41,108**	**-**	**-**	**41,108**
Due from banks and financial institutions	**24,747**	**-**	**-**	**24,747**
Murabaha and other receivables	**17,382**	**2,266**	**38**	**19,686**
Mudaraba financing	**4,347**	**14,549**	**-**	**18,896**
Diminishing Musharaka financing	**264,433**	**59,701**	**2,690**	**326,824**
Investments at FVOCI	**52,586**	**-**	**-**	**52,586**
Investment at amortised cost	**10,000**	**-**	**-**	**10,000**
Wakala financing	**21,957**	**17,983**	**70**	**40,010**
Ijarah Muntahia Bittamleek	**45,822**	**119**	**80**	**46,021**
Accrued profit	**2,277**	**1,315**	**390**	**3,982**
Acceptances	**656**	**209**	**-**	**865**
Total funded gross exposure	**485,315**	**96,142**	**3,268**	**584,725**
Letter of credit / guarantee	**5,353**	**21,266**	**-**	**26,619**
Financing commitment/unutilised limits	**20,424**	**3,526**	**-**	**23,950**
Total non-funded gross exposure	**25,777**	**24,792**	**-**	**50,569**
	511,092	**120,934**	**3,268**	**635,294**

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

31 December 2019 *(continued)*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(88)	(22)	(18)	(128)
Mudaraba financing	(24)	(156)	-	(180)
Diminishing Musharaka financing	(846)	(3,200)	(849)	(4,895)
Investments at FVOCI	(125)	-	-	(125)
Investment at amortised cost	-	-	-	-
Wakala financing	(36)	(37)	(18)	(91)
Ijarah Muntahia Bittamleek	(73)	(22)	(43)	(138)
Accrued profit	(9)	(40)	(390)	(439)
Acceptances	-	(1)	-	(1)
Total funded	(1,203)	(3,478)	(1,318)	(5,999)
Letter of credit / guarantee	(18)	(93)	-	(111)
Financing commitment / unutilised limits	(109)	(48)	-	(157)
Total non-funded	(127)	(141)	-	(268)
	(1,330)	(3,619)	(1,318)	(6,267)
Net exposure				
Balances with Central Bank of Oman	41,108	-	-	41,108
Due from banks and financial institutions	24,745	-	-	24,745
Murabaha and other receivables	17,294	2,244	20	19,558
Mudaraba financing	4,323	14,393	-	18,716
Diminishing Musharaka financing	263,587	56,501	1,841	321,929
Investments at FVOCI	52,461	-	-	52,461
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	21,921	17,946	52	39,919
Ijarah Muntahia Bittamleek	45,749	97	37	45,883
Accrued profit	2,268	1,275	-	3,543
Acceptances	656	208	-	864
Total funded net exposure	484,112	92,664	1,950	578,726
Letter of credit / guarantee	5,335	21,173	-	26,508
Financing Commitment / Unutilised limits	20,315	3,478	-	23,793
Total non-funded net exposure	25,650	24,651	-	50,301
	509,762	117,315	1,950	629,027

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Gross exposure				
Balances with Central Bank of Oman	36,454	-	-	36,454
Due from banks and financial institutions	30,375	-	-	30,375
Murabaha and other receivables	23,990	605	30	24,625
Mudaraba financing	13,472	13,113	-	26,585
Diminishing Musharaka financing	239,823	43,799	1,893	285,515
Investments at FVOCI	31,599	-	-	31,599
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	12,287	6,475	-	18,762
Ijarah Muntahia Bittamleek	45,720	197	81	45,998
Accrued profit	1,238	531	248	2,017
Acceptances	230	307	-	537
Total funded gross exposure	445,188	65,027	2,252	512,467
Letter of credit / guarantee	7,682	8,889	-	16,571
Financing commitment/unutilised limits	39,603	9,849	-	49,452
Total non-funded gross exposure	47,285	18,738	-	66,023
	492,473	83,765	2,252	578,490

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(14)	-	-	(14)
Murabaha and other receivables	(77)	(19)	(16)	(112)
Mudaraba financing	(39)	(245)	-	(284)
Diminishing Musharaka financing	(660)	(2,601)	(605)	(3,866)
Investments at FVOCI	(174)	-	-	(174)
Investment at amortised cost	-	-	-	-
Wakala financing	(10)	(19)	-	(29)
Ijarah Muntahia Bittamleek	(50)	(22)	(38)	(110)
Accrued profit	(5)	(17)	(248)	(270)
Acceptances	-	(2)	-	(2)
Total funded	(1,029)	(2,925)	(907)	(4,861)
Letter of credit / guarantee	(36)	(68)	-	(104)
Financing commitment / unutilised limits	(190)	(235)	-	(425)
Total non-funded	(226)	(303)	-	(529)
	(1,255)	(3,228)	(907)	(5,390)

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

31 December 2018 *(continued)*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Net exposure				
Balances with Central Bank of Oman	36,454	-	-	36,454
Due from banks and financial institutions	30,361	-	-	30,361
Murabaha and other receivables	23,913	586	14	24,513
Mudaraba financing	13,433	12,868	-	26,301
Diminishing Musharaka financing	239,163	41,198	1,288	281,649
Investments at FVOCI	31,425	-	-	31,425
Investment at amortised cost	10,000	-	-	10,000
Wakala financing	12,277	6,456	-	18,733
Ijarah Muntahia Bittamleek	45,670	175	43	45,888
Accrued profit	1,233	514	-	1,747
Acceptances	230	305	-	535
Total funded net exposure	444,159	62,102	1,345	507,606
Letter of credit / guarantee	7,646	8,821	-	16,467
Financing Commitment / Unutilised limits	39,413	9,614	-	49,027
Total non-funded net exposure	47,059	18,435	-	65,494
	491,218	80,537	1,345	573,100

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

Notes to the financial statements

For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

26.2.1 Comparison of provisions held as per IFRS 9 and required as per CBO norms

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

		31 December 2019							
Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per IFRS 9**	**Profit recognized as per IFRS 9**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7)=3-4-10**	**(8)=3-5**	**(9)**	**(10)**
	Stage 1	353,941	3,691	1,067	2,624	350,250	352,874	-	-
Standard	Stage 2	52,507	524	939	(415)	51,983	51,568	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**406,448**	**4,215**	**2,006**	**2,209**	**402,233**	**404,442**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	42,111	417	2,498	(2,081)	41,694	39,613	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**42,111**	**417**	**2,498**	**(2,081)**	**41,694**	**39,613**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	58	14	19	(5)	44	39	-	-
Subtotal		**58**	**14**	**19**	**(5)**	**44**	**39**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	154	45	59	(14)	107	95	-	2
Subtotal		**154**	**45**	**59**	**(14)**	**107**	**95**	**-**	**2**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,666	1,008	850	158	1,658	1,816	-	-
Subtotal		**2,666**	**1,008**	**850**	**158**	**1,658**	**1,816**	**-**	**-**
	Stage 1	157,151	-	263	(263)	157,151	156,888	-	-
Other items	Stage 2	26,316	-	182	(182)	26,316	26,134	-	-
	Stage 3	390	-	390	(390)	-	-	-	390
Subtotal		**183,857**	**-**	**835**	**(835)**	**183,467**	**182,022**	**-**	**390**
	Stage 1	**511,092**	**3,691**	**1,330**	**2,361**	**507,401**	**509,762**	**-**	**-**
Total	**Stage 2**	**120,934**	**941**	**3,619**	**(2,678)**	**119,993**	**117,315**	**-**	**-**
	Stage 3	**3,268**	**1,067**	**1,318**	**(251)**	**1,809**	**1,950**	**-**	**392**
	Total	**635,294**	**5,699**	**6,267**	**(568)**	**629,203**	**629,027**	**-**	**392**

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

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

					31 December 2018				
Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per IFRS 9**	**Profit recognized as per IFRS 9**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7)=3-4-10**	**(8)=3-5**	**(9)**	**(10)**
	Stage 1	335,214	3,454	835	2,619	331,760	334,379	-	-
Standard	Stage 2	47,344	468	1,410	(942)	46,876	45,934	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		382,558	3,922	2,245	1,677	378,636	380,313	-	-
	Stage 1	78	2	1	1	76	77	-	-
Special Mention	Stage 2	16,845	156	1,496	(1,340)	16,689	15,349	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		16,923	158	1,497	(1,339)	16,765	15,426	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	53	13	18	(5)	40	35	-	-
Subtotal		53	13	18	(5)	40	35	-	-
	Stage 1	-	-		-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	82	27	43	(16)	54	39	-	1
Subtotal		82	27	43	(16)	54	39	-	1
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,869	794	598	(196)	1,075	1,271	-	-
Subtotal		1,869	794	598	(196)	1,075	1,271	-	-
	Stage 1	157,181	-	419	(419)	157,181	156,762	-	-
Other items	Stage 2	19,576	-	322	(322)	19,576	19,254	-	-
	Stage 3	248	-	248	(248)	-	-	-	248
Subtotal		177,005	-	989	(989)	176,757	176,016	-	248
	Stage 1	492,473	3,456	1,255	2,201	489,017	491,218	-	-
Total	Stage 2	83,765	624	3,228	(2,604)	83,141	80,537	-	-
	Stage 3	2,252	834	907	(73)	1,169	1,345	-	249
	Total	578,490	4,914	5,390	(476)	573,327	573,100	-	249

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26 Allowance for expected credit losses *(continued)*

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

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at FVOCI and other assets.

26.2.2 Restructured financing

		31 December 2019							
Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per IFRS 9**	**Profit recognized as per IFRS**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7)=3-4-10**	**(8)=3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	526	3	12	(9)	523	514	-	-
	Stage 2	14,785	141	1,251	(1,110)	14,644	13,534	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**15,311**	**144**	**1,263**	**(1,119)**	**15,167**	**14,048**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**Stage 1**	**526**	**3**	**12**	**(9)**	**523**	**514**	**-**	**-**
	Stage 2	**14,785**	**141**	**1,251**	**(1,110)**	**14,644**	**13,534**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Total	**15,311**	**144**	**1,263**	**(1,119)**	**15,167**	**14,048**	**-**	**-**

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26 Allowance for expected credit losses *(continued)*

26.2.2 Restructured financing (continued)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	31 December 2018 Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognized as per IFRS	Reserve profit as per CBO norms
		RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7)=3-4-10**	**(8)=3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	480	2	93	(91)	478	387	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		480	2	93	(91)	478	387	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	480	2	93	(91)	478	387	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Total	480	2	93	(91)	478	387	-	-

***** *Net of provisions and reserve profit as per CBO norms.*

Asset Classification as per IFRS 9	31 December 2019 As per CBO Norms	As per IFRS 9	Difference
	RO 000	*RO 000*	*RO 000*
Impairment loss charged to statement of profit or loss	785	734	51
Provision required as per CBO norms including reserve profit/held as per IFRS 9	6,091	6,267	(176)
Gross non-performing financing (percentage)	0.64%	0.64%	0.00%
Net non-performing financing (percentage)	0.40%	0.43%	0.03%

Asset Classification as per IFRS 9	31 December 2018 As per CBO Norms	As per IFRS 9	Difference
	RO 000	*RO 000*	*RO 000*
Impairment loss charged to statement of profit or loss	578	516	62
Provision required as per CBO norms including reserve profit/held as per IFRS 9	5,163	5,390	(227)
Gross non-performing financing (percentage)	0.50%	0.50%	0.00%
Net non-performing financing (percentage)	0.29%	0.34%	0.05%

Notes to the financial statements
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27 Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2019	2018
	RO 000	*RO 000*
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**822**	664
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**35,463**	43,930
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	**9**	8
– sitting fees paid	**2**	2
Other Members		
– remuneration proposed	**29**	24
– sitting fees paid	**8**	6
	48	40
Other transactions		
Rental payment to a related party	**306**	237
Income from finance to related parties	**37**	25
Profit expense on deposits from related parties	**1,811**	2,007
Key management compensation		
Salaries and other benefits	**267**	261
End of service benefits	**10**	9
	277	270

At 31 December 2019, profit rate for finances range from 2.00% to 5.50% (2018: 2.00% to 5.25%), and profit rate for deposits range from 0.0% to 4.5% (2018: 0.00% to 4.25%).

28 Contingent liabilities and commitments

(a) Credit related contingent items

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

	2019	2018
Letters of credit	**10,532**	5,678
Guarantees	**16,087**	10,893
Total	**26,619**	16,571

(b) Capital and investment commitments

Contractual commitments for property and equipment	**73**	19

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended **31 December 2019** amounts to **RO 45,631 thousand** (2018: 90,004 thousand).

Notes to the financial statements
For the year ended 31 December

29 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	Contract / Notional Amount	
	2019	2018
	RO 000	*RO 000*
Forward exchange contracts		
Currency forward - purchase contracts	**38,500**	38,635
Currency forward - sale contracts	**38,511**	38,505

During 2018 and 2019, all the foreign exchange contracts have a maturity of less than one month.

30 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2019			
Fair value information	**Level 1**	**Level 2**	**Level 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Investments at FVOCI	**52,586**	**-**	**-**	**52,586**

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management

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

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

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below.

(a) Geographical concentrations (Gross)

	2019				
	Due from banks and financial institutions *RO 000*	**Due to banks and financial institutions** *RO 000*	**Current accounts** *RO 000*	**Customer wakala deposits** *RO 000*	**Equity of investment accountholders** *RO 000*
Sultanate of Oman	**-**	**57,350**	**112,492**	**253,354**	**39,251**
Other GCC Countries	**23,346**	**11,550**	**6**	**50**	**88**
Europe and North America	**1,401**	**-**	**-**	**-**	**-**
Africa and Asia	**-**	**-**	**-**	**-**	**-**
	24,747	**68,900**	**112,498**	**253,404**	**39,339**

All other assets and liabilities are geographically concentrated in the Sultanate of Oman.

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations (Gross) *(continued)*

	2018				
	Due from banks and financial institutions *RO 000*	Due to banks and financial institutions *RO 000*	Current accounts *RO 000*	Customer wakala deposits *RO 000*	Equity of investment accountholders *RO 000*
Sultanate of Oman	13,860	27,550	56,037	263,269	33,951
Other GCC Countries	13,710	28,875	3	50	50
Europe and North America	2,805	-	-	-	-
Africa and Asia	-	-	-	-	39
	30,375	56,425	56,040	263,319	34,040

(b) Customer concentrations on assets (Gross)

	2019						
	Due from banks and financial institutions ***RO 000***	**Murabaha and other receivables** ***RO 000***	**Mudaraba financing** ***RO 000***	**Diminishing musharaka financing** ***RO 000***	**Wakala financing** ***RO 000***	**Ijarah Muntahia Bittamleek** ***RO 000***	**Total** ***RO 000***
Retail	**-**	**12,245**	**-**	**116,929**	**-**	**45,787**	**174,961**
Corporate	**24,747**	**7,441**	**18,896**	**209,895**	**40,010**	**234**	**301,223**
	24,747	**19,686**	**18,896**	**326,824**	**40,010**	**46,021**	**476,184**

	2018						
	Due from banks and financial institutions *RO 000*	Murabaha and other receivables *RO 000*	Mudaraba Financing *RO 000*	Diminishing Musharaka financing *RO 000*	Wakala financing *RO 000*	Ijarah Muntahia Bittamleek *RO 000*	Total
Retail	-	10,822	-	112,845	-	45,758	169,425
Corporate	30,375	13,803	26,585	172,670	18,762	240	262,435
	30,375	24,625	26,585	285,515	18,762	45,998	431,860

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

	2019						
	Murabaha and other receivables	**Mudaraba financing**	**Diminishing Musharaka Financing**	**Wakala financing**	**Ijarah Muntahia Bittamleek**	**Total financing**	**Off balance sheet exposures**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Import trade	**415**	**973**	**2,660**	**12,667**	**-**	**16,715**	**664**
Wholesale & retail trade	**2,177**	**856**	**2,130**	**695**	**-**	**5,858**	**558**
Mining & quarrying	**-**	**648**	**1,146**	**2,864**	**-**	**4,658**	**-**
Construction	**2,672**	**7,648**	**142,022**	**11,525**	**-**	**163,867**	**12,351**
Manufacturing	**2,093**	**6,789**	**7,345**	**8,744**	**-**	**24,971**	**12,174**
Electricity,gas and water	**-**	**-**	**1,823**	**-**	**-**	**1,823**	**-**
Transport & communication	**84**	**-**	**124**	**-**	**-**	**208**	**-**
Financial institutions	**-**	**985**	**-**	**-**	**-**	**985**	**-**
Services	**-**	**43**	**45,410**	**2,486**	**-**	**47,939**	**58**
Retail	**12,245**	**-**	**116,929**	**-**	**45,787**	**174,961**	**361**
Agriculture and allied Activites	**-**	**954**	**-**	**1,029**	**-**	**1,983**	**-**
Others	**-**	**-**	**7,235**	**-**	**234**	**7,469**	**453**
	19,686	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**	**26,619**

	2018						
	Murabaha and other receivables	Mudaraba financing	Diminishing Musharaka Financing	Wakala financing	Ijarah Muntahia Bittamleek	Total financing	Off balance sheet exposures
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	5,579	780	1,283	9,509	-	17,151	6,649
Wholesale & retail trade	2,242	775	3,039	31	-	6,087	1
Mining & quarrying	-	2,840	861	418	-	4,119	-
Construction	2,924	10,743	109,416	5,934	240	129,257	5,438
Manufacturing	2,952	9,478	6,590	1,514	-	20,534	3,649
Electricity,gas and water	-	-	513	-	-	513	-
Transport & communication	106	-	221	-	-	327	-
Financial institutions	-	981	-	-	-	981	-
Services	-	35	45,757	1,356	-	47,148	727
Retail	10,822	-	112,845	-	45,758	169,425	-
Agriculture and allied Activities	-	953	-	-	-	953	-
Others	-	-	4,990	-	-	4,990	107
	24,625	26,585	285,515	18,762	45,998	401,485	16,571

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

	2019						
	Murabaha and other receivables *RO 000*	**Mudaraba financing** *RO 000*	**Diminishing Musharaka Financing** *RO 000*	**Wakala financing** *RO 000*	**Ijarah Muntahia Bittamleek** *RO 000*	**Total financing** *RO 000*	**Off Balance sheet exposures** *RO 000*
Upto 1 month	**1,080**	**18,896**	**41**	**4,251**	**-**	**24,268**	**4,284**
1 - 3 months	**681**	**-**	**39**	**10,279**	**1**	**11,000**	**15,670**
3 - 6 months	**2,199**	**-**	**107**	**21,355**	**10**	**23,671**	**1,317**
6 - 9 months	**134**	**-**	**370**	**4,125**	**3**	**4,632**	**2,432**
9 - 12 months	**74**	**-**	**168**	**-**	**7**	**249**	**857**
1 - 3 years	**874**	**-**	**6,776**	**-**	**163**	**7,813**	**2,059**
3 – 5 years	**1,833**	**-**	**26,892**	**-**	**459**	**29,184**	**-**
Over 5 years	**12,811**	**-**	**292,431**	**-**	**45,378**	**350,620**	**-**
	19,686	**18,896**	**326,824**	**40,010**	**46,021**	**451,437**	**26,619**

	2018						
	Murabaha and other receivables *RO 000*	Mudaraba financing *RO 000*	Diminishing Musharaka Financing *RO 000*	Wakala financing *RO 000*	Ijarah Muntahia Bittamleek *RO 000*	Total financing	Off Balance sheet exposures *RO 000*
Upto 1 month	1,646	26,585	1	394	-	28,626	1,169
1 - 3 months	4,847	-	83	3,051	-	7,981	7,482
3 - 6 months	4,434	-	5	11,364	-	15,803	1,926
6 - 9 months	894	-	209	3,953	9	5,065	1,806
9 - 12 months	37	-	784	-	-	821	817
1 - 3 years	807	-	10,565	-	107	11,479	2,896
3 – 5 years	1,480	-	18,338	-	419	20,237	475
Over 5 years	10,480	-	255,530	-	45,463	311,473	-
	24,625	26,585	285,515	18,762	45,998	401,485	16,571

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

	2019 *RO 000*	2018 *RO 000*
Due from banks and financial institutions (Gross)	**24,747**	30,375

Notes to the financial statements
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31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers customer-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward-looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Bank uses an internal risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the customer. Both customer specific and non-customer specific (i.e. macroeconomic) forward-looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank’s senior management.

Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing financing (NPFs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2019 including the projections used is presented as under:

		2019	2018			**2019**	2018
Real GDP growth (%)	Present	**2.10%**	2.0%	**Oil revenue (%GDP)**	Present	**31.08%**	21.1%
	Year 1 Projection	**1.10%**	2.0%		Year 1 Projection	**27.07%**	24.3%
	Year 2 Projection	**6.20%**	3.6%		Year 2 Projection	**25.43%**	24.7%
	Year 3 Projection	**2.80%**	1.9%		Year 3 Projection	**27.74%**	23.8%

Predicted relationships between the macroeconomic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 15 years.

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL)

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
High investment grade	-	41,108	-	-	-	-	**-**	**41,108**
Moderate investment grade	-	-	-	-	-	-	**-**	**-**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**41,108**	**-**	**-**	**-**	**-**	**-**	**41,108**
Banks								
High investment grade	2	24,747	-	-	-	-	**2**	**24,747**
Moderate investment grade	-	-	-	-	-	-	**-**	**-**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**2**	**24,747**	**-**	**-**	**-**	**-**	**2**	**24,747**
Financing to customers								
Corporate and SME								
High investment grade	115	52,523	91	17,114	-	-	**206**	**69,637**
Moderate investment grade	634	125,619	494	25,177	-	-	**1,128**	**150,796**
Sub investment grade	12	1,218	2,827	52,171	-	-	**2,839**	**53,389**
Non-performing	-	-	-	-	815	2,654	**815**	**2,654**
Total	**761**	**179,360**	**3,412**	**94,462**	**815**	**2,654**	**4,988**	**276,476**
Retail (Personal)								
High investment grade	55	11,257	-	-	-	-	**55**	**11,257**
Moderate investment grade	5	329	1	29	-	-	**6**	**358**
Sub investment grade	-	-	2	8	-	-	**2**	**8**
Non-performing	-	-	-	-	16	30	**16**	**30**
Total	**60**	**11,586**	**3**	**37**	**16**	**30**	**79**	**11,653**
Retail (Housing and credit card receivables)								
High investment grade	246	162,995	-	-	-	-	**246**	**162,995**
Moderate investment grade	-	-	9	73	-	-	**9**	**73**
Sub investment grade	-	-	13	46	-	-	**13**	**46**
Non-performing	-	-	-	-	97	194	**97**	**194**
Total	**246**	**162,995**	**22**	**119**	**97**	**194**	**365**	**163,308**
Total financing	**1,067**	**353,941**	**3,437**	**94,618**	**928**	**2,878**	**5,432**	**451,437**
Investments								
High investment grade	-	42,576	-	-	-	-	**-**	**42,576**
Moderate investment grade	125	20,010	-	-	-	-	**125**	**20,010**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**125**	**62,586**	**-**	**-**	**-**	**-**	**125**	**62,586**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	ECL	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Letter of credit / Guarantees								
Corporate and SME	17	4,992	93	21,266	-	-	**110**	**26,258**
Retail	1	361	-	-	-	-	**1**	**361**
Total	**18**	**5,353**	**93**	**21,266**	**-**	**-**	**111**	**26,619**
Others								
Unutilised	109	20,424	48	3,526	-	-	**157**	**23,950**
Acceptances	-	656	1	209	-	-	**1**	**865**
Accrued profit	9	2,277	40	1,315	390	390	**439**	**3,982**
Total	**118**	**23,357**	**89**	**5,050**	**390**	**390**	**597**	**28,797**
Total portfolio	**1,330**	**511,092**	**3,619**	**120,934**	**1,318**	**3,268**	**6,267**	**635,294**

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Balances with CBO								
High investment grade	-	36,454	-	-	-	-	-	36,454
Moderate investment grade	-	-	-	-	-	-	-	-
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	-	36,454	-	-	-	-	-	36,454
Banks								
High investment grade	1	6,004	-	-	-	-	1	6,004
Moderate investment grade	4	22,061	-	-	-	-	4	22,061
Sub investment grade	9	2,310	-	-	-	-	9	2,310
Non-performing	-	-	-	-	-	-	-	-
Total	14	30,375	-	-	-	-	14	30,375
Financing to customers								
Corporate and SME								
High investment grade	195	79,189	38	3,353	-	-	233	82,542
Moderate investment grade	397	83,068	923	28,313	-	-	1,320	111,381
Sub investment grade	19	4,267	1,869	32,034	-	-	1,888	36,301
Non-performing	-	-	-	-	577	1,836	577	1,836
Total	611	166,524	2,830	63,700	577	1,836	4,018	232,060
Retail (Personal)								
High investment grade	48	10,129	-	-	-	-	48	10,129
Moderate investment grade	3	153	-	-	-	-	3	153
Sub investment grade	-	-	14	72	-	-	14	72
Non-performing	-	-	-	-	15	30	15	30
Total	51	10,282	14	72	15	30	80	10,384

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31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Retail (Housing and credit card receivables)								
High investment grade	-	-	-	-	-	-	-	-
Moderate investment grade	174	158,486	62	417	-	-	236	158,903
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	67	138	67	138
Total	174	158,486	62	417	67	138	303	159,041
Total financing	836	335,292	2,906	64,189	659	2,004	4,401	401,485
Investments								
High investment grade	-	21,589	-	-	-	-	-	21,589
Moderate investment grade	174	20,010	-	-	-	-	174	20,010
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	174	41,599	-	-	-	-	174	41,599
Letter of credit / Guarantees								
Corporate and SME	33	7,228	68	8,889	-	-	101	16,117
Retail	3	454	-	-	-	-	3	454
Total	36	7,682	68	8,889	-	-	104	16,571
Others								
Unutilised	190	39,603	235	9,849	-	-	425	49,452
Acceptances	-	230	2	307	-	-	2	537
Accrued profit	5	1,238	17	531	248	248	270	2,017
Total	195	41,071	254	10,687	248	248	697	52,006
Total portfolio	1,255	492,473	3,228	83,765	907	2,252	5,390	578,490

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

The gross exposure of the financial assets as at 31 December 2019 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	ECL	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Balances with CBO								
Opening balance	-	36,454	-	-	-	-	**-**	**36,454**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(3,046)	-	-	-	-	**-**	**(3,046)**
Financial asset originated during the year	-	7,700	-	-	-	-	**-**	**7,700**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**41,108**	**-**	**-**	**-**	**-**	**-**	**41,108**
Banks								
Opening balance	14	30,375	-	-	-	-	**14**	**30,375**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(13)	(17,178)	-	-	-	-	**(13)**	**(17,178)**
Financial asset originated during the year	1	11,550	-	-	-	-	**1**	**11,550**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**2**	**24,747**	**-**	**-**	**-**	**-**	**2**	**24,747**
Total financing								
Opening balance	836	335,292	2,906	64,189	658	2,004	**4,400**	**401,485**
Transfer between stages								
- Transfer to Stage 1	218	2,173	(218)	(2,173)	-	-	**-**	**-**
- Transfer to Stage 2	(110)	(28,280)	110	28,280	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	(23)	(742)	23	818	**-**	**-**
	108	26,183	(131)	25,365	23	818	**-**	**-**
Re-measurement of outstanding	(173)	(8,314)	(3)	(13,372)	227	(14)	**51**	**(21,700)**
Financial asset originated during the year	373	87,234	2,070	51,324	18	70	**2,461**	**138,628**
Financial asset matured during the year	(77)	(34,088)	(1,405)	(32,888)	-	-	**(1,482)**	**(66,976)**
Closing balance	**1,067**	**353,941**	**3,437**	**94,618**	**926**	**2,878**	**5,430**	**451,437**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Corporate and SME								
Opening balance	611	166,524	2,830	63,700	577	1,836	**4,018**	**232,060**
Transfer between stages								
- Transfer to Stage 1	151	1,752	(151)	(1,752)	-	-	**-**	**-**
- Transfer to Stage 2	(110)	(28,182)	110	28,182	-	-	**-**	**-**
- Transfer to Stage 3	-	(18)	(23)	(742)	23	760	**-**	**-**
	41	(26,448)	(64)	25,688	23	760	**-**	**-**
Re-measurement of outstanding	(157)	(2,804)	(19)	(13,362)	197	(12)	**21**	**(16,178)**
Financial asset originated during the year	336	71,634	2,070	51,324	18	70	**2,424**	**123,028**
Financial asset matured during the year	(70)	(29,546)	(1,405)	(32,888)	-	-	**(1,475)**	**(62,434)**
Closing balance	**761**	**179,360**	**3,412**	**94,462**	**815**	**2,654**	**4,988**	**276,476**
Retail								
Opening balance	225	168,768	76	489	81	168	**382**	**169,425**
Transfer between stages								
- Transfer to Stage 1	67	421	(67)	(421)	-	-	**-**	**-**
- Transfer to Stage 2	-	(98)	-	98	-	-	**-**	**-**
- Transfer to Stage 3	-	(58)	-	-	-	58	**-**	**-**
	67	265	(67)	(323)	-	58	**-**	**-**
Re-measurement of outstanding	(16)	(5,510)	16	(10)	30	(2)	**30**	**(5,522)**
Financial asset originated during the year	37	15,600	-	-	-	-	**37**	**15,600**
Financial asset matured during the year	(7)	(4,542)	-	-	-	-	**(7)**	**(4,542)**
Closing balance	**306**	**174,581**	**25**	**156**	**111**	**224**	**442**	**174,961**
Investments								
Opening balance	174	41,599	-	-	-	-	**174**	**41,599**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(49)	637	-	-	-	-	**(49)**	**637**
Financial asset originated during the year	-	20,350	-	-	-	-	**-**	**20,350**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**125**	**62,586**	**-**	**-**	**-**	**-**	**125**	**62,586**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Letter of credit / Guarantees								
Opening balance	36	7,682	68	8,889	-	-	**104**	**16,571**
Transfer between stages								
- Transfer to Stage 1	-	194	-	(194)	-	-	**-**	**-**
- Transfer to Stage 2	(2)	(235)	2	235	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(2)	(41)	2	41	-	-	**-**	**-**
Re-measurement of outstanding	(13)	(1,182)	(28)	(224)	-	-	**(41)**	**(1,406)**
Financial asset originated during the year	12	2,464	63	15,326	-	-	**75**	**17,790**
Financial asset matured during the year	(15)	(3,570)	(12)	(2,766)	-	-	**(27)**	**(6,336)**
Closing balance	**18**	**5,353**	**93**	**21,266**	**-**	**-**	**111**	**26,619**
Acceptances								
Opening balance	-	230	2	307	-	-	**2**	**537**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	-	656	1	209	-	-	**1**	**865**
Financial asset matured during the year	-	(230)	(2)	(307)	-	-	**(2)**	**(537)**
Closing balance	**-**	**656**	**1**	**209**	**-**	**-**	**1**	**865**
Unutilised limits								
Opening balance	190	39,603	235	9,849	-	-	**425**	**49,452**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	181	-	(181)	-	-	**-**	**-**
- Transfer to Stage 3	(11)	(6,798)	11	6,798	-	-	**-**	**-**
	(11)	(6,617)	11	6,617	-	-	**-**	**-**
Re-measurement of outstanding	26	1,106	(12)	(6,521)	-	-	**14**	**(5,415)**
Financial asset originated during the year	49	9,753	-	1	-	-	**49**	**9,754**
Financial asset matured during the year	(145)	(23,421)	(186)	(6,420)	-	-	**(331)**	**(29,841)**
Closing balance	**109**	**20,424**	**48**	**3,526**	**-**	**-**	**157**	**23,950**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Accrued profit								
Opening balance	5	1,238	17	531	248	248	**270**	**2,017**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	(14)	(14)	14	14	**-**	**-**
	-	-	(14)	(14)	14	14	**-**	**-**
Re-measurement of outstanding	4	1,039	37	798	128	128	**169**	**1,965**
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	**9**	**2,277**	**40**	**1,315**	**390**	**390**	**439**	**3,982**

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Balances with CBO								
Opening balance	-	79,374	-	-	-	-	-	**79,374**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	-	**-**
- Transfer to Stage 2	-	-	-	-	-	-	-	**-**
- Transfer to Stage 3	-	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	-	**-**
Re-measurement of outstanding	-	(42,920)	-	-	-	-	-	**(42,920)**
Financial asset originated during the year	-	-	-	-	-	-	-	**-**
Financial asset matured during the year	-	-	-	-	-	-	-	**-**
Closing balance	**-**	**36,454**	**-**	**-**	**-**	**-**	**-**	**36,454**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Banks								
Opening balance	47	8,881	-	-	-	-	**47**	**8,881**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	14	30,375	-	-	-	-	**14**	**30,375**
Financial asset matured during the year	(47)	(8,881)	-	-	-	-	**(47)**	**(8,881)**
Closing balance	**14**	**30,375**	**-**	**-**	**-**	**-**	**14**	**30,375**
Total financing								
Opening balance	2,051	345,144	2,010	40,708	451	1,929	**4,512**	**387,781**
Transfer between stages								
- Transfer to Stage 1	216	3,571	(216)	(3,571)	-	-	**-**	**-**
- Transfer to Stage 2	(485)	(24,196)	485	24,196	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	-	-	-	76	**-**	**-**
	(269)	(20,701)	269	20,625	-	76	**-**	**-**
Re-measurement of outstanding	(932)	(2,285)	170	(6,190)	205	(6)	**(557)**	**(8,481)**
Financial asset originated during the year	187	67,869	531	11,282	2	5	**720**	**79,156**
Financial asset matured during the year	(201)	(54,735)	(74)	(2,236)	-	-	**(275)**	**(56,971)**
Closing balance	**836**	**335,292**	**2,906**	**64,189**	**658**	**2,004**	**4,400**	**401,485**
Corporate and SME								
Opening balance	1,827	188,306	1,989	40,367	443	1,838	**4,259**	**230,511**
Transfer between stages								
- Transfer to Stage 1	198	3,277	(198)	(3,277)	-	-	**-**	**-**
- Transfer to Stage 2	(483)	(23,765)	483	23,765	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(285)	(20,488)	285	20,488	-	-	-	-
Re-measurement of outstanding	(890)	597	103	(6,180)	134	(2)	**(653)**	**(5,585)**
Financial asset originated during the year	153	49,055	527	11,261	-	-	**680**	**60,316**
Financial asset matured during the year	(194)	(50,946)	(74)	(2,236)	-	-	**(268)**	**(53,182)**
Closing balance	**611**	**166,524**	**2,830**	**63,700**	**577**	**1,836**	**4,018**	**232,060**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Retail								
Opening balance	224	156,838	21	341	8	91	**253**	**157,270**
Transfer between stages								
- Transfer to Stage 1	18	294	(18)	(294)	-	-	**-**	**-**
- Transfer to Stage 2	(2)	(431)	2	431	-	-	**-**	**-**
- Transfer to Stage 3	-	(76)	-	-	-	76	**-**	**-**
	16	(213)	(16)	137	-	76	**-**	**-**
Re-measurement of outstanding	(42)	(2,882)	67	(10)	71	(4)	**96**	**(2,896)**
Financial asset originated during the year	34	18,814	4	21	2	5	**40**	**18,840**
Financial asset matured during the year	(7)	(3,789)	-	-	-	-	**(7)**	**(3,789)**
Closing balance	**225**	**168,768**	**76**	**489**	**81**	**168**	**382**	**169,425**
Investments								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	174	41,599	-	-	-	-	**174**	**41,599**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**174**	**41,599**	**-**	**-**	**-**	**-**	**174**	**41,599**
Letter of credit / Guarantees								
Opening balance	63	12,682	1	98	-	-	**64**	**12,780**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	(14)	(5,758)	14	5,758	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	(14)	(5,758)	14	5,758	-	-	**-**	**-**
Re-measurement of outstanding	(25)	3,229	50	2,452	-	-	**25**	**5,681**
Financial asset originated during the year	22	2,903	3	616	-	-	**25**	**3,519**
Financial asset matured during the year	(10)	(5,374)	-	(35)	-	-	**(10)**	**(5,409)**
Closing balance	**36**	**7,682**	**68**	**8,889**	**-**	**-**	**104**	**16,571**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2018	Stage 1		Stage 2		Stage 3		Total	
	ECL	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Acceptances								
Opening balance	2	582	-	-	-	-	**2**	**582**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(1)	(20)	-	-	-	-	**(1)**	**(20)**
Financial asset originated during the year	-	215	2	307	-	-	**2**	**522**
Financial asset matured during the year	(1)	(547)	-	-	-	-	**(1)**	**(547)**
Closing balance	**-**	**230**	**2**	**307**	**-**	**-**	**2**	**537**
Unutilised limits								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	190	39,603	235	9,849	-	-	**425**	**49,452**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**190**	**39,603**	**235**	**9,849**	**-**	**-**	**425**	**49,452**
Accrued profit								
Opening balance	-	-	-	-	-	-	**-**	**-**
Transfer between stages								
- Transfer to Stage 1	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 2	-	-	-	-	-	-	**-**	**-**
- Transfer to Stage 3	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-			**-**	**-**
Financial asset originated during the year	5	1,238	17	531	248	248	**270**	**2,017**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**5**	**1,238**	**17**	**531**	**248**	**248**	**270**	**2,017**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

	2019								
	Performing Murabaha and other receivables *RO 000*	**Performing Mudaraba Financing** *RO 000*	**Performing Diminishing Musharaka Financing** *RO 000*	**Performing Wakala financing** *RO 000*	**Performing Ijarah Muntahia Bittamleek** *RO 000*	**Non-performing Financing** *RO 000*	**Total financing** *RO 000*	**Stage 1&2 ECL as of Year End** *RO 000*	**Stage 3 ECL as of Year End** *RO 000*
Import trade	**415**	**973**	**2,660**	**12,667**	**-**	**-**	**16,715**	**(91)**	**-**
Wholesale & retail trade	**2,169**	**856**	**1,389**	**625**	**-**	**819**	**5,858**	**(32)**	**(205)**
Mining & quarrying	**-**	**648**	**1,146**	**2,864**	**-**	**-**	**4,658**	**(10)**	**-**
Construction	**2,672**	**7,648**	**140,187**	**11,525**	**-**	**1,835**	**163,867**	**(3,437)**	**(610)**
Manufacturing	**2,093**	**6,789**	**7,345**	**8,744**	**-**	**-**	**24,971**	**(221)**	**-**
Electricity,gas and water	**-**	**-**	**1,823**	**-**	**-**	**-**	**1,823**	**(6)**	**-**
Transport & communication	**84**	**-**	**124**	**-**	**-**	**-**	**208**	**(7)**	**-**
Financial institutions	**-**	**985**	**-**	**-**	**-**	**-**	**985**	**(5)**	**-**
Services	**-**	**43**	**45,410**	**2,486**	**-**	**-**	**47,939**	**(290)**	**-**
Retail	**12,215**	**-**	**116,815**	**-**	**45,707**	**224**	**174,961**	**(331)**	**(111)**
Agriculture and allied Activities	**-**	**954**	**-**	**1,029**	**-**	**-**	**1,983**	**(2)**	**-**
Others	**-**	**-**	**7,235**	**-**	**234**	**-**	**7,469**	**(72)**	**-**
	19,648	**18,896**	**324,134**	**39,940**	**45,941**	**2,878**	**451,437**	**(4,504)**	**(926)**

	2018								
	Performing Murabaha and other receivables *RO 000*	Performing Mudaraba Financing *RO 000*	Performing Diminishing Musharaka Financing *RO 000*	Performing Wakala financing *RO 000*	Performing Ijarah Muntahia Bittamleek *RO 000*	Non-performing Financing *RO 000*	Total financing *RO 000*	Stage 1&2 ECL as of Year End *RO 000*	Stage 3 ECL as of Year End *RO 000*
Import trade	5,579	780	1,283	9,509	-	-	17,151	(80)	-
Wholesale & retail trade	2,242	775	3,039	31	-	-	6,087	(64)	-
Mining & quarrying	-	2,840	861	418	-	-	4,119	(9)	-
Construction	2,924	10,743	107,580	5,934	240	1,836	129,257	(2,855)	(577)
Manufacturing	2,952	9,478	6,590	1,514	-	-	20,534	(173)	-
Electricity, gas and water	-	-	513	-	-	-	513	(2)	-
Transport & communication	106	-	221	-	-	-	327	(3)	-
Financial institutions	-	981	-	-	-	-	981	(2)	-
Services	-	35	45,757	1,356	-	-	47,148	(223)	-
Retail	10,791	-	112,789	-	45,677	168	169,425	(301)	(81)
Agriculture and allied Activities	-	953	-	-	-	-	953	(1)	-
Others	-	-	4,990	-	-	-	4,990	(29)	-
	24,594	26,585	283,623	18,762	45,917	2,004	401,485	(3,742)	(658)

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Liquidity risk *(continued)*

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

	2019					
	Due on demand and up to 30 days *RO 000*	**More than 1 month to 6 months** *RO 000*	**More than 6 months to 12 months** *RO 000*	**More than 1 year to 5 years** *RO 000*	**Over 5 years** *RO 000*	**Total** *RO 000*
Cash and balances with Central Bank of Oman	**43,881**	**-**	**-**	**-**	**-**	**43,881**
Due from banks and financial institutions	**24,745**	**-**	**-**	**-**	**-**	**24,745**
Murabaha and other receivables	**4,090**	**2,623**	**2,931**	**8,021**	**1,893**	**19,558**
Mudaraba financing	**945**	**1,8909**	**1,890**	**9,448**	**4,543**	**18,716**
Diminishing Musharaka financing	**4,401**	**33,865**	**40,014**	**147,397**	**96,252**	**321,929**
Investments at FVOCI	**-**	**-**	**6,363**	**25,748**	**20,350**	**52,461**
Investment at amortised cost	**-**	**-**	**10,000**	**-**	**-**	**10,000**
Wakala financing	**39,919**	**-**	**-**	**-**	**-**	**39,919**
Ijarah Muntahia Bittamleek	**454**	**1,836**	**2,196**	**17,049**	**24,348**	**45,883**
Property and equipment	**-**	**-**	**-**	**-**	**1,147**	**1,147**
Other asset	**3,693**	**678**	**37**	**-**	**2,285**	**6,693**
Total assets – funded	**122,128**	**40,892**	**63,431**	**207,663**	**150,818**	**584,932**
Total assets – non funded (Forwards)	**38,500**	**-**	**-**	**-**	**-**	**38,500**
Total assets – funded and non funded	**160,628**	**40,892**	**63,431**	**207,663**	**150,818**	**623,432**
Future profit cash inflows	**1,893**	**13,933**	**14,814**	**60,035**	**35,526**	**126,201**
Current accounts	**25,810**	**37,926**	**21,672**	**-**	**27,090**	**112,498**
Due to banks	**26,550**	**42,350**	**-**	**-**	**-**	**68,900**
Qard Hasan from Head Office	**1,181**	**-**	**-**	**25,000**	**-**	**26,181**
Customer Wakala Deposit	**33,537**	**58,052**	**33,051**	**108,786**	**19,978**	**253,404**
Other liabilities	**8,951**	**678**	**37**	**-**	**269**	**9,935**
Equity of unrestricted investment accountholders	**1,966**	**3,932**	**3,932**	**19,659**	**9,850**	**39,339**
Owner's equity	**-**	**-**	**-**	**-**	**74,675**	**74,679**
Total liabilities and accountholders & owners' equity	**97,995**	**142,938**	**58,692**	**153,445**	**131,862**	**584,932**
Total liabilities non funded (Forwards)	**38,511**	**-**	**-**	**-**	**-**	**38,511**
Total liabilities funded and non funded; and accountholders & owners' equity	**136,506**	**142,938**	**58,692**	**153,445**	**131,862**	**623,443**
Future profit cash outflows	**2,458**	**5,621**	**4,015**	**8,113**	**-**	**20,207**
Gap	**24,122**	**(102,046)**	**4,739**	**54,218**	**18,956**	**(11)**
Cumulative gap	**24,122**	**(77,924)**	**(73,185)**	**(18,967)**	**(11)**	

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Liquidity risk *(continued)*

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

	2018					
	Due on demand and up to 30 days *RO 000*	More than 1 month to 6 months *RO 000*	More than 6 months to 12 months *RO 000*	More than 1 year to 5 years *RO 000*	Over 5 years *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	38,810	-	-	-	-	38,810
Due from banks and financial institutions	30,361	-	-	-	-	30,361
Murabaha and other receivables	12,086	1,773	2,009	6,990	1,655	24,513
Mudaraba financing	1,329	2,658	2,658	13,293	6,363	26,301
Diminishing Musharaka financing	4,354	27,713	31,805	129,405	88,372	281,649
Investments at fair value through equity	-	-	-	16,277	15,148	31,425
Investment at amortised cost	-	-	-	10,000	-	10,000
Wakala financing	18,733	-	-	-	-	18,733
Ijarah Muntahia Bittamleek	518	1,782	2,143	16,620	24,825	45,888
Property and equipment	-	-	-	-	1,309	1,309
Other asset	1,834	403	47	-	1,154	3,438
Total assets	108,025	34,329	38,662	192,585	138,826	512,427
Total assets – non funded (Forwards)	**19,250**	**-**	**19,385**	**-**	**-**	**38,635**
Total assets – funded and non funded	**127,275**	**34,329**	**58,047**	**192,585**	**138,826**	**551,062**
Current accounts	12,833	18,902	10,801	-	13,504	56,040
Due to banks	56,425	-	-	-	-	56,425
Qard Hasan from Head Office	1,150	-	-	25,000	-	26,150
Customer Wakala Deposit	38,794	65,039	45,331	66,194	47,961	263,319
Other liabilities	8,404	403	47	-	531	9,385
Equity of unrestricted investment accountholders	1,701	3,403	3,403	17,013	8,520	34,040
Owner’s equity	-	-	-	-	67,068	67,068
Total liabilities and accountholders & owners’ equity	119,307	87,747	59,582	108,207	137,584	512,427
Total liabilities non funded (Forwards)	**19,255**	**-**	**19,250**	**-**	**-**	**38,505**
Total liabilities funded and non funded; and accountholders & owners’ equity	**138,562**	**87,747**	**78,832**	**108,207**	**137,584**	**550,932**
Gap	**(11,287)**	**(53,418)**	**(20,785)**	**84,378**	**1,242**	**130**
Cumulative gap	**(11,287)**	**(64,705)**	**(85,490)**	**(1,112)**	**130**	

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

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

(a) Currency risk

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

	2019			2018		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	RO 000	**RO 000**	**RO 000**	RO 000	RO 000	RO 000
US Dollars	**73,392**	**75,582**	**2,190**	70,355	68,403	1,952
Euro	**6**	**1**	**5**	4	-	4
UAE Dirham	**193**	**1**	**192**	193	-	193
Others	**53**	**-**	**53**	42	-	42
Total	**73,644**	**75,584**	**2,440**	70,594	68,403	2,191

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2019							
	Effective average profit rates %	Due on demand and within 30 days *RO 000*	Due within 1 to 6 months *RO 000*	Due within 7 to 12 months *RO 000*	Due within 1 to 5 years *RO 000*	Due after 5 years *RO 000*	Non-profit bearing *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	43,881	43,881
Due from banks and financial institutions	2.85%	23,098	-	-	-	-	1,647	24,745
Murabaha and other receivables	5.84%	3,494	2,623	2,931	8,021	1,893	596	19,558
Mudaraba financing	5.96%	18,716	-	-	-	-	-	18,716
Diminishing Musharaka Financing	5.71%	4,401	33,865	40,014	147,397	96,252	-	321,929
Investments at FVOCI	5.28%	-	-	6,363	25,748	20,350	-	52,461
Investment at amortised cost	3.50%	-	-	10,000	-	-	-	10,000
Wakala financing	5.62%	39,919	-	-	-	-	-	39,919
Ijara Muntahia Bittamleek	5.30%	454	1,836	2,196	17,049	24,348	-	45,883
Property and equipment	-	-	-	-	-	-	1,147	1,147
Other asset	-	-	-	-	-	-	6,693	6,693
Total assets		**90,082**	**38,324**	**61,504**	**198,215**	**142,843**	**53,964**	**584,932**
Current accounts	4.30%	18,263	31,960	9,132	9,132	22,829	21,182	112,498
Due to banks	2.75%	26,550	42,350	-	-	-	-	68,900
Qard Hasan from Head office		-	-	-	-	-	26,181	26,181
Customer Wakala deposit	4.30%	33,537	58,052	33,051	108,786	19,978	-	253,404
Other liabilities		-	-	-	-	-	9,935	9,935
Equity of unrestricted investment accountholders	2.43%	39,319	-	-	-	-	20	39,339
Owner's equity	-	-	-	-	-	-	74,675	74,675
Equity of accountholders & Total liabilities and shareholders' equity		117,669	132,362	42,183	117,918	42,807	131,993	584,932
On-balance sheet gap		**(27,587)**	**(94,038)**	**19,321**	**80,297**	**100,036**	**(78,029)**	**-**
Cumulative profit sensitivity gap		**(27,587)**	**(121,625)**	**(102,304)**	**(22,007)**	**78,029**	**-**	**-**

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2018							
	Effective average profit rates %	Due on demand and within 30 days *RO 000*	Due within 1 to 6 months *RO 000*	Due within 7 to 12 months *RO 000*	Due within 1 to 5 years *RO 000*	Due after 5 years *RO 000*	Non-profit bearing *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	38,810	38,810
Due from banks and financial institutions	1.86%	27,322	-	-	-	-	3,039	30,361
Murabaha and other receivables	5.75%	11,644	1,773	2,009	6,990	1,655	442	24,513
Mudaraba financing	6.27%	26,301	-	-	-	-	-	26,301
Diminishing Musharaka Financing	5.59%	4,354	27,713	31,805	129,405	88,372	-	281,649
Investments at fair value through equity	5.10%	-	-	-	16,277	15,148	-	31,425
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Wakala financing	5.49%	18,733	-	-	-	-	-	18,733
Ijara Muntahia Bittamleek	5.28%	518	1,782	2,143	16,620	24,825	-	45,888
Property and equipment	-	-	-	-	-	-	1,309	1,309
Other asset	-	-	-	-	-	-	3,438	3,438
Total assets		88,872	31,268	35,957	179,292	130,000	47,038	512,427
Current accounts	2.47%	5,464	9,562	12,294	-	-	28,720	56,040
Due to banks	2.20%	56,425	-	-	-	-	-	56,425
Qard Hasan from Head office	-	-	-	-	-	-	26,150	26,150
Customer Wakala deposit	3.91%	38,794	65,039	45,331	66,194	47,961	-	263,319
Other liabilities	-	-	-	-	-	-	9,385	9,385
Equity of unrestricted investment accountholders	0.63%	34,026	-	-	-	-	14	34,040
Owner's equity	-	-	-	-	-	-	67,068	67,068
Equity of accountholders & Total liabilities and shareholders' equity		134,709	74,601	57,625	66,194	47,961	131,337	512,427
On-balance sheet gap		(45,837)	(43,333)	(21,668)	113,098	82,039	(84,299)	-
Cumulative profit sensitivity gap		(45,837)	(89,170)	(110,838)	2,260	84,299	-	-

(c) Equity risk

Presently Maisarah is not exposed to any equity price risk as window does not have any investment in equity instruments.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

Notes to the financial statements
For the year ended 31 December

32 Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through other comprehensive income; and retained earnings; and
- Tier II capital, which includes the impairment provision and PER / IRR.

	2019	2018
Types of capital	***RO 000***	*RO 000*
Tier I capital	**74,587**	67,068
Tier II capital	**3,521**	3,761
Total Regulatory Capital	**78,108**	70,829
Risk weighted assets (RWA)		
Credit risk weighted assets	**447,345**	418,114
Market risk weighted assets	**18,625**	4,438
Operational risk weighted assets	**50,340**	41,043
Total risk weighted assets	**516,310**	463,595
Capital ratios		
Tier I capital ratio (%)	**14.45%**	14.47%
Total capital as a % of RWA	**15.13%**	15.28%

33 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, diminishing musharaka financing and ijarah muntahia bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba and diminishing musharaka financing; and

(3) Treasury & investments

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

Notes to the financial statements
For the year ended 31 December

33 Segmental information *(continued)*

	2019			
	Retail banking	**Corporate banking**	**Treasury and investments**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Segment operating revenues	**9,073**	**14,778**	**2,389**	**26,240**
Other revenues	**223**	**1,465**	**693**	**2,381**
Total segment operating revenues	**9,296**	**16,243**	**3,082**	**28,621**
Profit expenses	**(1,777)**	**(10,566)**	**(1,479)**	**(13,822)**
Net operating income	**7,519**	**5,677**	**1,603**	**14,799**
Segment cost				
Operating expenses including depreciation	**(3,676)**	**(2,446)**	**(970)**	**(7,092)**
Provision for impairment	**(58)**	**(737)**	**61**	**(734)**
Bad Debts Written	**(3)**	**-**	**-**	**(3)**
Net profit for the year before tax	**3,782**	**2,494**	**694**	**6,970**
Segment assets	**175,778**	**282,474**	**132,286**	**590,538**
Less: Provision for impairment	**(442)**	**(5,037)**	**(127)**	**(5,606)**
Total segment assets	**175,336**	**277,437**	**132,159**	**584,932**
Segment liabilities	**25,502**	**349,808**	**95,608**	**470,918**

	2018			
	Retail banking	Corporate banking	Treasury and investments	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Segment operating revenues	8,531	12,724	2,243	23,498
Other revenues	234	786	658	1,678
Total segment operating revenues	8,765	13,510	2,901	25,176
Profit expenses	(1,047)	(10,381)	(619)	(12,047)
Net operating income	7,718	3,129	2,282	13,129
Segment cost				
Operating expenses including depreciation	(2,633)	(3,114)	(927)	(6,674)
Provision for impairment	(133)	(242)	(141)	(516)
Net profit for the year before tax	4,952	(227)	1,214	5,939
Segment assets	170,063	235,315	111,659	517,037
Less: Provision for impairment	(382)	(4,040)	(188)	(4,610)
Total segment assets	169,681	231,275	111,471	512,427
Segment liabilities	28,432	300,004	82,883	411,319

Notes to the financial statements
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34 Proposed dividend to BankDhofar

Board of Directors of Bank Dhofar, in its meeting held on 28 January 2020, resolved to approve the following:

- Proposed dividend to Bank Dhofar Head Office of RO 15 million from Maisarah; and
- Capital increase of RO 15 million for Maisarah, taking the capital from current RO 55 million to RO 70 million, subject to CBO approval.

35 Comparative figures

Certain comparative figures have been reclassified in order to conform the presentation for the current year. These have no impact on the profit for the year or total equity. The details are as follows:

	2019	2018 Revised	2018
	RO 000	*RO 000*	*RO 000*
Return on equity of investment accountholders before Maisarah's share as Mudarib	**1,130**	860	400
General and administrative expenses	**1,658**	1,571	2,031