MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2018

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

Statement of financial position
At 31 December

	Note	**2018**	2017
		RO 000	*RO 000*
Assets			
Cash and balances with Central Bank of Oman	5	**38,810**	81,398
Due from banks and financial institutions	6	**30,361**	41,606
Murabaha and other receivables	7	**24,513**	26,846
Mudaraba financing	8	**26,301**	23,259
Diminishing Musharaka financing	9	**281,649**	289,489
Investments	10	**31,425**	22,342
Investment at amortised cost	11	**10,000**	10,000
Wakala finance	12	**18,733**	-
Ijarah Muntahia Bittamleek	13	**45,888**	43,851
Property and equipment	14	**1,309**	1,401
Other assets	15	**3,438**	3,084
Total assets		**512,427**	543,276
Liabilities, equity of investment accountholders and owners' equity			
Liabilities			
Current accounts		**56,040**	72,155
Due to banks	16	**56,425**	71,950
Qard Hasan from Head office	17	**26,150**	23,956
Customer Wakala deposits		**263,319**	278,350
Other liabilities	18	**9,385**	8,407
Total liabilities		**411,319**	454,818
Equity of investment accountholders	19	**34,040**	26,287
Owners' equity			
Capital	20	**55,000**	55,000
Reserves	10	**(549)**	204
Retained earnings		**12,617**	6,967
Total owners' equity		**67,068**	62,171
Total liabilities, equity of investment Accountholders and owners' equity		**512,427**	543,276
Contingent liabilities and commitments	28	**16,571**	12,780

The Financial statements were approved by the Board of Directors on ______________ and signed on their behalf by

Chairman

Chief Executive Islamic Banking

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

Statement of comprehensive income
For the year ended 31 December

	Note	**2018**	2017
Income		***RO 000***	*RO 000*
Income from Islamic finances and investments	22	**23,197**	19,932
Income on Wakala placements		**301**	138
		23,498	20,070
Less:			
Return on equity of investment accountholders		**(202)**	(201)
Return on customer Wakala deposits	23	**(10,766)**	(9,762)
Return on inter bank Wakala deposit		**(619)**	(358)
		(11,587)	(10,321)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		**11,911**	9,749
Revenue from banking services		**1,413**	940
Foreign exchange gain – net		**242**	184
Other revenues		**23**	2
Total revenue		**13,589**	10,875
Staff costs	24	**(4,643)**	(4,162)
General and administrative expenses	25	**(2,031)**	(1,796)
Depreciation	14	**(460)**	(409)
Total expenses		**(7,134)**	(6,367)
Profit before impairment allowance		**6,455**	4,508
Net impairment on financial instruments	26	**(516)**	(1,319)
Profit for the year		**5,939**	3,189
Other comprehensive income for the year			
Items that are or may not be reclassified to profit or loss			
Debt instrument at FVOCI		**(753)**	6
Other comprehensive income		**(753)**	6
Total comprehensive income		**5,186**	3,195

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

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

	31 December 2018			
	Capital *RO 000*	**Investment revaluation reserve** *RO 000*	**Retained earnings** *RO 000*	**Total** *RO 000*
Balance at 31 December 2017	**55,000**	**204**	**6,967**	**62,171**
Adjustment on initial adoption of IFRS 9 (note 2.5.1)	-	-	(289)	**(289)**
Restated balance at 1 January 2018	**55,000**	**204**	**6,678**	**61,882**
Total comprehensive income for the year				
Net profit for the year	-	-	5,939	**5,939**
Other comprehensive income for the year				
Fair value change on FVOCI debt investments	-	(753)	-	**(753)**
Total comprehensive income	-	(753)	5,939	**5,186**
Balance as at 31 December 2018	**55,000**	**(549)**	**12,617**	**67,068**

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

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

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

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

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

Statement of cash flows

For the year ended 31 December

	2018	2017
	RO 000	*RO 000*
Cash flows from operating activities		
Profit for the year	**5,939**	3,189
Adjustments for:		
Depreciation	**460**	409
Depreciation on Ijarah assets	**1,913**	1,713
Gain on sale of property and equipment	**(3)**	(2)
Net impairment on financial instruments	**516**	1,319
Investment risk reserve	**1**	1
Profit equalisation reserve	**4**	3
Operating profit before changes in operating assets and liabilities	**8,830**	6,632
Operating assets and liabilities:		
Murabaha and other receivables	**2,612**	(17,351)
Ijarah Muntahia Bittamleek assets	**(4,191)**	(9,537)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	**613**	619
Diminishing Musharaka financing	**7,216**	(53,038)
Mudaraba financing	**(3,104)**	1,371
Wakala financing	**(18,762)**	-
Other asset	**(213)**	(936)
Other liabilities	**492**	3,730
Qard Hasan from Head Office	**19,171**	6,266
Net cash used in operating activities	**12,664**	(62,244)
Cash flows from investing activities		
Purchase of investments	**(20,010)**	(5,775)
Sale proceed from maturity of investments at FVOCI	**10,000**	-
Net cash used in investing activities	**(10,010)**	(5,775)
Cash flows from financing activities		
Current account	**(16,115)**	32,269
Due to banks and financial institutions	**-**	(3,850)
Customer Wakala deposit	**(15,031)**	47,796
Unrestricted investment accountholders	**7,748**	11,044
Net cash from financing activities	**(23,398)**	87,259
(Decrease) / Increase in cash and cash equivalents	**(20,744)**	19,240
Cash and cash equivalents at the beginning of the year	**51,054**	31,814
Cash and cash equivalents at the end of the year	**30,310**	51,054
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**38,810**	81,398
Due from banks and financial institutions	**30,375**	41,606
Due to banks	**(38,875)**	(71,950)
	30,310	51,054

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

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 (2017: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

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

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

The window is not a separate legal entity, the separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework issued by CBO.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements

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

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

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

2.5 Change in accounting policy

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

2.5.1 IFRS 9 – Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

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

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

Business model assessment

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

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Business model assessment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Modifications of financial assets

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

Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

Impairment provision for lease receivables are always measured at an amount equal to lifetime ECL. The Islamic window considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Measurement of ECL *(continued)*

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

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

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

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

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

Details of these statistical parameters / inputs are as follows:

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

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

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

Forward-looking information

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

Macroeconomic factors

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

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

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

Definition of default

Maisarah considers a financial asset to be in default when:

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

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Definition of default *(continued)*

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

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

- Qualitative – e.g. breaches of covenant;

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

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

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

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

Transition

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

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

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

  - The determination of the business model within which a financial asset is held.

  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Transition *(continued)*

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Islamic window has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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

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

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.5.1 IFRS 9 – Financial instruments *(continued)*

Transition *(continued)*

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

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

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

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

2.6 New standards, interpretations and amendments

For the year ended 31 December 2018, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2018.

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

Notes to the financial statements
For the year ended 31 December

2 BASIS OF PREPARATION *(continued)*

2.6 New standards, interpretations and amendments *(continued)*

Standards issued but not yet effective

FAS 30 *Impairment, Credit losses and onerous commitments*

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

However, during the last year, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency translations

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

3.2 Cash and cash equivalents

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

3.3 Offsetting

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

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

3.4 Murabaha and other receivables

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.4 Murabaha and other receivables *(continued)*

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

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

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

3.5 Mudaraba

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

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

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

3.6 Diminishing Musharaka

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

3.7 Wakala

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

3.8 Ijarah Muntahia Bittamleek assets

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

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Property and equipment

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

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

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

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

3.10 Equity of investment accountholders

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

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

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

3.11 Profit equalisation reserve

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

3.12 Investment risk reserve

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Provisions

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

3.14 Earnings prohibited by Shari'a

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

3.15 Zakah

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

3.16 Joint and self-financed

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

3.17 Funds for Maisarah

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

3.18 Revenue recognition

3.18.1 Murabaha receivables

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

3.18.2 Diminishing Musharaka (DM) Financing

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Revenue recognition *(continued)*

3.18.3 Mudaraba financing

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

3.18.4 Ijarah Muntahia Bittamleek

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

3.18.5 Wakala financing

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

3.18.6 Dividends

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

3.18.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.18.8 Maisarah's share as a Mudarib

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

3.18.9 Income allocation

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

3.19 Taxation

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

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah.

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 Employees' benefits

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

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

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

3.21 Shari'a supervisory board

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

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

3.22 Trade date accounting

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

3.23 Segment reporting

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

Notes to the financial statements
For the year ended 31 December

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 Segment reporting *(continued)*

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

3.24 Fiduciary assets

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

4 Critical Accounting Judgment and Key Sources Of Estimation Uncertainty

(a) Going concern

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

(b) Significant increase in credit risk

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

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

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

(d) Models and assumptions used

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

Notes to the financial statements
For the year ended 31 December

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

(e) Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default (PD): constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default (LGD): is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

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

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

5 Cash and balances with Central Bank of Oman

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

6 Due from banks and financial institutions

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

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

Notes to the financial statements
For the year ended 31 December

7 Murabaha and other receivables

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

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

8 Mudaraba financing

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

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

9 Diminishing Musharaka financing

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

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

Fair value of collaterals

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

Notes to the financial statements
For the year ended 31 December

10 Investments

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

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

11 Investment at amortised cost

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

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

12 Wakala financing

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

Wakala financing is neither past due nor impaired.

13 Ijarah Muntahia Bittamleek

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

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

Notes to the financial statements
For the year ended 31 December

14 Property and equipment

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

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

15 Other assets

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

Notes to the financial statements
For the year ended 31 December

16 Due to banks

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

Due to Head Office and banks comprises of Wakala deposits.

17 Qard Hasan from Head Office

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

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

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

18 Other liabilities

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

19 Equity of investment accountholders

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

There is no restricted investment at reporting date.

Notes to the financial statements
For the year ended 31 December

19 Equity of investment accountholders *(continued)*

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

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2018 and 2017 as follows:

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

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

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

20 Capital

During 2017 and 2018, there was no increase in assigned capital to Maisarah from the core paid up capital of the shareholders.

21 Fiduciary assets

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

22 Income from Islamic finances and investments

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

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

Notes to the financial statements
For the year ended 31 December

23 Return on customer Wakala deposits

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

24 Staff costs

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

25 General and administrative expenses

Occupancy cost	**602**	517
Operating and administration cost	**1,429**	1,279
	2,031	1,796

26 Allowance for expected credit losses

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

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Gross exposure				
Cash and balances with Central Bank of Oman	**38,810**	**-**	**-**	**38,810**
Due from banks and financial institutions	**30,375**	**-**	**-**	**30,375**
Murabaha and other receivables	**23,990**	**605**	**30**	**24,625**
Mudaraba financing	**13,472**	**13,113**	**-**	**26,585**
Diminishing Musharaka financing	**239,823**	**43,799**	**1,893**	**285,515**
Investments at FVOCI	**31,599**	**-**	**-**	**31,599**
Investment at amortised cost	**10,000**	**-**	**-**	**10,000**
Wakala finance	**12,287**	**6,475**	**-**	**18,762**
Ijarah Muntahia Bittamleek	**45,720**	**197**	**81**	**45,998**
Accrued profit	**1,267**	**531**	**248**	**2,046**
Acceptances	**230**	**307**	**-**	**537**
Total funded gross exposure	**447,573**	**65,027**	**2,252**	**514,852**
Letter of credit / guarantee	**7,682**	**8,889**	**-**	**16,571**
Financing commitment/unutilised limits	**39,603**	**9,849**	**-**	**49,452**
Total non-funded gross exposure	**47,285**	**18,738**	**-**	**66,023**
	494,858	**83,765**	**2,252**	**580,875**

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*
Allowance for ECL & profit suspended				
Cash and balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(14)	-	-	(14)
Murabaha and other receivables	(77)	(19)	(16)	(112)
Mudaraba financing	(39)	(245)	-	(284)
Diminishing Musharaka financing	(660)	(2,601)	(605)	(3,866)
Investments at FVOCI	(174)	-	-	(174)
Investment at amortised cost	-	-	-	-
Wakala finance	(10)	(19)	-	(29)
Ijarah Muntahia Bittamleek	(50)	(22)	(38)	(110)
Accrued profit	(5)	(17)	(248)	(270)
Acceptances	-	(2)	-	(2)
Total funded	(1,029)	(2,925)	(907)	(4,861)
Letter of credit / guarantee	(36)	(68)	-	(104)
Financing commitment / unutilised limits	(190)	(235)	-	(425)
Total non-funded	(226)	(303)	-	(529)
	(1,255)	(3,228)	(907)	(5,390)
Net exposure				
Cash and balances with Central Bank of Oman	38,810	-	-	38,810
Due from banks and financial institutions	30,361	-	-	30,361
Murabaha and other receivables	23,913	586	14	24,513
Mudaraba financing	13,433	12,868	-	26,301
Diminishing Musharaka financing	239,163	41,198	1,288	281,649
Investments at FVOCI	31,425	-	-	31,425
Investment at amortised cost	10,000	-	-	10,000
Wakala finance	12,277	6,456	-	18,733
Ijarah Muntahia Bittamleek	45,670	175	43	45,888
Accrued profit	1,262	514	-	1,776
Acceptances	230	305	-	535
Total funded net exposure	446,544	62,102	1,345	509,991
Letter of credit / guarantee	7,646	8,821	-	16,467
Financing Commitment / Unutilised limits	39,413	9,614	-	49,027
Total non-funded net exposure	47,059	18,435	-	65,494
	493,603	80,537	1,345	575,485

Notes to the financial statements
For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

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

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

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

Notes to the financial statements

For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

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

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

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*
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7)=3-4-10	(8)=3-5	(9)	(10)
	Stage 1	335,214	3,454	835	2,619	331,760	334,379	-	-
Standard	Stage 2	47,344	468	1,410	(942)	46,876	45,934	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**382,558**	**3,922**	**2,245**	**1,677**	**378,636**	**380,313**	**-**	**-**
	Stage 1	78	2	1	1	76	77	-	-
Special Mention	Stage 2	16,845	156	1,496	(1,340)	16,689	15,349	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**16,923**	**158**	**1,497**	**(1,339)**	**16,765**	**15,426**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	53	13	18	(5)	40	35	-	-
Subtotal		**53**	**13**	**18**	**(5)**	**40**	**35**	**-**	**-**
	Stage 1	-	-		-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	82	27	43	(16)	54	39	-	1
Subtotal		**82**	**27**	**43**	**(16)**	**54**	**39**	**-**	**1**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,869	794	598	(196)	1,075	1,271	-	-
Subtotal		**1,869**	**794**	**598**	**(196)**	**1,075**	**1,271**	**-**	**-**
	Stage 1	159,566	-	419	(419)	120,756	120,337	-	-
Other items	Stage 2	19,576	-	322	(322)	19,576	19,254	-	-
	Stage 3	248	-	248	(248)	-	-	-	248
Subtotal		**179,390**	**-**	**989**	**(989)**	**140,332**	**139,591**	**-**	**248**
	Stage 1	**494,858**	**3,456**	**1,255**	**2,201**	**452,592**	**454,793**	**-**	**-**
Total	**Stage 2**	**83,765**	**624**	**3,228**	**(2,604)**	**83,141**	**80,537**	**-**	**-**
	Stage 3	**2,252**	**834**	**907**	**(73)**	**1,169**	**1,345**	**-**	**249**
	Total	**580,875**	**4,914**	**5,390**	**(476)**	**536,902**	**536,675**	**-**	**249**

Notes to the financial statements

For the year ended 31 December

26 Allowance for expected credit losses *(continued)*

26.3.1 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.

26.3.2 Restructured financing

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*
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7)=3-4-10**	**(8)=3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	480	2	93	(91)	478	387	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**480**	**2**	**93**	**(91)**	**478**	**387**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**Stage 1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**480**	**2**	**93**	**(91)**	**478**	**387**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Total	**480**	**2**	**93**	**(91)**	**478**	**387**	**-**	**-**

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

Asset Classification as per IFRS 9	**As per CBO Norms**	**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:

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

28 Contingent liabilities and commitments

(a) Credit related contingent items

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

Letters of credit	**5,678**	5,103
Guarantees	**10,893**	7,677
Total	**16,571**	12,780

(b) Capital and investment commitments

Contractual commitments for property and equipment	**19**	44

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2018 amounts to RO 90,004 thousand (2017: 110,693 thousand).

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	
	2018	2017
	RO 000	*RO 000*
Forward exchange contracts		
Currency forward - purchase contracts	**38,635**	-
Currency forward - sale contracts	**38,505**	-

30 Fair value information

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

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

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

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

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

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)

			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**

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

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

Credit risk *(continued)*

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

	2017				
	Due from banks and financial institutions *RO 000*	Due to banks and financial institutions *RO 000*	Current accounts *RO 000*	Customer wakala deposits *RO 000*	Equity of investment accountholders *RO 000*
Sultanate of Oman	25,025	45,000	-	-	26,181
Other GCC Countries	15,614	11,550	-	-	106
Europe and North America	967	-	-	-	-
Africa and Asia	-	15,400	-	-	-
	41,606	71,950	-	-	26,287

(b) Customer concentrations on assets (Gross)

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

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

(c) Economic sector concentrations (Gross)

	2018				
	Murabaha and other receivables ***RO 000***	**Mudaraba Financing** ***RO 000***	**Diminishing Musharaka Financing** ***RO 000***	**Wakala financing** ***RO 000***	**Ijarah Muntahia Bittamleek** ***RO 000***
Personal	**10,822**	**-**	**112,845**	**-**	**45,758**
Construction	**2,924**	**10,743**	**109,416**	**5,934**	**240**
Manufacturing	**2,952**	**9,478**	**6,590**	**1,514**	**-**
Services	**-**	**35**	**45,757**	**1,356**	**-**
Others	**7,927**	**6,329**	**10,907**	**9,958**	**-**
	24,625	**26,585**	**285,515**	**18,762**	**45,998**

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For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations (Gross) *(continued)*

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

(d) Gross credit exposure

	2018	
	Total gross exposure	**Monthly average gross exposure**
	RO 000	***RO 000***
Murabaha and other receivables	**24,625**	**22,370**
Mudaraba financing	**26,585**	**21,601**
Diminishing Musharaka Financing	**285,515**	**282,678**
Wakala financing	**18,762**	**8,990**
Ijarah Muntahia Bittamleek	**45,998**	**45,301**
Total	**401,485**	**380,940**

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

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

Credit risk *(continued)*

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

2018

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

2017

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

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

Credit risk *(continued)*

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

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

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

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

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

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

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

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

Incorporation of forward looking information

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

Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing financing (NPFs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2018 including the projections used is presented as under:

Real GDP growth (%)	Present	2.0%	**Oil revenue (%GDP)**	Present	21.1%
	Year 1 Projection	2.0%		Year 1 Projection	24.3%
	Year 2 Projection	3.6%		Year 2 Projection	24.7%
	Year 3 Projection	1.9%		Year 3 Projection	23.8%

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Banks								
High investment grade	1	6,004	-	-	-	-	**1**	**6,004**
Moderate investment grade	4	22,061	-	-	-	-	**4**	**22,061**
Sub investment grade	9	2,310	-	-	-	-	**9**	**2,310**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**14**	**30,375**	**-**	**-**	**-**	**-**	**14**	**30,375**
Cash And balances With CBO								
High investment grade	-	38,810	-	-	-	-	**-**	**38,810**
Moderate investment grade	-	-	-	-	-	-	**-**	**-**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**38,810**	**-**	**-**	**-**	**-**	**-**	**38,810**
Financing to customers								
Corporate and SME								
High investment grade	195	79,189	38	3,353	-	-	**233**	**82,542**
Moderate investment grade	397	83,068	923	28,313	-	-	**1,320**	**111,381**
Sub investment grade	19	4,267	1,869	32,034	-	-	**1,888**	**36,301**
Non-performing	-	-	-	-	577	1,836	**577**	**1,836**
Total	**611**	**166,524**	**2,830**	**63,700**	**577**	**1,836**	**4,018**	**232,060**
Retail (Personal)								
High investment grade	48	10,129	-	-	-	-	**48**	**10,129**
Moderate investment grade	3	153	-	-	-	-	**3**	**153**
Sub investment grade	-	-	14	72	-	-	**14**	**72**
Non-performing	-	-	-	-	14	30	**14**	**30**
Total	**51**	**10,282**	**14**	**72**	**14**	**30**	**79**	**10,384**
Retail (Housing and credit card receivables)								
High investment grade	-	-	-	-	-	-	**-**	**-**
Moderate investment grade	174	158,486	62	417	-	-	**236**	**158,903**
Sub investment grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	67	138	**67**	**138**
Total	**174**	**158,486**	**62**	**417**	**67**	**138**	**303**	**159,041**
Total financing	**836**	**335,292**	**2,906**	**64,189**	**658**	**2,004**	**4,400**	**401,485**
Investments								
High investment grade	-	21,589	-	-	-	-	-	21,589
Moderate investment grade	174	20,010	-	-	-	-	174	20,010
Sub investment grade	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total	**174**	**41,599**	**-**	**-**	**-**	**-**	**174**	**41,599**

Notes to the financial statements
For the year ended 31 December

Financial risk management *(continued)*

Credit risk *(continued)*

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

	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
Letter of credit / Guarantees								
Corporate	33	7,228	68	8,889	-	-	**101**	**16,117**
Retail	3	454	-	-	-	-	**3**	**454**
Total	**36**	**7,682**	**68**	**8,889**	**-**	**-**	**104**	**16,571**
Others								
Unutilised	190	39,603	235	9,849	-	-	**425**	**49,452**
Acceptances	-	230	2	307	-	-	**2**	**537**
Accrued profit	5	1,267	17	531	-	-	**22**	**1,798**
Total	**195**	**41,100**	**254**	**10,687**	**-**	**-**	**449**	**51,787**
Total portfolio	**1,255**	**494,858**	**3,228**	**83,765**	**658**	**2,004**	**5,141**	**580,627**

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

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

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Credit risk *(continued)*

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

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

Liquidity risk

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

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Liquidity risk *(continued)*

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.

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

	2018					
	Due on demand and up to 30 days *RO 000*	**More than 1 month to 6 months** *RO 000*	**More than 6 months to 12 months** *RO 000*	**More than 1 year to 5 years** *RO 000*	**Over 5 years** *RO 000*	**Total** *RO 000*
Cash and balances with Central Bank of Oman	38,810	-	-	-	-	38,810
Due from banks and financial institutions	30,361	-	-	-	-	30,361
Murabaha and other receivables	12,086	1,773	2,009	6,990	1,655	24,513
Mudaraba financing	1,329	2,658	2,658	13,293	6,363	26,301
Diminishing Musharaka financing	4,354	27,713	31,805	129,405	88,372	281,649
Investments at FVOCI	-	-	-	16,277	15,148	31,425
Investment at amortised cost	-	-	-	10,000	-	10,000
Wakala financing	18,733	-	-	-	-	18,733
Ijarah Muntahia Bittamleek	518	1,782	2,143	16,620	24,825	45,888
Property and equipment	-	-	-	-	1,309	1,309
Other asset	1,834	403	47	-	1,154	3,438
Total assets	108,025	34,329	38,662	192,585	138,826	512,427
Current accounts	12,833	18,902	10,801	-	13,504	56,040
Due to banks	56,425	-	-	-	-	56,425
Qard Hasan from Head Office	1,150	-	-	25,000	-	26,150
Customer Wakala Deposit	38,794	65,039	45,331	66,194	47,961	263,319
Other liabilities	8,404	403	47	-	531	9,385
Equity of unrestricted investment accountholders	1,701	3,403	3,403	17,013	8,520	34,040
Owner's equity	-	-	-	-	67,068	67,068
Total liabilities and accountholders & owners' equity	119,307	87,747	59,582	108,207	137,584	512,427

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Liquidity risk *(continued)*

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

	2017					
	Due on demand and up to 30 days *RO 000*	More than 1 month to 6 months *RO 000*	More than 6 months to 12 months *RO 000*	More than 1 year to 5 years *RO 000*	Over 5 years *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	81,398	-	-	-	-	81,398
Due from banks and financial institutions	33,906	7,700	-	-	-	41,606
Murabaha and other receivables	16,322	1,460	1,617	5,750	1,697	26,846
Mudaraba financing	1,147	2,348	2,292	11,741	5,704	23,259
Diminishing Musharaka financing	5,063	28,118	33,524	126,334	96,450	289,489
Investments at fair value through equity	-	-	10,000	6,561	5,781	22,342
Investment at amortised cost	-	-	-	10,000	-	10,000
Wakala financing	-	-	-	-	-	-
Ijarah Muntahia Bittamleek	333	1,697	1,910	15,770	24,141	43,851
Property and equipment	-	-	-	-	1,401	1,401
Other asset	1,531	536	-	-	1,017	3,084
Total assets	139,727	41,859	49,343	176,156	136,191	543,276
Current accounts	15,969	24,582	14,046	-	17,558	72,155
Due to banks	71,950	-	-	-	-	71,950
Qard Hasan from Head Office	3,956	-	-	20,000	-	23,956
Customer Wakala Deposit	38,333	88,965	43,173	70,422	37,457	278,350
Other liabilities	7,871	536	-	-	-	8,407
Equity of unrestricted investment accountholders	1,314	2,627	2,627	13,140	6,579	26,287
Owner's equity	-	-	-	-	62,171	62,171
Total liabilities and accountholders & owners' equity	139,393	116,710	59,846	103,562	123,765	543,276

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

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

(b) Profit rate risk

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Market risk *(continued)*

(b) Profit rate risk *(continued)*

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 *(continued)*

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

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

Notes to the financial statements
For the year ended 31 December

31 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2017							
	Effective average profit rates %	Due on demand and within 30 days *RO 000*	Due within 1 to 6 months *RO 000*	Due within 7 to 12 months *RO 000*	Due within 1 to 5 years *RO 000*	Due after 5 years *RO 000*	Non-profit bearing *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	81,398	81,398
Due from banks and financial institutions	0.97%	15,400	7,700	-	-	-	18,506	41,606
Murabaha and other receivables	5.23%	16,080	1,460	1,617	5,750	1,697	242	26,846
Mudaraba financing	5.42%	23,259	-	-	-	-	-	23,259
Diminishing Musharaka Financing	5.26%	5,063	28,118	33,524	126,334	96,450	-	289,489
Investments at fair value through equity	4.44%	-	-	10,000	6,561	5,781	-	22,342
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Wakala financing	-	-	-	-	-	-	-	-
Ijara Muntahia Bittamleek	4.94%	333	1,697	1,910	15,770	24,141	-	43,851
Property and equipment	-	-	-	-	-	-	1,401	1,401
Other asset	-	-	-	-	-	-	3,084	3,084
Total assets		60,135	38,975	47,051	164,415	128,069	104,631	543,276
Current accounts	2.49%	11,188	19,579	11,188	-	13,985	16,215	72,155
Due to banks	1.19%	71,950	-	-	-	-	-	71,950
Qard Hasan from Head office	-	-	-	-	-	-	23,956	23,956
Customer Wakala deposit	3.48%	38,333	88,965	43,173	70,422	37,457	-	278,350
Other liabilities	-	-	-	-	-	-	8,407	8,407
Equity of unrestricted investment accountholders	1.00%	26,278	-	-	-	-	9	26,287
Owner's equity	-	-	-	-	-	-	62,171	62,171
Equity of accountholders & Total liabilities and shareholders' equity		147,749	108,544	54,361	70,422	51,442	110,758	543,276
On-balance sheet gap		(87,614)	(69,569)	(7,310)	93,993	76,627	(6,127)	-
Cumulative profit sensitivity gap		(87,614)	(157,183)	(164,493)	(70,500)	6,127	-	-

(b) Equity risk

Presently Maisarah is not exposed to any equity price risk.

Operational risk

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

Notes to the financial statements
For the year ended 31 December

32 Capital management

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

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

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

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)*

	2018			
	Retail banking	**Corporate banking**	**Treasury and investments**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Segment operating revenues	**8,531**	**12,724**	**301**	**21,556**
Other revenues	**234**	**786**	**2,600**	**3,620**
Total segment operating revenues	**8,765**	**13,510**	**2,901**	**25,176**
Profit expenses	**(587)**	**(10,381)**	**(619)**	**(11,587)**
Net operating income	**8,178**	**3,129**	**2,282**	**13,589**
Segment cost				
Operating expenses including depreciation	**(3,093)**	**(3,114)**	**(927)**	**(7,134)**
Provision for impairment	**(133)**	**(242)**	**(141)**	**(516)**
Net profit for the year before tax	**4,952**	**(227)**	**1,214**	**5,939**
Segment assets	**170,063**	**235,315**	**111,659**	**517,037**
Less: Provision for impairment	**(382)**	**(4,040)**	**(188)**	**(4,610)**
Total segment assets	**169,681**	**231,275**	**111,471**	**512,427**
Segment liabilities	**28,432**	**300,004**	**82,883**	**411,319**

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