



بنك ظفار
BankDhofar

**Unaudited interim condensed financial statements
For the three month period ended 31 March 2019**

Registered office and principal place of business:

Bank Dhofar Building
Bank Al Markazi street
Post Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

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BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE QUARTER ENDED

31st MARCH 2019

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the quarter ended 31st March 2019.

The Bank's Financial Performance during Quarter ended March 2019

The Bank with its strong fundamentals and prudent lending initiatives recorded a growth of 4.76% in total assets reaching RO 4.40 billion as at 31st of March 2019 as compared to RO 4.20 billion achieved during the corresponding period of year 2018. The Net Loans, Advances and Financing to customers reached RO 3.11 billion as at 31st of March 2019, recording a decline of 3.42% from RO 3.22 billion as at 31st of March 2018. As a result, total customer deposits correspondingly decreased by 4.43% year-on-year from RO 3.16 billion as of 31st of March 2018 RO 3.02 billion as of 31st of March 2019.

The Net interest income and income from Islamic Financing activities for first quarter 2019 recorded RO 25.93 million as compared to OMR 24.14 million, showing an increase of 7.42% year-on-year. Moreover, Non fund income as of 31st of March 2019 decreased by 6.05% reaching RO 8.38 million as against RO 8.92 million for same period of last year. Total operating income including non-funded income such as fees and commissions, foreign exchange profit, investment income etc. reached RO 34.32 million for the first quarter ended 31st March 2019 as against OMR 33.06 million during the corresponding period ended 31st March 2018, increasing by 3.81% year-on-year.

The cost to income ratio for the three-month period ended 31st March 2019 marginally improved to 49.63% as compared to 49.91% during the same period in 2018.

Net provisions for loan impairment increased to RO 2.48 million during Q1-2019 as against RO 0.096 million during Q1-2018 mainly due to recent changes in provision (Expected Credit Loss) calculation in compliance with International Financial Reporting Standards 9 (IFRS-9). Non-performing loans to gross loans as at 31st of March 2019 stood at 4.35%; Non-performing loans, net of interest suspense and IFRS-9 Stage 3 ECL, to gross loans is 1.11% as at 31st March 2019.

The Net Profits of the Bank decreased by 7.21% for the quarter ended 31st March 2019 reaching RO 12.61 million, as compared to RO 13.59 million achieved during the corresponding period of year 2018.

The earnings per share (EPS) for year-to-date March 2019 are OMR 0.005 as compared to OMR 0.006 for year-to-date March 2018.

Maisarah Financial Performance Highlights: -

Maisarah Islamic Banking Services has registered a positive growth in earning assets during the three-month period ended March 2019. The gross financing portfolio has grown from OMR 381.35 million at March 2018 to OMR 406.55 million at March 2019, thus posting growth of 6.61%. The gross Sukuk investment portfolio decreased by 0.06% from OMR 41.87 million at March 2018 to OMR 41.84 million at March 2019.

As at March 2019 the total customer deposit stood at OMR 325.14 million, registering a drop of 13.57% compared to OMR 376.18 million at same period last year. The total assets have increased by 1.64% to OMR 490.38 million at March 2019 from OMR 482.47 million at March 2018.

The net financing income after cost of funds increased 8.50% year-on-year reaching OMR 2.57 million during three-month period ended March 2019 against OMR 2.37 million at same period last year. Non-financing Income such as fees and commissions, foreign exchange profit, investment income and other income have decreased by 1.25% to OMR 1.02 million at March 2019, compared OMR 1.04 million as at March 2018. Cost to income ratio have significantly improved and stood at 49.00% at March 2019 compared to 50.41% at March 2018.

As at March 2019, Maisarah posted year to date profit before tax of OMR 1.49 million which is 25.41% below last year Profit before tax of OMR 1.99 million.

Awards & Accolades

Following key awards were won by the Bank during the first quarter of 2018 and those awards are testimony to the continued efforts put in by the Bank to improve,

- Most Innovative Islamic Bank - Maisarah Islamic Banking – Oman by The International Finance Banking Awards 2018
- Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2018 (EMEA Finance)
- Best Customer Service Banking Brand 2018 – Oman by Global Brands Magazine Awards
- Best Digital Transformation in Banking Award by Smart SMB Summit & Awards
- Infosys Finacle Client Innovation Award 2019 by the Infosys Finacle Awards
- Best Deal of the Year Award – Maisarah Islamic Banking Services by Islamic Finance News (IFN)
- Customer Delight Awards by MENAA Awards

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence reposed in the Bank. I thank the shareholders for the continuous support and the Bank's staff and management for the good performance during the period.

The Board of Directors also thanks the Central Bank of Oman and the Capital Market Authority for their valuable guidance to the local banking sector and the listed companies

Finally, the Board of Directors and all staff of the Bank would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

	Notes	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Assets				
Cash and balances with Central Bank of Oman	5	325,683	246,320	301,505
Loans, advances and financing to banks	6	479,188	325,119	329,059
Loans and advances (Conventional)	7	2,708,291	2,843,341	2,761,760
Islamic financing receivables	7	401,839	377,228	397,084
Investment securities	8	349,830	295,029	304,332
Intangible asset	9	695	1,092	794
Property and equipment	10	16,135	10,412	14,917
Other assets		113,533	103,416	104,039
Total assets		4,395,194	4,201,957	4,213,490
Liabilities				
Due to banks	11	451,097	216,549	368,983
Deposits from customers (Conventional)	12	2,693,850	2,781,525	2,571,119
Islamic customers deposits	12	325,144	376,177	353,385
Other liabilities		183,076	182,450	157,966
Subordinated loans	13	63,875	63,875	63,875
Total liabilities		3,717,042	3,620,576	3,515,328
Shareholders' equity				
Share capital		299,635	243,849	280,033
Share premium		95,656	77,564	95,656
Legal reserve		55,878	50,254	55,878
Special reserve		18,488	18,488	18,488
Special reserve –restructured loans		1,281	1,281	1,281
Special impairment reserve IFRS 9		-	10,879	4,562
Special revaluation reserve investment IFRS 9		(709)	(709)	(709)
Subordinated loan reserve		30,100	42,325	30,100
Investment revaluation reserve		(1,732)	(72)	(1,789)
Retained earnings		24,055	22,022	59,162
Total equity attributable to the equity holders of the Bank		522,652	465,881	542,662
Perpetual Tier 1 Capital Securities		155,500	115,500	155,500
Total equity		678,152	581,381	698,162
Total liabilities and equity		4,395,194	4,201,957	4,213,490
Net assets per share (Rials Omani)	15	0.174	0.191	0.194
Contingent liabilities	19	985,469	1,025,208	1,010,814

The interim condensed financial statements were approved by the Board of Directors and signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

	<i>Notes</i>	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000
Interest income		43,513	42,153
Interest expense		(20,145)	(20,380)
Net interest income	16	23,368	21,773
Income from islamic financing		5,655	5,301
Unrestricted investment account holders' share of profit		(3,089)	(2,936)
Net income from islamic financing activities		2,566	2,365
Fees and commission income		4,563	5,193
Fees and commission expense		(1,037)	(1,046)
Net fees and commission income		3,526	4,147
Other income		4,855	4,777
Operating income		34,315	33,062
Staff and administrative costs		(15,920)	(15,623)
Depreciation		(1,111)	(879)
Operating expenses		(17,031)	(16,502)
Profit from operations		17,284	16,560
Provision for loan impairment		(4,377)	(1,708)
Recoveries from allowance for loan impairment	7a	1,896	1,612
Bad debts written-off		(1)	(2)
Profit from operations after provision		14,802	16,462
Income tax expense		(2,195)	(2,870)
Profit for the period		12,607	13,592
For the Three Month Period ended 31st March			
Other comprehensive income:			
<i>Items that will not be reclassified to P&L::</i>			
Net changes in fair value reserve (equity instrument)		(1,789)	(579)
<i>Items that are or may be reclassified to profit or loss in subsequent periods:</i>			
Net changes of fair value through other comprehensive income		57	-
Reclassification adjustment on sale of available for sale financial assets		-	-
Other comprehensive income for the period		(1,732)	(579)
Total comprehensive income for the period		10,875	13,013
Earnings per share attributable to equity holders of the Bank (basic and diluted) (Rials Omani) (restated for 31 March 2018)	17	0.005	0.006

The accompanying notes form an integral part of these interim condensed financial statement

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

	Share capital	Share premium	Legal reserve	Special reserve	Special reserve restructure loan	Special impairment reserve IFRS9	Special revaluation on reserve IFRS9	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetual Tier 1 capital securities	Total equity
Notes	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balances as at 1 January 2019	280,033	95,656	55,878	18,488	1,281	4,562	(709)	30,100	(1,789)	59,162	542,662	155,500	698,162
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	12,607	12,607	-	12,607
Net changes of fair value through other comprehensive income	-	-	-	-	-	-	-	-	57	-	57	-	57
Total comprehensive income for the period	-	-	-	-	-	-	-	-	57	12,607	12,664	-	12,664
Transfer to IFRS 9 ECL	-	-	-	-	-	(4,562)	-	-	-	-	(4,562)	-	(4,562)
Additional Tier 1 coupon	-	-	-	-	-	-	-	-	-	(109)	(109)	-	(109)
Transactions with owners recorded directly in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend for 2018	14	-	-	-	-	-	-	-	-	(28,003)	(28,003)	-	(28,003)
Bonus shares issued for 2018	14	19,602	-	-	-	-	-	-	-	(19,602)	-	-	-
Balances as at 31 March 2019 (Unaudited)	299,635	95,656	55,878	18,488	1,281	-	(709)	30,100	(1,732)	24,055	522,652	155,500	678,152

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED 31 March 2019 (CONTINUED)

	Share capital	Share premium	Legal reserve	Special reserve	Special reserve restructure loan	Special impairment reserve IFRS9	Fair value reserve IFRS9	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetual Tier 1 capital securities	Total equity
Notes	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balances as at 1 January 2018	225,786	77,564	50,254	18,488	1,281	-	-	42,325	507	55,302	471,507	115,500	587,007
Changes on initial application of IFRS 9	-	-	-	-	-	8,455	(709)	-	-	709	8,455	-	8,455
Restated balance on 1 January 2018	225,786	77,564	50,254	18,488	1,281	8,455	(709)	42,325	507	56,011	479,962	115,500	595,462
Profit for the period	-	-	-	-	-	-	-	-	-	13,592	13,592	-	13,592
Other comprehensive income for the period													
Net changes of fair value through other comprehensive income	-	-	-	-	-	-	-	-	(579)	-	(579)	-	(579)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(579)	13,592	13,013	-	13,013
Transfer to Special impairment reserve IFRS9	-	-	-	-	-	2,424	-	-	-	(2,424)	-	-	-
Transactions with owners recorded directly in equity													
Dividend for 2017	14	-	-	-	-	-	-	-	-	(27,094)	(27,094)	-	(27,094)
Bonus shares issued for 2017	14	18,063	-	-	-	-	-	-	-	(18,063)	-	-	-
Balances as at 31 March 2018	243,849	77,564	50,254	18,488	1,281	10,879	(709)	42,325	(72)	22,022	465,881	115,500	581,381

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH PERIOD ENDED 31 March 2019 (CONTINUED)

Attributable to equity holders of Bank

Notes	Share capital	Share premium	Legal reserve	Special reserve	Special reserve restructured loan	Special impairment reserve IFRS 9	Special revaluatio n reserve IFRS 9	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetual Tier 1 capital securities	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balances as at 1 January 2018	225,786	77,564	50,254	18,488	1,281	-	-	42,325	507	55,302	471,507	115,500	587,007
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	-	3,527	(709)	-	-	709	3,527	-	3,527
Restated balance on 1 January 2018	225,786	77,564	50,254	18,488	1,281	3,527	(709)	42,325	507	56,011	475,034	115,500	590,534
Profit for the period	-	-	-	-	-	-	-	-	-	50,281	50,281	-	50,281
Other comprehensive income for the period:													
Net changes in fair value reserve													
- FVOCI equity instrument	-	-	-	-	-	-	-	-	(759)	-	(759)	-	(759)
- FVOCI debt instruments	-	-	-	-	-	-	-	-	(1,537)	-	(1,537)	-	(1,537)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(2,296)	50,281	47,985	-	47,985
Transfer to special impairment reserve IFRS 9	-	-	-	-	-	1,035	-	-	-	(1,035)	-	-	-
Transfer to legal reserve	-	-	5,028	-	-	-	-	-	-	(5,028)	-	-	-
Excess of receipts over right issue expenses	-	-	596	-	-	-	-	-	-	-	596	-	596
Transfer to subordinated loan reserve	-	-	-	-	-	-	-	12,775	-	(12,775)	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	(25,000)	-	25,000	-	-	-
Perpetual Tier 1 capital securities:													
- Proceeds from issuance	-	-	-	-	-	-	-	-	-	-	-	40,000	40,000
- Issuance cost	-	-	-	-	-	-	-	-	-	(223)	(223)	-	(223)
- Payment towards perpetual additional Tier 1 coupon	-	-	-	-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity													
Issue of right shares	36,184	18,092	-	-	-	-	-	-	-	-	54,276	-	54,276
Dividend for 2017	14	-	-	-	-	-	-	-	-	(27,094)	(27,094)	-	(27,094)
Bonus shares issued for 2017	14	18,063	-	-	-	-	-	-	-	(18,063)	-	-	-
Balances as at 31 December 2018	280,033	95,566	55,878	18,488	1,281	4,562	(709)	30,100	(1,789)	59,162	542,662	155,500	698,162

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before taxation	14,802	16,462
<i>Adjustment for:</i>		
Depreciation and amortisation	1,211	979
Net impairment on financial instruments	2,482	98
End of service benefits provision for the year	(21)	165
	18,474	17,704
Operating profit before working capital changes		
<i>Change in working capital:</i>		
Increase in due to banks	75,053	(171,557)
Increase in due from banks	(224,706)	33,949
Increase in loans & advances and financing	41,671	36,661
Net movement in Investment securities	(45,441)	(4,753)
(Increase) / Decrease in other assets	(9,494)	(33,864)
Increase in customer deposits	94,490	89,293
Increase in other liabilities	30,622	72,222
Cash used in operations	(37,805)	21,951
Taxes paid	(7,679)	(7,359)
End of service benefits paid	(7)	(125)
Net cash (used in) / from operating activities	(27,017)	32,171
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,330)	(1,768)
Proceeds from sale of property and equipment	-	-
Net cash used in investing activities	(2,330)	(1,768)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) / proceeds from subordinated debt	-	(25,000)
Dividend paid	(28,003)	(27,094)
AT1 Coupon Paid	(109)	-
Net cash from financing activities	(28,112)	(52,094)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(57,459)	(21,691)
Cash and cash equivalents at 1 January	427,455	414,879
Cash and cash equivalents at 31 March	369,996	393,188
Cash and cash equivalent comprises of:		
Cash and balances with Central Bank of Oman	325,683	246,320
Capital deposit with Central Bank of Oman	(500)	(500)
Due from banks	52,341	148,317
Due to banks	(7,528)	(949)
	369,996	393,188

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

Reconciliation of liabilities and equity arising from financing activities:

	Unaudited 31 March 2019 RO'000 0	Unaudited 31 March 2018 RO'000
Subordinated loan		
Balance at beginning of the period	63,875	88,875
Cash flows	-	(25,000)
Balance at end of the period	<u>63,875</u>	<u>63,875</u>
Retained earnings		
Balance at beginning of the period	59,162	55,302
Changes on initial application of IFRS 9	-	709
Profit for the period	12,607	13,592
Transfer to legal reserve	-	-
Transfer to Subordinate reserve	-	-
Transfer from Subordinate to retained earning	-	-
Additional Tier 1 coupon	(109)	-
Perpetual tier 1 capital securities issuance cost	-	-
Transfer to special reserve (IFRS 9)	-	(2,424)
Transfer to special reserve restructure	-	-
Bonus shares issued	(19,602)	(18,063)
Dividend transfer	(28,003)	(27,094)
Balance at end of the period	<u>24,055</u>	<u>22,022</u>

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the “Bank”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities through a network of 71 branches (31 March 2018: 70 branches) which comprises of 10 Islamic branches (31 March 2018: 10 Islamic branches) and 61 conventional branches (31 March 2018: 60 conventional branches). The Bank’s Islamic Banking Window, Maisarah Islamic Banking Services has an allocated capital of RO 55 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market (“MSM”) and the Bank’s Perpetual Tier 1 Capital Securities are listed on Euronext Dublin (Irish Stock Exchange). The principal place of business is the Head Office, Capital Business District (“CBD”), Muscat, Sultanate of Oman.

The Bank employed 1,603 employees as of 31 March 2019 (31 March 2018: 1,505 employees).

2 BASIS OF PREPARATION

2.1 Statement of compliance and basis of accounting

The unaudited interim condensed financial statements for the three month period ended 31 March 2019 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’, applicable regulations of the Central Bank of Oman (CBO) and the disclosure requirements set out in the Rules and Disclosure and Proformas issued by the Capital Market Authority (CMA).

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Bank’s last annual financial statements as at and for the year ended 31 December 2018 (‘the last annual financial statements’). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank’s financial position and performance since the last annual financial statements.

2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

In preparing these interim condensed financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2018, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which is described in Note 3.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

3 Changes in significant accounting policies

Except as described below, the accounting policies applied in these unaudited interim condensed financial statements are same as those applied in the Bank's financial statements as at and for the year ended 31 December 2018.

The changes in accounting policies are also expected to be reflected in the Bank's financial statements as at and for the year ending 31 December 2018.

The Bank has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

IFRS 16 Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer. However, where a supplier has a substantive right of substitution throughout the period of use, a customer does not have a right to use an identified asset. A supplier's right of substitution is only considered substantive if the supplier has both the practical ability to substitute alternative assets throughout the period of use and they would economically benefit from substitution.

A capacity portion of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). A capacity or other portion of an asset that is not physically distinct (e.g. a capacity portion of a fibre optic cable) is not an identified asset, unless it represents substantially all the capacity such that the customer obtains substantially all the economic benefits from using the asset.

For a contract that contains a lease component and additional lease and non-lease components, such as the lease of an asset and the provision of a maintenance service, lessees shall allocate the consideration payable on the basis of the relative stand-alone prices, which shall be estimated if observable prices are not readily available. However, as a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components and instead account for all components as a lease.

Scope:

IFRS 16 should be applied to all leases (*which are applicable to the bank*) except the following:

1. Licenses of intellectual property granted by a lessor within the scope of IFRS 15 *Revenue from Contracts with Customers*; and
2. Rights held by a lessee under licensing agreements within the scope of IAS 38 *Intangible Assets* for such items as patents and copyrights.

Recognition exemptions:

The bank may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

1. Leases with a lease term of **12 months or less** and containing no purchase options – this election is made by class of underlying asset; and
2. Leases where the underlying asset has **a low value** when new (such as personal computers or small items of office furniture) - this election can be made on a lease-by-lease basis.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

Identifying a Lease:

At inception of a contract, the bank is required to assess whether the contract is, or contains, a lease. The contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Key aspects of identifying the asset is as follow:

1. The asset that is the subject of a lease must be specifically identified; and
2. The lease must convey the right to control the use of that identified asset for the period of time.

Substantive substitution right:

The bank is not considered to have a right to use an identified asset (and, therefore, the contract is not a lease) if the provider of asset (Landlord, Supplier) has a substantive right to substitute the asset throughout the period of use.

The supplier's right to substitute an asset is substantive only if both of the following conditions are met:

1. The supplier has the practical ability to substitute alternative assets throughout the period of time (i.e. the bank cannot prevent the supplier from substituting the asset); and
2. The supplier would benefit economically from exercising its right to substitute the asset.

Separating components of a contract:

For a contract that contains a lease component and , such as the lease of an asset and the provision of a maintenance service, the bank (lessee) shall allocate the consideration payable on the basis of the relative stand-alone prices.

As a **practical expedient**, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components and instead account for all components as a lease.

The Bank also has other leases such as for to supply installation & maintenance of specific Cash Counting Machine (CCM) where such CCMs are identified in the contract, and may only be substituted if a machine is irreparable or it is commercially not viable to repair. Another example would be the lease for the supply installation & maintenance of multifunctional printer devices, where specific devices are identified in the contract and cannot be substituted. In both such cases, the bank retains substantially all of the capacity of printer devices during the contract period. However, since the value of such commitments are considered low, the Bank may elect to exempt such types of leases from recognition as right of use assets on the basis of immateriality.

Assessment

The Bank currently maintains lease agreements primarily for its offices, branches and teller machines (ATMs, CDMs, FFMs) premises. Based on the contractual relationship committed by the Bank as on 31 December 2018, the Bank has assessed the potential impact of IFRS 16 and has performed an initial quantification of the existing obligations and for arriving at relevant disclosures in the financial statements. All leases with a total tenor of less than one year are not considered.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

Impact Assessment

The Bank has been recognizing applicable leases as prepayment and subsequently amortizes it over the tenor of the actual amounts paid. This, obviously, does not include the complete lease term committed by the Bank.

Impact in Balance Sheet

Under IFRS 16, the Bank will require to recognize the applicable leases at its' net present value as Assets ('Right of Use of Asset') as well as a Liability ('Lease Liability').

Impact in Statement of Income

As per IAS 17, the leases were recognized by the Bank as operating costs. Subsequently, under IFRS 16, the leases will no longer be reconciled as operating costs and instead carry expense as depreciation of the assets recognized and finance cost for the liability incurred in this respect.

Impact in Risk Weighted Assets & Capital Adequacy Ratio

The capitalization of the leases is not considered as risk weighted assets (RWA) and will not have an impact on the Bank's Capital Adequacy Ratio (CAR) since the assets are offset by the lease liability recognized.

4 Standards issued but not yet effective

A number of other new standards and amendments to standards may be in effect for annual periods beginning on or after 31 March 2019, where earlier application is permitted; however, the Bank has not early adopted them in preparing these unaudited interim condensed financial statements.

5. Cash and balances with Central Bank of Oman

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Cash in hand	33,936	26,023	31,422
Balances with the Central Bank of Oman	196,267	182,567	126,863
Placements with Central Bank of Oman	95,480	37,730	143,220
	<hr/> 325,683 <hr/>	<hr/> 246,320 <hr/>	<hr/> 301,505 <hr/>

At 31 March 2019 cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (31 March 2018- RO 500,000 and 31 December 2018 – RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

6. Loans, advances and financing to banks

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Syndicated loans to other banks	105,954	57,173	81,104
Placements with other banks	363,684	262,856	230,060
Current clearing accounts	11,166	5,962	18,732
	<u>480,804</u>	<u>325,991</u>	<u>329,896</u>
Less: impairment allowance (collective)	<u>(1,616)</u>	<u>(872)</u>	<u>(837)</u>
Net loans, advances and financing	<u>479,188</u>	<u>325,119</u>	<u>329,059</u>

At 31 March 2019 No placement with any bank's individually represented 20% or more of the Bank's placements and (31 March 2018: Nil) and 31st December 2018 – one local bank).

7. Loans, advances and financing (Conventional Banking)

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Overdrafts	179,575	174,179	165,880
Loans	2,493,270	2,588,110	2,547,049
Loans against trust receipts	96,388	119,650	99,393
Bills discounted	69,621	71,574	70,969
Advances against credit cards	9,004	8,637	8,921
	<u>2,847,858</u>	<u>2,962,150</u>	<u>2,892,212</u>
Gross Loans, advances and financing	<u>2,847,858</u>	<u>2,962,150</u>	<u>2,892,212</u>
Less: Impairment allowance including reserved interest	<u>(139,567)</u>	<u>(118,809)</u>	<u>(130,452)</u>
Net loans and advances to customers	<u>2,708,291</u>	<u>2,843,341</u>	<u>2,761,760</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Details of Islamic Banking Window Financing	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Housing finance	158,955	151,515	158,610
Corporate finance	236,734	220,695	232,301
Consumer finance	11,148	9,304	10,822
Less: Impairment allowance	<u>406,837</u> (4,998)	<u>381,514</u> (4,286)	<u>401,733</u> (4,649)
Net financing to customers	<u>401,839</u>	<u>377,228</u>	<u>397,084</u>
The movement in the impairment allowance is analysed below:	Unaudited 31 March 2019	Unaudited 31 March 2018	Audited 31 December 2018
(a) Allowance for loan impairment			
Balance at beginning of the period / year	79,308	73,710	90,740
IFRS 9 transition impact	-	-	(16,370)
Allowance made during the period	8,815	1,730	11,320
Released to the statement of comprehensive income during the period / year	(1,896)	(1,612)	(6,354)
Written off during the period / year	<u>(3)</u>	<u>(2)</u>	<u>(28)</u>
Balance at the end of the period / year	<u>86,224</u>	<u>73,826</u>	<u>79,308</u>
(b) Reserved interest			
Balance at beginning of the period / year	55,793	47,212	47,212
Reserved during the period / year	3,288	2,352	10,146
Released to the statement of comprehensive income during the period / year	(642)	(287)	(1,398)
Written-off during the period / year	<u>(98)</u>	<u>(8)</u>	<u>(167)</u>
Balance at the end of the period / year	<u>58,341</u>	<u>49,269</u>	<u>55,793</u>
Total impairment allowance	<u>144,565</u>	<u>123,095</u>	<u>135,101</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

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 extent of CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

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

Disclosure requirements containing the risk classification –wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognized as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149 as on 31 March 2019.

(Amounts in RO '000)									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(-10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	2,447,676	30,088	13,662	16,426	2,417,588	2,434,014	-	-
	Stage 2	413,465	5,109	7,523	(2,414)	408,356	405,942	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,861,141	35,197	21,185	14,012	2,825,944	2,839,956	-	-
Special Mention	Stage 1	117	1	-	1	116	117	-	-
	Stage 2	249,998	3,109	16,368	(13,259)	246,889	233,630	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		250,115	3,110	16,368	(13,258)	247,005	233,747	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	25,511	7,313	9,158	(1,845)	17,555	16,353	-	643
Subtotal		25,511	7,313	9,158	(1,845)	17,555	16,353	-	643
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,887	3,272	3,076	196	4,009	4,811	-	606
Subtotal		7,887	3,272	3,076	196	4,009	4,811	-	606
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	110,041	48,898	36,437	12,461	4,051	73,604	-	57,092
Subtotal		110,041	48,898	36,437	12,461	4,051	73,604	-	57,092
Total loans and advances		3,254,695	97,790	86,224	11,566	3,098,564	3,168,471	-	58,341
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	2,035,521	530	6,510	(5,980)	2,034,991	2,029,011	-	-
	Stage 2	395,669	-	8,551	(8,551)	395,669	387,118	-	-
	Stage 3	4,345	-	-	-	4,345	4,345	-	-
Subtotal		2,435,535	530	15,061	(14,531)	2,435,005	2,420,474	-	-
Total (31 March 2019)	Stage 1	4,483,314	30,619	20,172	10,447	4,452,695	4,463,142	-	-
	Stage 2	1,059,132	8,218	32,442	(24,224)	1,050,914	1,026,690	-	-
	Stage 3	147,784	59,483	48,671	10,812	29,960	99,113	-	58,341
	Total	5,690,230	98,320	101,285	(2,965)	5,533,569	5,588,945	-	58,341

* Net of provision and reserve interest as per CBO norms

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Restructured loans

(Amounts in RO '000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,302	53	240	(187)	5,249	5,062	-	-
	Stage 2	43,788	403	2,347	(1,944)	43,385	41,441	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		49,090	456	2,587	(2,131)	48,634	46,503	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,324	2,529	1,680	849	837	2,644	-	958
Sub total		4,324	2,529	1,680	849	837	2,644	-	958
Total (31 March 2019)	Stage 1	5,302	53	240	(187)	5,249	5,062	-	-
	Stage 2	43,788	403	2,347	(1,944)	43,385	41,441	-	-
	Stage 3	4,324	2,529	1,680	849	837	2,644	-	958
	Total	53,414	2,985	4,267	(1,282)	49,471	49,147	-	958

* Net of provision and reserve interest as per CBO norms

In accordance with Central Bank of Oman (CBO) circular BM 1149, the mandatory regulatory impairment reserve is created when the provisions and reserve interest required as per CBO norms exceeds the impairment allowance as per IFRS. The impairment reserve is a yearly appropriation from the net profit after tax. The regulatory impairment reserve will not be available for payment of dividend or for inclusion in regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

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

Impairment charge and provisions held

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to profit and loss account (net of recoveries)	-	2,481	(2,481)
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	98,320	101,285	(2,965)
Gross NPL ratio	4.35%	4.35%	-
Net NPL ratio	0.75%	1.11%	(0.33%)

Gross NPL (Non-performing Loans) is 4.35% and Net NPL is 1.11% based on funded non-performing exposure over funded exposure (Net NPL exclude interest reserve and ECL Provision).

Note 1 : Excluding Interest Reserve.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers as end of 31st December 2018 (continued)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	2,506,302	28,268	13,349	14,919	2,478,034	2,492,953	-	-
	Stage 2	411,703	4,868	5,859	(991)	406,637	405,844	-	198
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,918,005	33,136	19,208	13,928	2,884,671	2,898,797	-	198
Special Mention	Stage 1	78	2	1	1	76	77	-	-
	Stage 2	254,563	7,037	18,699	(11,662)	247,526	235,864	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		254,641	7,039	18,700	(11,661)	247,602	235,941	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,611	2,515	3,936	(1,421)	6,748	5,675	-	348
Subtotal		9,611	2,515	3,936	(1,421)	6,748	5,675	-	348
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,835	3,159	2,952	207	4,017	4,883	-	659
Subtotal		7,835	3,159	2,952	207	4,017	4,883	-	659
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	103,853	45,104	34,512	10,592	4,161	69,341	-	54,588
Subtotal		103,853	45,104	34,512	10,592	4,161	69,341	-	54,588
Total loans and advances		3,293,945	90,953	79,308	11,645	3,147,199	3,214,637	-	55,793
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,923,599	493	5,857	(5,364)	1,923,106	1,917,742	-	-
	Stage 2	375,270	-	8,456	(8,456)	375,270	366,814	-	-
	Stage 3	790	-	-	-	790	790	-	-
Subtotal		2,299,659	493	14,313	(13,820)	2,299,166	2,285,346	-	-
Total (31st December 2018)	Stage 1	4,429,979	28,763	19,207	9,556	4,401,216	4,410,772	-	-
	Stage 2	1,041,536	11,905	33,014	(21,109)	1,029,433	1,008,522	-	198
	Stage 3	122,089	50,778	41,400	9,378	15,716	80,689	-	55,595
	Total	5,593,604	91,446	93,621	(2,175)	5,446,365	5,499,983	-	55,793

* Net of provision and reserve interest as per CBO norms

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Restructured loans as end of 31st December 2018

<i>RO'000</i>									
Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,356	53	269	(216)	5,303	5,087	-	-
	Stage 2	43,591	624	3,322	(2,698)	42,777	40,269	-	190
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		48,947	677	3,591	(2,914)	48,080	45,356	-	190
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,542	2,446	1,718	728	1,177	2,824	-	919
Sub total		4,542	2,446	1,718	728	1,177	2,824	-	919
Total (31st December 2018)	Stage 1	5,356	53	269	(216)	5,303	5,087	-	-
	Stage 2	43,591	624	3,322	(2,698)	42,777	40,269	-	190
	Stage 3	4,542	2,446	1,718	728	1,177	2,824	-	919
	Total	53,489	3,123	5,309	(2,186)	49,257	48,180	-	1,109

(Amounts in RO '000)

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

Impairment charge and provisions held as end of 31st December 2018

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Impairment loss charged to profit and loss account (net of recoveries)	-	6,650	(6,650)
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	91,446	93,621	(2,175)
Gross NPL ratio	3.68%	3.68%	-
Net NPL ratio	0.45%	0.74%	(0.29%)

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

Note 1 : Excluding Interest Reserve.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Financial assets and financial liabilities

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 March 2019: **RO'000**

Gross exposure	Stage 1	Stage 2	Stage 3	Total
Central Bank balances	95,480	-	-	95,480
Due from Banks	480,804	-	-	480,804
Sovereign	315,407	-	-	315,407
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	34,747	-	-	34,747
Loans and advances	2,447,793	663,463	143,439	3,254,695
Accrued profit	15,489	3,627	-	19,116
Total funded gross exposure	3,390,637	667,090	143,439	4,201,166
Letters of credit/guarantee	757,998	223,126	4,345	985,469
Acceptances	62,724	16,443	-	79,167
Loan commitment / unutilised limits	271,955	152,473	-	424,428
Total non-funded gross exposure	1,092,677	392,042	4,345	1,489,064
Total gross exposure	4,483,314	1,059,132	147,784	5,690,230
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	1,616	-	-	1,616
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	271	-	-	271
Loans and advances	13,662	23,891	48,671	86,224
Accrued profit	69	111	-	180
Total funded impairment	15,618	24,002	48,671	88,291
Letters of credit/guarantee	3,048	6,861	-	9,909
Acceptances	64	30	-	94
Loan commitment/unutilised limits	1,442	1,549	-	2,991
Total non-funded impairment	4,554	8,440	-	12,994
Total impairment	20,172	32,442	48,671	101,285
Net exposure				
Central Bank balances	95,480	-	-	95,480
Due from Banks	479,188	-	-	479,188
Sovereign	315,407	-	-	315,407
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	34,476	-	-	34,476
Loans and advances	2,434,131	639,572	94,768	3,168,471
Accrued Profit	15,420	3,516	-	18,936
Total funded net exposure	3,375,019	643,088	94,768	4,112,875
Letter of credit/guarantee	754,950	216,265	4,345	975,560
Acceptances	62,660	16,413	-	79,073
Loan commitment / unutilised limits	270,513	150,924	-	421,437
Total net non-funded exposure	1,088,123	383,602	4,345	1,476,070
Total net exposure	4,463,142	1,026,690	99,113	5,588,945

Gross exposure of loans and advances of RO 143,439 thousands under stage 3 includes reserved interest of RO 58,341 thousand. Accordingly, the principal outstanding of RO 85,098 was subject to ECL. The Total Exposure is base of IFRS9 Exposure as end of 31st March 2019

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Financial assets and financial liabilities (continued)

	Stage 1	Stage 2	Stage 3	RO'000 Total
Opening Balance – as at 1 January 2019				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	29,743	41,400	84,493
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest accrued	61	103	-	164
Total	19,207	38,199	41,400	98,806
Net transfer between stages				
- Loans and advances to customers	1,452	(2,371)	919	-
- Loan commitments and financial guarantees	(71)	71	-	-
	(31)	31	-	-
Total	1,350	(2,269)	919	-
Charge for the Period (net)				
- Due from banks	779	-	-	779
- Loans and advances to customers	(1,140)	(3,481)	6,355	1,734
- Investment securities at FVOCI (Debt)	5	-	-	5
- Loan commitments and financial guarantees	(139)	68	-	(71)
- Acceptances	(28)	(5)	-	(33)
- Unutilised	130	(78)	-	52
- Interest accrued	8	8	-	16
Total	(385)	(3,488)	6,355	2,482
Written-off			(3)	(3)
Closing Balance – as at 31 March 2019				
- Due from banks	1,616	-	-	1,616
- Loans and advances to customers	13,662	23,891	48,671	86,224
- Investment securities at FVOCI (Debt)	271	-	-	271
- Loan commitments and financial guarantees	3,048	6,861	-	9,909
- Acceptances	64	30	-	94
- Unutilised	1,442	1,549	-	2,991
- Interest accrued	69	111	-	180
Total net exposure	20,172	32,442	48,671	101,285

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Financial assets and financial liabilities

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9 as at 31 December 2018:

	<i>RO'000</i>			
	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Central Bank balances	143,220	-	-	143,220
Due from Banks	329,857	-	-	329,857
Sovereign	237,520	-	-	237,520
Investment Securities at amortized cost	917	-	-	917
Investment Securities at FVOCI	55,412	-	-	55,412
Loans and advances	2,506,380	666,266	121,299	3,293,945
Accrued profit	13,405	2,951	-	16,356
Total funded gross exposure	3,286,711	669,217	121,299	4,077,227
Letters of credit/guarantee	800,612	209,412	790	1,010,814
Acceptances	61,116	13,473	-	74,589
Loan commitment / unutilised limits	281,540	149,434	-	430,974
Total non-funded gross exposure	1,143,268	372,319	790	1,516,377
Total gross exposure	4,429,979	1,041,536	122,089	5,593,604
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	837	-	-	837
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	266	-	-	266
Loans and advances	13,350	24,558	41,400	79,308
Accrued profit	61	103	-	164
Total funded impairment	14,514	24,661	41,400	80,575
Letters of credit/guarantee	3,258	6,722	-	9,980
Acceptances	92	35	-	127
Loan commitment/unutilised limits	1,343	1,596	-	2,939
Total non-funded impairment	4,693	8,353	-	13,046
Total impairment	19,207	33,014	41,400	93,621
Net exposure				
Central Bank balances	143,220	-	-	143,220
Due from Banks	329,020	-	-	329,020
Sovereign	237,520	-	-	237,520
Investment Securities at amortized Cost	917	-	-	917
Investment Securities at FVOCI	55,146	-	-	55,146
Loans and advances	2,493,030	641,708	79,899	3,214,637
Accrued Profit	13,344	2,848	-	16,192
Total funded net exposure	3,272,197	644,556	79,899	3,996,652
Letter of credit/guarantee	797,354	202,690	790	1,000,834
Acceptances	61,024	13,438	-	74,462
Loan commitment / unutilised limits	280,197	147,838	-	428,035
Total net non-funded exposure	1,138,575	363,966	790	1,503,331
Total net exposure	4,410,772	1,008,522	80,689	5,499,983

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

7. Loans, advances and financing to customers (continued)

Financial assets and financial liabilities (continued)

A. Classification of financial assets and financial liabilities

	Stage 1	Stage 2	Stage 3	RO'000 Total
Opening Balance (Day 1 impact) – as at 1 January 2018				
- Due from banks	804	100	-	904
- Loans and advances to customers	15,672	21,335	37,363	74,370
- Investment securities at FVOCI (Debt)	67	-	-	67
- Loan commitments and financial guarantees	4,000	3,869	-	7,869
- Acceptances	23	77	-	100
- Unutilised	1,871	1,766	-	3,637
- Interest accrued	22	30	-	52
Total	22,459	27,177	37,363	86,999
Net transfer between stages				
- Loans and advances to customers	(2,827)	4,366	(1,539)	-
- Loan commitments and financial guarantees	(28)	28	-	-
Total	(2,855)	4,394	(1,539)	-
Charge for the Period (net)				
- Due from banks	33	(100)	-	(67)
- Loans and advances to customers	505	(1,143)	5,604	4,966
- Investment securities at FVOCI (Debt)	199	-	-	199
- Loan commitments and financial guarantees	(714)	2,825	-	2,111
- Acceptances	69	(42)	-	27
- Unutilised	(528)	(170)	-	(698)
- Interest accrued	39	73	-	112
Total	(397)	1,443	5,604	6,650
Written-off	-	-	(28)	(28)
Closing Balance – as at 31 December 2018				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	24,558	41,400	79,308
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest accrued	61	103	-	164
Total net exposure	19,207	33,014	41,400	93,621

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

8. Investments securities

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2019 RO'000
Equity investments:			
Designated at FVTPL	1,759	2,466	1,882
Designated at FVOCI	3,727	4,610	4,118
Gross equity investments	<u>5,486</u>	<u>7,076</u>	<u>6,000</u>
Less: Impairment losses on investments			
Net equity investments	<u>5,486</u>	<u>7,076</u>	<u>6,000</u>
Debt investments:			
Designated at FVTPL	2,307	2,346	2,258
Measured at FVOCI	46,578	45,799	45,413
Measured at amortized cost	295,730	239,950	250,927
Gross debt investments	<u>344,615</u>	<u>288,095</u>	<u>298,598</u>
Total investment securities	350,101	295,171	304,598
Less: Impairment loss allowance	<u>(271)</u>	<u>(142)</u>	<u>(266)</u>
Total investment securities	<u>349,830</u>	<u>295,029</u>	<u>304,332</u>
	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Investment securities designated as at FVTPL	4,066	4,812	4,140
Investment securities measured at FVOCI	50,034	50,267	49,265
Investment securities measured at amortised cost	295,730	239,950	250,927
	<u>349,830</u>	<u>295,029</u>	<u>304,332</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

8. Investment securities (continued)

8.2 Categories of investments by measurement

As at 31 st March 2019 (Unaudited)	Designated at FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	1,052	-	1,052
Unit funds	157	-	-	157
Financial services sector	-	230	-	230
Industrial sector -	-	1,724	-	1,724
	157	3,006	-	3,163
Unquoted Equities:				
Local securities	-	721	-	721
Unit funds	1,602	-	-	1,602
	1,602	721	-	2,323
Gross Equity investments	1,759	3,727	-	5,486
Quoted Debt:				
Government Bonds, Sukuk and TB	-	13,586	295,730	309,316
Foreign Bonds	2,307	2,957	-	5,264
Local bonds and Sukuks	-	30,035	-	30,035
Gross debt investments	2,307	46,578	295,730	344,615
Total Investment Securities	4,066	50,305	295,730	350,101
Less: Impairment losses on investments	-	(271)	-	(271)
	4,066	50,034	295,730	349,830

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

8. Investment securities (continued)

8.2 Categories of investments by measurement

As at 31 st March 2018 (Unaudited)	Designated at FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	1,562	-	1,562
Unit funds	214	-	-	214
Financial services sector	-	429	-	429
Industrial sector -	-	1,932	-	1,932
	214	3,923	-	4,137
Unquoted Equities:				
Local securities	-	687	-	687
Unit funds	2,252	-	-	2,252
	2,252	687	-	2,939
Gross Equity investments	2,466	4,610	-	7,076
Quoted Debt:				
Government Bonds and Sukuk & TB	-	12,762	239,950	252,712
Foreign Bonds	2,346	3,006	-	5,352
Local bonds and Sukuk	-	30,031	-	30,031
	2,346	45,799	239,950	288,095
Unquoted Debt				
Local Bonds	-	-	-	-
	-	-	-	-
Gross Debt Investment	2,346	45,799	239,950	288,095
Total Investment Securities	4,812	50,409	239,950	295,171
Less: FRS 9 ECL Impairment losses on Investments	-	(142)	-	(142)
	4,812	50,267	239,950	295,029

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

8. Investment securities (continued)

8.2 Categories of investments by measurement

As at 31 December 2018 (Audited)	Designated at FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	1,170	-	1,170
Unit funds	220	-	-	220
Financial services sector	-	323	-	323
Industrial sector -		1,904		1,904
	<u>220</u>	<u>3,397</u>	<u>-</u>	<u>3,617</u>
Unquoted Equities:				
Local securities	-	721	-	721
Unit funds	1,662	-	-	1,662
	<u>1,662</u>	<u>721</u>	<u>-</u>	<u>2,383</u>
Gross Equity investments	<u>1,882</u>	<u>4,118</u>	<u>-</u>	<u>6,000</u>
Quoted Debt:				
Government Bonds and sukuk	-	12,570	250,010	262,580
Foreign Bonds	2,258	12,819	-	15,077
Local bonds and sukuks	-	20,024	917	20,941
Gross debt investments	<u>2,258</u>	<u>45,413</u>	<u>250,927</u>	<u>298,598</u>
Total Investment Securities	4,140	49,531	250,927	304,598
Less: Impairment losses on investments	-	(266)	-	(266)
	<u>4,140</u>	<u>49,265</u>	<u>250,927</u>	<u>304,332</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

9. Intangible asset

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Goodwill net of impairment	695	1,092	794

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank.

10. Property and equipment

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Conventional	14,873	9,042	13,608
Islamic window	1,262	1,370	1,309
	16,135	10,412	14,917

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

11. Due to banks

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Interbank borrowings	443,569	215,600	368,516
Payable on demand	7,528	949	467
	<u>451,097</u>	<u>216,549</u>	<u>368,983</u>

At 31 March 2019, no borrowing with any banks represented 20% or more of the Bank's total inter-bank borrowings (31 March 2018 and 31 December 2018: one bank). The Bank has not had any defaults of principal, interest or other breaches during the period / year on its borrowed funds.

12. Deposits from customers (Conventional Banking)

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Current accounts	705,784	832,171	568,332
Savings accounts	458,246	452,964	456,011
Time deposits / certificate of deposits	1,513,871	1,480,787	1,531,677
Margin accounts	15,949	15,603	15,099
	<u>2,693,850</u>	<u>2,781,525</u>	<u>2,571,119</u>

Islamic Customers Deposits

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Current accounts	49,458	100,035	54,008
Savings accounts	36,619	28,733	34,026
Time deposits	236,920	245,424	263,319
Margin accounts	2,147	1,985	2,032
	<u>325,144</u>	<u>376,177</u>	<u>353,385</u>

Consolidated Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,306,451 thousand (31st March 2018 - RO 1,230,972 thousand, 31 December 2018 – RO 1,180,082 thousand)

13. Subordinated loan

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Subordinated loan - US Dollar	28,875	28,875	28,875
Subordinated loan - RO	35,000	35,000	35,000
	<u>63,875</u>	<u>63,875</u>	<u>63,875</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

14. Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2018: 5,000,000,000,000 shares of RO 0.100 each).

The shareholders of the Bank in the annual general meeting held during March 2019 approved the issuance of 7% bonus shares comprising 196,022,991 shares of par value RO 0.100 each (2018: 180,628,618 shares of par value RO 0.100 each) and (2017 - 8%) (2018 – 10%) as cash dividend of the paid up share capital of the Bank amounting to RO 28,003 thousand for the year ended 31 December 2018 12%) (2017 – RO 27,094 thousand for the year ended 31 December 2017). (2017 – 12%).

Shareholders

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

	Unaudited 31st March 2019		Unaudited 31st March 2018		Audited 31st December 2018	
	No of shares	%	No of shares	%	No. of shares	%
Dhofar International Development and Investment Company SAOG	730,570,499	24.4%	682,776,167	28.0%	682,776,167	24.4%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	702,668,218	23.5%	526,268,636	21.6%	653,699,269	23.3%
Civil Service Employees Pension Fund	312,697,108	10.4%	214,442,443	8.8%	289,825,834	10.3%
Total	1,745,935,825	58.3%	1,423,487,246	58.4%	1,626,301,270	58.0%
Others	1,250,415,611	41.7%	1,014,999,094	41.6%	1,174,027,175	42.0%
	2,996,351,436	100%	2,438,486,340	100%	2,800,328,445	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 55 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31st March 2019.

Tier 1 USD Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 USD Capital Securities (the "Tier 1 USD Securities"), amounting to USD 300,000 thousand. The Tier 1 USD Securities are listed on Irish Stock Exchange.

The Tier 1 USD Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 USD Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 USD Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

Tier 1 RO Securities

On 27 December 2018, the Bank issued additional Perpetual Tier 1 Capital Securities (the "Tier 1 RO Securities"), amounting to RO 40,000 thousand. The Tier 1 RO Securities are listed on Muscat Securities Market.

The Tier 1 RO Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 RO Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five year intervals. Interest is payable semi-annually in arrears and treated as deduction from equity

The Bank at its sole discretion may elect not to distribute interest on both perpetual Tier 1 capital securities and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 USD Securities and/or Tier 1 RO Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 USD Securities and Tier 1 RO Securities unless and until it has paid one interest payment in full on the Tier 1 USD Securities and Tier 1 RO Securities. The Tier 1 USD Securities and Tier 1 RO Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

15. Net assets per share

Net assets per share are calculated by dividing the net assets attributable to equity holders of the bank at the period / year end by the number of shares outstanding at period / year end as follows:

	Unaudited 31 March 2019	Unaudited 31 March 2018	Audited 31 December 2018
Net assets (RO'000)	522,652	465,881	542,662
Number of shares outstanding at the end of the period / year	2,996,351,436	2,438,486,340	2,800,328,445
Net assets per share (RO)	0.174	0.191	0.194

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

16. Net interest income

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000
Loans, advances and financing to customers	39,134	39,933
Debt investments	175	148
Money market placements	4,191	2,066
Others	13	6
Total interest income	43,513	42,153
Deposits from customers	(18,187)	(18,130)
Money market deposits	(1,958)	(2,250)
Total interest expense	(20,145)	(20,380)
Net interest income	23,368	21,773

17. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the three-month period ended 31st March 2019 attributable to ordinary shareholders as follows:

	Unaudited 31 March 2019	Unaudited 31 March 2018
Profit for the period (RO)	12,607	13,592
Less : Additional Tier 1 Coupon	(109)	-
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities	12,498	13,592
Number of shares outstanding during the period	2,634,509,331	2,367,359,207
Earnings per share basic and diluted (RO)	0.005	0.006

17. Earnings per share (basic and diluted) (continued)

Earnings per share (basic and diluted) have been derived by dividing the profit for the period attributable to equity holders of the bank after coupon on Tier 1 capital securities by the number of shares outstanding. As there are no dilutive potential shares issued by Bank, the diluted earnings per share is identical to the basic earnings per share.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 7% bonus shares of 196,022,991 shares issued in the first quarter of 2019.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

18. Related parties transactions

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

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Loans, advances and financing			
Directors and shareholders holding 10% or more interest in the Bank	31,966	35,416	35,993
Other related parties	26,932	18,277	26,055
	<u>58,898</u>	<u>53,693</u>	<u>62,048</u>
Subordinated loans			
Directors and shareholders holding 10% or more interest in the Bank	23,663	23,663	23,663
Other related parties	19,775	19,775	19,775
	<u>43,438</u>	<u>43,438</u>	<u>43,438</u>
Deposits and other accounts			
Directors and shareholders holding 10% or more interest in the Bank	144,552	288,799	143,240
Other related parties	186,065	144,306	161,701
	<u>330,617</u>	<u>433,105</u>	<u>304,941</u>
Contingent liabilities and commitments			
Directors and shareholders holding 10% or more interest in the Bank	193	314	562
Other related parties	6,686	3,260	6,203
	<u>6,879</u>	<u>3,574</u>	<u>6,765</u>
Remuneration paid to Directors			
Chairman			
– remuneration paid	16	15	16
– sitting fees paid	5	5	10
Other Directors			
– remuneration paid	108	107	108
– sitting fees paid	30	25	66
	<u>159</u>	<u>152</u>	<u>200</u>
Other transactions			
Rental payment to related parties	134	117	486
Other transactions	39	14	81
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	36	35	43

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

18. Related parties transactions (continued)

The details of senior member borrowings as per the guidance available in regulatory requirements of Central Bank of Oman are set out as follows:

Senior member of the bank

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Total exposure:			
Direct	63,964	58,863	67,434
Indirect	6,879	3,608	6,764
	70,843	62,471	74,198
Number of members	47	30	44

19. Contingent liabilities

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

	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Letters of credit	104,096	105,095	91,920
Guarantees and performance bonds	881,373	920,113	918,894
	985,469	1,025,208	1,010,814

20. Disaggregation of net fees and commission income

As of 31 March 2019	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	933	945	19	1,896
Trade services	-	1,539	231	1,770
Syndication and other financing related services	241	452	40	733
Advisory and asset management services	-	55	57	112
Net fee and commission income	1,174	2,991	347	4,512

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

20. Disaggregation of net fees and commission income

As of 31 March 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	923	890	269	2,082
Trade services	-	1,590	200	1,790
Syndication and other financing related services	380	233	79	691
Advisory and asset management services	-	135	328	463
Net fee and commission income	1,303	2,848	875	5,026

20. Disaggregation of net fees and commission income

As of 31 st December 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investment banking RO'000	Total RO'000
Transactional services	3,506	4,141	108	7,755
Trade services	-	6,446	146	6,592
Syndication and other financing related services	1,232	1,908	168	3,308
Advisory and asset management services	-	474	354	828
Net fee and commission income	4,738	12,969	776	18,483

The total of RO 18,483 thousands includes service charges income of RO 2,879 thousand included under other income as miscellaneous income.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

21. Risk Management

The interim disclosures prepared as per guidance available in regulatory requirements of the Central Bank of Oman are set out as follows:

(iii) Credit Risk

Customer concentrations

	Assets			Liabilities		
	Gross loans and financing to banks	Gross Loans, advances and financing to customers	Investment Securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 March 2019						
Personal	-	1,347,723	-	623,015	-	168
Corporate	480,804	1,629,039	40,783	1,089,528	451,097	966,883
Government	-	277,933	309,318	1,306,451	-	18,418
	480,804	3,254,695	350,101	3,018,994	451,097	985,469
31 March 2018						
Personal	-	1,446,600	42,459	609,747	-	187
Corporate	325,991	1,657,125	-	1,316,983	216,549	1,014,012
Government	-	239,939	252,712	1,230,972	-	11,009
	325,991	3,343,664	295,171	3,157,702	216,549	1,025,208
31 December 2018						
Personal	-	1,375,140	-	625,887	-	174
Corporate	329,896	1,650,688	48,101	1,118,535	368,983	999,970
Government	-	268,117	256,497	1,180,082	-	10,670
	329,896	3,293,945	304,598	2,924,504	368,983	1,010,814

22. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The capital base of the Bank consists of debt, which includes borrowings and equity attributable to shareholders of the Bank

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Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for three month period ended 31st March 2019 is 17.04% (31st March 2018 – 14.03%, 31 December 2018 – 17.33%).

Capital structure	Unaudited 31 March 2019 RO'000	Unaudited 31 March 2018 RO'000	Audited 31 December 2018 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL			
Paid up capital	299,635	243,849	280,033
Legal reserve	55,878	50,254	55,878
Share premium	95,656	77,564	95,656
Special reserve	18,488	18,488	18,488
Subordinated bonds and loan reserve	30,100	42,325	30,100
Retained earnings	11,448	8,430	11,557
Proposed bonus shares	-	-	19,602
CET I/Tier I Capital	<u>511,205</u>	<u>440,910</u>	<u>511,314</u>
Additional Tier I regulatory adjustments:			
Deferred tax Assets	(1,028)	(62)	(1,029)
Goodwill	(695)	(1,092)	(794)
Special revaluation reserve investment IFRS9	(709)	(709)	-
Negative investment revaluation reserve	<u>(1,749)</u>	<u>(448)</u>	<u>(2,271)</u>
Total CET 1 capital	<u>507,024</u>	<u>438,599</u>	<u>507,220</u>
Additional Tier I capital (AT1)	<u>155,500</u>	<u>115,500</u>	<u>155,500</u>
Total Tier 1 Capital (T1=CET1+AT1)	<u>662,524</u>	<u>554,099</u>	<u>662,720</u>
TIER II CAPITAL			
Investment revaluation reserve	146	283	134
Collective provision	39,626	19,801	43,606
Subordinated loan	33,775	21,550	33,775
Total Tier II capital	<u>73,547</u>	<u>41,634</u>	<u>77,515</u>
Total eligible capital	<u>736,071</u>	<u>595,733</u>	<u>740,235</u>
Risk weighted assets			
Banking book	3,957,678	3,914,895	3,936,646
Trading book	103,415	87,373	75,779
Operational risk	258,086	243,793	258,086
Total	<u>4,319,179</u>	<u>4,246,061</u>	<u>4,270,511</u>
Total Tier 1 Capital (T1=CET1+AT1)	<u>662,524</u>	554,099	662,720
Tier II capital	<u>73,547</u>	41,634	77,515
Tier III capital	-	-	-
Total regulatory capital	<u>736,071</u>	<u>595,733</u>	<u>740,235</u>
Common Equity Tier 1 ratio	<u>11.74%</u>	10.33%	11.88%
Tier I capital ratio	<u>15.34%</u>	13.05%	15.52%
Total capital ratio	<u>17.04%</u>	<u>14.03%</u>	<u>17.33%</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

22. Fair value information

The fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values and the related details are set out below:

31 st March 2019	Notes	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity instrument RO'000	RO'000	
					Amortised cost	Total carrying amount
Cash and balances with CBO	5	-	-	-	325,683	325,683
Loans and advances to banks	6	-	-	-	479,188	479,188
Loans and advances to customers	7	-	-	-	3,110,130	3,110,130
Investment securities	8	4,066	46,307	3,727	295,730	349,830
Other assets		-	-	-	109,088	109,088
		4,066	46,307	3,727	4,319,819	4,373,919
Due to banks	11	-	-	-	451,097	451,097
Deposits from customers	12	-	-	-	3,018,994	3,018,994
Subordinated liabilities	13	-	-	-	63,875	63,875
Other liabilities		181	-	-	131,896	132,077
		181	-	-	3,665,862	3,666,043

Other liabilities includes RO 181 thousands of derivatives financial instruments mandatorily measured at FVPTL.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

23. Fair value information (continued)

As of 31 st March 2018	Notes	Designated as at FVTPL RO'000	FVOCI – debt instruments RO'000	FVOCI – equity instrument RO'000	Amortised cost RO'000	Total carrying amount RO'000
Cash and balances with Central Bank of Oman	5	-	-	-	246,320	246,320
Loan, advances and financing to banks	6	-	-	-	325,119	325,119
Loan, advances and financing to customers	7	-	-	-	3,220,569	3,220,569
Investment securities: Measured at fair value		4,812	13,931	36,336	-	55,079
Amortised cost investment	8	-	-	-	239,950	239,950
Other assets		-	-	-	100,541	100,541
		<u>4,812</u>	<u>13,931</u>	<u>36,336</u>	<u>4,132,499</u>	<u>4,187,578</u>
Due to banks	12	-	-	-	216,549	216,549
Deposits from customers	13	-	-	-	3,157,702	3,157,702
Subordinated loans	15	-	-	-	63,875	63,875
Other liabilities	14	58	-	-	142,777	142,835
		<u>58</u>	<u>-</u>	<u>-</u>	<u>3,580,903</u>	<u>3,580,961</u>
31 December 2018	Notes	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity instrument	Amortised cost	Total carrying amount RO'000
Cash and balances with CBO	5	-	-	-	301,505	301,505
Loans and advances to banks	6	-	-	-	329,059	329,059
Loans and advances to customers	7	-	-	-	3,158,844	3,158,844
Investment securities	8	4,140	45,147	4,118	250,927	304,332
Other assets	11	642	-	-	99,271	99,913
		<u>4,782</u>	<u>45,147</u>	<u>4,118</u>	<u>4,139,606</u>	<u>4,193,653</u>
Due to banks	12	-	-	-	368,893	368,893
Deposits from customers	13	-	-	-	2,924,504	2,924,504
Subordinated liabilities	15	-	-	-	63,875	63,875
Other liabilities	14	-	-	-	129,474	129,474
		<u>-</u>	<u>-</u>	<u>-</u>	<u>3,486,746</u>	<u>3,486,746</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

23. Fair value information (continued)

Fair value measurements recognised in the statement of financial position

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

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

At 31 st March 2019	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000	Cost RO'000
Financial asset					
Investments at FVOCI	49,313	721	-	50,034	52,632
Investments at FVTPL	2,307	1,759	-	4,066	4,458
Total assets	51,620	2,480	-	54,100	57,090
At 31 st March 2018	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000	Cost RO'000
Financial assets					
Investments at FVOCI	49,580	687	-	50,267	50,369
Investments at FVTPL	2,571	2,241	-	4,812	4,524
Total assets	52,151	2,928	-	55,079	54,893
At 31 December 2018	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000	Cost RO'000
Financial assets					
Investments at FVOCI	48,810	-	721	49,531	51,319
Investments at FVTPL	2,478	-	1,662	4,140	4,440
Derivative financial instruments					
Forward foreign exchange contracts	-	642	-	642	-
Total	51,288	642	2,383	54,313	55,759

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

23. Fair value information (continued)

At 31 March 2019	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	1,512,576	-	2,216
Currency forward - sales contracts	1,505,196	2,003	-
Interest rate swaps – purchase contracts	40,005	154	-
Interest rate swaps – sales contracts	40,005	-	154
At 31 March 2018		Fair value increase / decrease	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	1,064,832	212	-
Currency forward - sales contracts	1,059,742	-	270
Interest rate swaps	82,410	-	-
At 31 December 2018		Fair value increase / decrease	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	1,217,263	-	453
Currency forward - sales contracts	1,209,823	1,095	-
Interest rate swaps – purchase contracts	41,610	652	-
Interest rate swaps – sales contracts	41,610	-	652

24. Segmental information

The Bank is organised into three main business segments:

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

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

24. Segmental information (continued)

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Included in the segment information the consolidated results of the Bank as below:

At 31st March 2019	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	19,398	25,345	4,425	49,168
Other revenues	1,020	2,866	4,495	8,381
	<u>20,418</u>	<u>28,211</u>	<u>8,920</u>	<u>57,549</u>
Interest, Islamic Window Deposit expenses	(7,639)	(12,557)	(3,038)	(23,234)
Net operating income	12,779	15,654	5,882	34,315
Segment cost				
Operating expenses including depreciation	(8,205)	(7,529)	(1,297)	(17,031)
Impairment for loans and investment net recoveries from allowance for loans impairment	(183)	(1,569)	(730)	(2,482)
	<u>4,391</u>	<u>6,556</u>	<u>3,855</u>	<u>14,802</u>
Tax expenses	(651)	(972)	(572)	(2,195)
Profit for the period	<u>3,740</u>	<u>5,584</u>	<u>3,283</u>	<u>12,607</u>
Segment assets	1,459,456	2,141,016	941,354	4,541,826
Less: Impairment allowance	(58,373)	(86,360)	(1,899)	(146,632)
Total segment assets	<u>1,401,083</u>	<u>2,054,656</u>	<u>939,455</u>	<u>4,395,194</u>
Segment liabilities	<u>665,387</u>	<u>2,535,528</u>	<u>516,127</u>	<u>3,717,042</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

24. Segmental information (continued)

Included in the segment information the results of Islamic Banking Window as below:

At 31st March 2019	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	2,209	3,428	18	5,655
Other revenues	38	348	638	1,024
	<u>2,247</u>	<u>3,776</u>	<u>656</u>	<u>6,679</u>
Unrestricted investment account holders' share of profit and profit expense	<u>(297)</u>	<u>(2,594)</u>	<u>(198)</u>	<u>(3,089)</u>
Net operating income	1,950	1,182	458	3,590
Segment cost				
Operating expenses including depreciation	(569)	(962)	(228)	(1,759)
Impairment allowance	(19)	(296)	(31)	(346)
	<u>1,362</u>	<u>(76)</u>	<u>199</u>	<u>1,485</u>
Segment assets	170,892	241,750	82,979	495,621
Less: Impairment allowance	<u>(412)</u>	<u>(4,612)</u>	<u>(219)</u>	<u>(5,243)</u>
Total segment assets	<u>170,480</u>	<u>237,138</u>	<u>82,760</u>	<u>490,378</u>
Segment liabilities	<u>60,327</u>	<u>273,970</u>	<u>43,909</u>	<u>378,206</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

24. Segmental information (continued)

Included in the segment information the consolidated results of the Bank is as below:

At 31st March 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	21,251	23,837	2,366	47,454
Other revenues	1,305	2,851	4,768	8,924
Segment operating revenues	<u>22,556</u>	<u>26,688</u>	<u>7,134</u>	<u>56,378</u>
Interest, Islamic Window Deposit expenses	<u>(8,586)</u>	<u>(13,287)</u>	<u>(1,443)</u>	<u>(23,316)</u>
Net operating income	13,970	13,401	5,691	33,062
Segment cost				
Operating expenses including depreciation	(8,447)	(6,912)	(1,143)	(16,502)
Impairment for loans and investment net recoveries from allowance for loans impairment	(474)	486	(110)	(98)
Profit from operations after provision	<u>5,049</u>	<u>6,975</u>	<u>4,438</u>	<u>16,462</u>
Tax expenses	<u>(881)</u>	<u>(1,215)</u>	<u>(774)</u>	<u>(2,870)</u>
Profit for the period	<u>4,168</u>	<u>5,760</u>	<u>3,664</u>	<u>13,592</u>
Segment assets	1,562,958	2,113,420	649,692	4,326,070
Less: Impairment allowance	<u>(71,149)</u>	<u>(51,946)</u>	<u>(1,018)</u>	<u>(124,113)</u>
Total segment assets	<u>1,491,809</u>	<u>2,061,474</u>	<u>648,674</u>	<u>4,201,957</u>
Segment liabilities	<u>656,878</u>	<u>2,683,106</u>	<u>280,592</u>	<u>3,620,576</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

24. Segmental information (continued)

Included in the segment information the results of Islamic Banking Window as below:

At 31st March 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	2,041	3,166	94	5,301
Other revenues	92	133	812	1,037
	<u>2,133</u>	<u>3,299</u>	<u>906</u>	<u>6,338</u>
Unrestricted investment account holders' share of profit and profit expense	(117)	(2,767)	(52)	(2,936)
Net operating income	2,016	532	854	3,402
Segment cost				
Operating expenses including depreciation	(1,053)	(554)	(108)	(1,715)
Impairment allowance	64	350	(110)	304
Profit for the period	<u>1,027</u>	<u>328</u>	<u>636</u>	<u>1,991</u>
Segment assets	161,489	225,524	91,858	478,871
Less: Impairment allowance	(192)	(4,094)	(157)	(4,443)
Total segment assets	<u>161,297</u>	<u>221,430</u>	<u>91,701</u>	<u>474,428</u>
Segment liabilities	<u>43,571</u>	<u>341,790</u>	<u>7,868</u>	<u>393,229</u>

Included in the segment information the consolidated results of Bank as below:

At 31 st December 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	82,641	100,746	12,935	196,322
Other revenues	4,738	12,991	16,697	34,426
	<u>87,379</u>	<u>113,737</u>	<u>29,632</u>	<u>230,748</u>
Interest, Islamic Window Deposit expenses	(35,219)	(56,264)	(5,141)	(96,624)
Net operating income	52,160	57,473	24,491	134,124
Segment cost				
Operating expenses including depreciation	(33,390)	(29,168)	(5,169)	(67,727)
Impairment for loans and investment net recoveries from allowance for loans impairment	(6,650)	349	(353)	(6,654)
Profit from operations after provision	<u>12,120</u>	<u>28,654</u>	<u>18,969</u>	<u>59,743</u>
Tax expenses	(1,920)	(4,538)	(3,004)	(9,462)
Net profit for the year	<u>10,200</u>	<u>24,116</u>	<u>15,965</u>	<u>50,281</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31ST MARCH 2019

24. Segmental information (continued)

				d)
Segment assets	1,444,926	2,086,191	818,742	4,349,859
Less: Impairment allowance	<u>(57,590)</u>	<u>(77,676)</u>	<u>(1,103)</u>	<u>(136,369)</u>
Total segment assets	<u>1,387,336</u>	<u>2,008,515</u>	<u>817,639</u>	<u>4,213,490</u>
Segment liabilities	659,296	2,408,677	434,309	3,502,282
Add: Impairment allowance	<u>9</u>	<u>12,023</u>	<u>1,014</u>	<u>13,046</u>
Segment liabilities	<u>659,305</u>	<u>2,420,700</u>	<u>435,323</u>	<u>3,515,328</u>

Included in the segment information the results of Islamic Banking Window as below:

At 31 st December 2018	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	8,531	12,724	301	21,556
Other revenues	<u>234</u>	<u>786</u>	<u>2,600</u>	<u>3,620</u>
Total	8,765	13,510	2,901	25,176
Unrestricted investment account holders' share of profit and profit expense	<u>(587)</u>	<u>(10,381)</u>	<u>(619)</u>	<u>(11,587)</u>
Net operating income	8,178	3,129	2,282	13,589
Segment cost				
Operating expenses including depreciation	<u>(3,093)</u>	<u>(3,114)</u>	<u>(927)</u>	<u>(7,134)</u>
Impairment allowance	<u>(133)</u>	<u>(242)</u>	<u>(141)</u>	<u>(516)</u>
Net profit for the year	<u>4,952</u>	<u>(227)</u>	<u>1,214</u>	<u>5,939</u>
Segment assets	170,063	235,315	111,659	517,037
Less: Impairment allowance	<u>(382)</u>	<u>(4,040)</u>	<u>(188)</u>	<u>(4,610)</u>
Total segment assets	<u>169,681</u>	<u>231,275</u>	<u>111,471</u>	<u>512,427</u>
Segment liabilities	28,432	299,472	82,884	410,788
Add: Impairment allowance	<u>3</u>	<u>528</u>	<u>-</u>	<u>531</u>
Segment liabilities	<u>28,435</u>	<u>300,000</u>	<u>82,884</u>	<u>411,319</u>