

FY22 Result Update

HOLD: 12M TP @ 0.152

Valuation Summary (TTM)

Price (RO)	0.150
PER TTM (x)	17.3
P/Book (x)	0.8
Dividend Yield (%)	3.1
Free Float (%)	55%
Shares O/S (mn)	2,996
YTD Return (%)	-14%
Beta	1.3

(mn)	OMR	USD
Market Cap	449	1,167
Total assets	4,439	11,529

Price performance (%)	1M	3M	12M
Bank Dhofar SAOG	-6%	-1%	29%
MSX 30 Index	-3%	2%	15%
Financial index	-3%	2%	17%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	27	72	83
Avg Daily Volume (,000)	123	434	588

52 week	High	Low	CTL*
Price (RO)	0.179	0.110	36.4

* CTL is % change in CMP to 52wk low

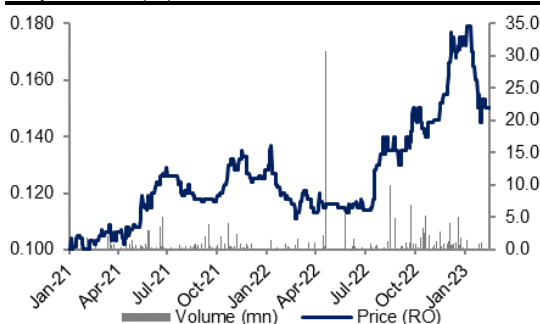
Major shareholders

DIDIC Holding	24.4%
Civil Pension Fund	10.3%
Malatan Trading Co	9.9%
Others	55.4%

Other details

Exchange	MSX
Sector	Banks
Index weight (%)	9.0%

Key ratios	2020	2021	2022
EPS (RO)	0.007	0.005	0.011
BVPS (RO)	0.180	0.181	0.160
DPS (RO)	0.006	0.002	0.005
Payout ratio (%)	86%	40%	41%



Bank Dhofar SAOG

BKDB reported FY22 net income of RO 34.2 mn a growth of 36% y/y vs our estimate of RO 36.9 mn. The operating income grew by 13.2% on full year basis. While the NIMs came exactly in line with our expectations of 3.0% the Bank achieved a significant improvement in Cost to Income ratio. The net income grew at a higher pace of 36% YoY as compared to net operating income, mainly on account of degrowth in operating expenses. Our valuations incorporate marginally higher cost of equity, which caused valuations to be lower by 7% as compared to our previous report. Hence, we cut the price target to RO 0.152 from earlier target price of RO 0.163. The board of directors of the bank have recommended cash dividend of 4.7bz/share, which results in potential yield of 3.1% at CMP. At current valuations, the stock is trading at 11.7x its FY23 earnings and 0.72x book value. We downgrade our recommendation on the stock to HOLD with target price of RO 0.152.

BKDB reported FY22 interest income of RO 184.8 mn as against RO 173.1mn in FY21, a growth of 6.7% YoY, which is below our estimates of RO 185.7 mn. The interest income growth was contributed by 2.5% growth in loan book, and marginal improvement in asset yields by 30bps to 5.6%. BKDB reported FY22 interest expense of RO 84.1 mn as compared to RO 90.3mn in FY21, and as against our estimates of RO 83.5mn. We believe the decrease in interest expense took place as a result of the Bank's efforts to reduce high-cost deposits. The deposit book de-grew by 2.8% in FY22 vis-à-vis a growth of 4.0% in FY21. Net interest income in FY22 stood at RO 100.6mn, +21.6% YoY as against RO 82.7mn in FY21.

The components of operating income mix saw a change in favor of net interest income which was at 70.3% in FY22 as compared to 65.5% in FY21. Commission/Fee income was at 10.4% vs 12.2%, whereas the other operating income was at 4.1% in FY22 vs. 6.8% in FY21. The cost to income ratio for FY22 was at 48.7% as against 57.2% for FY21, higher than our estimates of 46.9%. We see cost to income stabilizing around 46.4% going forward. The reported impairment provisions for FY22 were at RO 33.3mn as against RO 24.6mn in FY21, in line with our estimates of RO 33.1mn.

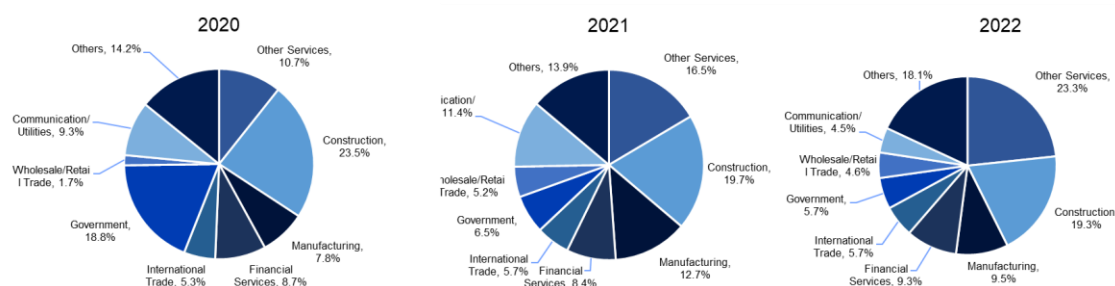
NPLs for FY22 stood at 5.87%, a jump of 76 bps over last year, above our estimates of 5.5%. Provisions grew by +29% YoY, on account of higher provision coverage in Stage 2 and Stage 3, which stood at 8% and 47.1% respectively. The Stage 2 and Stage 3 coverage for FY21 was at 4.8% and 45.9%. The Cost of Credit stood at 91 bps in FY22 as against 70bps in FY21. Net income stood at RO 34.1mn in FY22 as against net income of RO 25.1mn in FY21, a growth of 36% YoY, missing estimates of RO 36.9mn. BKDB declared cash dividend of 4.7Bz/Share, resulting in dividend yield of 3.1%.

Growth in Islamic loan book outpaces Conventional Banking loan book: The Gross/Net Loan book in FY22 stood at RO 3,646.6 / RO 3,430.4mn, a growth of 3.8% / 2.5% over the previous year. The conventional banking net loan book, which commands 84% share in the loan book stood at RO 2,880.5 mn in FY22 as compared to RO 2,855.6mn in FY21, a growth of 0.9%. Islamic banking grew at a faster pace of 12.1% and stood at RO 550.0mn in FY22 as against RO 490.6mn in FY21. The 5-year CAGR growth in net Islamic book was at 6.7% as compared to the net loan book growth of 1.7% indicating a long-term trend in favor of Islamic banking and in line with the industry. In each of the last 4 years, the growth in Islamic Banking has been higher than conventional banking book.

Loan Book Structure (in RO '000)	2018	2019	2020	2021	2022	5 yr CAGR
Conventional Loan Book	2,761,760	2,617,345	2,790,468	2,855,580	2,880,469	0.8%
<i>Growth</i>		-5.2%	6.6%	2.3%	0.9%	
Islamic Financing Book	397,084	446,005	475,020	490,643	550,017	6.7%
<i>Growth</i>		12.3%	6.5%	3.3%	12.1%	
Total Loan Book	3,158,844	3,063,350	3,265,488	3,346,223	3,430,486	1.7%
<i>Loan growth</i>		-3.0%	6.6%	2.5%	2.5%	
<i>Islamic Book Share</i>	12.6%	14.6%	14.5%	14.7%	16.0%	

The composition in terms of exposure has been in favor of corporate banking, which contributes around 65.1%, the combined conventional and Islamic banking exposure to personal loans/retail segment was at 34.9% in FY22 as compared to 36.9% in FY20. In terms of sectoral exposure within corporate banking book, services followed by construction had the highest exposure. Over a three-year period, other services has grown at 34% CAGR followed by manufacturing which grew by 10.3%, Wholesale/Retail book has grown by 43.5% CAGR on a smaller base.

Loan book composition



Stage 3 exposure inching up to 5.9%: The stage wise exposure since FY18 has seen changes in favor of stage 3 from 3.7% in FY18 to 5.9% in FY22, which indicates the deterioration of the loan book. However, the coverage for stage 3 exposure has been increasing and is at a 5 year high of 47.1% in FY22 as compared to 34.1% in FY18. We expect that going forward, there would not be any further slippage in Stage 3 exposure. The overall exposure coverage has been at 5.9% in FY22 as compared to 4.1%. The Bank has done well considering that it was impacted due to the pandemic in 2020 when the slippage in terms of quality started taking place. The management had re-iterated that they would bring the provision coverage in line with the sector average which would mean BKDB would be required to take further provisions on its bad loans in 2023 as well.



Stage wise coverage	2018	2019	2020	2021	2022
Stage 1	76.1%	69.5%	76.0%	74.2%	72.9%
Stage 2	20.2%	25.8%	19.4%	20.7%	21.3%
Stage 3	3.7%	4.7%	4.5%	5.1%	5.9%
Stage wise coverage					
Stage 1	0.5%	0.5%	0.7%	0.8%	0.5%
Stage 2	3.7%	3.2%	5.1%	4.8%	8.0%
Stage 3	34.1%	38.0%	44.1%	45.9%	47.1%
Overall Coverage	111.45%	79.58%	93.41%	93.29%	100.98%

Deposit book de-grew, however Islamic book continue to grow: The total customer deposits stood at RO 2,891.8 mn as on FY22 as against RO 2,975.6 mn in FY21, a drop of 2.8%. However, Islamic deposits grew faster by + 8.7% YoY. The share of deposits from conventional banking business stood at 83.5% in FY22. Besides a good deposit franchise, with retail segment contributing 44.8% in FY22 up from 24.6% in FY20, the Bank also has ability to tap deposits from Government and Government related entities, which stood at 37.3% in FY22.

Deposits	2021	%	2022	%	YoY
Conventional	2,538,622	85.3%	2,416,687	83.6%	-4.8%
Islamic	437,017	14.7%	475,132	16.4%	8.7%
Total	2,975,639	100.0%	2,891,819	100.0%	-2.82%
<i>of which Government</i>	<i>1,119,100</i>	<i>37.6%</i>	<i>1,078,280</i>	<i>37.3%</i>	<i>-3.6%</i>

Deposits (Amt in RO '000)	2020	%	2021	%	2022	%	3 yr CAGR
Personal	704,019	24.6%	1,249,051	42.0%	1,296,562	44.8%	22.6%
Government	845,164	29.5%	843,181	28.3%	740,172	25.6%	-4.3%
International Trade	167,727	5.9%	187,012	6.3%	46,275	1.6%	-34.9%
Construction	118,168	4.1%	96,187	3.2%	73,650	2.5%	-14.6%
Manufacturing	68,610	2.4%	77,770	2.6%	155,132	5.4%	31.3%
Wholesale/Retail Trade	33,483	1.2%	20,580	0.7%	11,155	0.4%	-30.7%
Communication/Utilities	29,134	1.0%	88,252	3.0%	83,677	2.9%	42.1%
Financial Services	77,006	2.7%	43,611	1.5%	100,287	3.5%	9.2%
Other Services	131,416	4.6%	190,556	6.4%	138,128	4.8%	1.7%
Others	686,588	24.0%	179,439	6.0%	246,781	8.5%	-28.9%
Deposit Book	2,861,315	100.0%	2,975,639	100.0%	2,891,819	100.0%	0.4%

CASA Ratio at 44.5% as of FY22: The Bank has shown an increasing trend over the last 5 years in terms of contribution of CASA in the overall deposits. From a low of 38.1% in FY18, the CASA ratio has improved to 44.5% in FY22. While the overall deposit growth has remained flat over the last 5 years, current account deposits grew by 6% on a 5 yr CAGR basis. The Bank has consciously followed a strategy of reducing high-cost deposits last year which was a significant bulk in the books and had a higher cost, this has led to the decline in total deposits. We believe this to be momentary and going forward we estimate a YoY growth rate in deposits in the range of 4%.



CASA Ratio	2018	2019	2020	2021	2022	5 yr CAGR
Current account	624,372	733,818	711,734	907,753	834,541	6.0%
Savings account	490,037	496,699	541,380	549,795	453,095	-1.6%
Other deposits	1,810,095	1,712,671	1,608,201	1,518,091	1,604,183	-2.4%
Total deposits	2,924,504	2,943,188	2,861,315	2,975,639	2,891,819	-0.22%
CASA	38.1%	41.8%	43.8%	49.0%	44.5%	

Return Metrics rebound in FY22 after decline in FY21: The Bank has improved its returns ratio for FY22 with adjusted ROE moving up to 5.0% in FY22 from 3.2%. The Return on Risk weighted Assets has moved from 0.6% in FY21 to 0.8% in FY22, with identical move in Return on Assets as well. We expect, going forward all three returns ratios to improve significantly with Adjusted RoE/ RoRWA / RoA moving to 9.1% / 1.3% / 1.3% respectively.

Q4 results update: Q422, saw a mixed performance as compared to Q322, with operating income remaining flat on QoQ basis and a jump of 26% on YoY basis. The operating expense saw a +10.7% jump on QoQ basis and -16.7% drop on YoY basis. The Bank had higher provision in 4Q21 at RO 10.2mn resulting in a quarterly loss. However during the same period in the current year, the impairment provision was lower at RO 8.5mn resulting in a profit after tax of RO 8.1mn. The PBT declined by 16.9% on a QoQ basis. The silver lining this quarter was the improvement in the cost to income ratio to 50.77% in 4Q22, which was significantly better than 76.7% in 4Q21. The cost of credit too improved from 1.02% in 3Q22 to 0.99% in 4Q22.

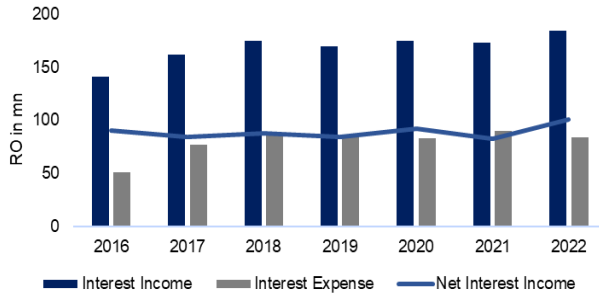
The loan book saw a jump of 3.4% QoQ and 2.5% YoY, however deposits de-grew by 2.8% on YoY basis to RO 2,891.8mn in line with the Bank' strategy of reducing high-cost deposits. We expect the Bank to grow its net loan book by 2.2% in FY23E and deposits book at 4.1% in FY23E

in RO mn	4Q22	3Q22	QoQ (%)	4Q21	YoY (%)
Operating Income	36.5	36.6	-0.2%	29.0	26.0%
Operating Expenses	18.5	16.7	10.7%	22.2	-16.7%
Operating Profit	18.0	19.8	-9.3%	6.7	166.7%
Provision Expenses	8.5	8.4	0.8%	10.2	-16.6%
Profit before tax	9.5	11.4	-16.9%	-3.5	-
Taxation	1.4	1.7	-19.7%	-0.3	-
Profit after tax	8.1	9.7	-16.3%	-3.2	-
Loan Book	3,429.2	3,317.6	3.4%	3,346.2	2.5%
Deposits	2,891.8	2,906.1	-0.5%	2,975.6	-2.8%
Total Equity	561.6	553.2	1.5%	543.0	3.4%
Cost to Income	50.77%	45.78%		76.74%	
Cost of credit	0.99%	1.02%		1.22%	
Loan to Deposit	118.58%	114.16%		112.45%	
Reported ROE	5.75%	6.98%		-2.34%	

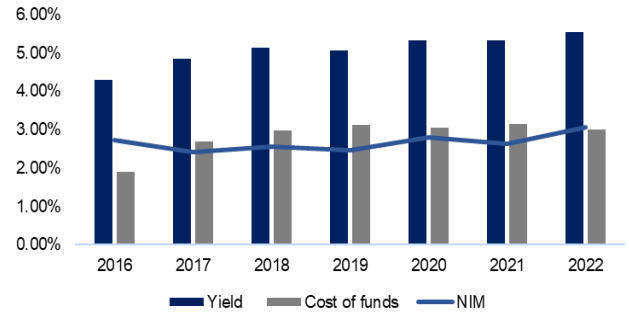
Valuations: On account of the dismal performance and lower provisioning of stage 3 loans, we cut our target price on Bank Dhofar from RO 0.163 to RO 0.152 and downgrade our recommendation to HOLD. We expect operating performance to show signs of improvement, but see challenges in managing provisioning pressures. We model credit cost of 75 bps for the bank in 2023, which would limit its profitability growth in the near term.



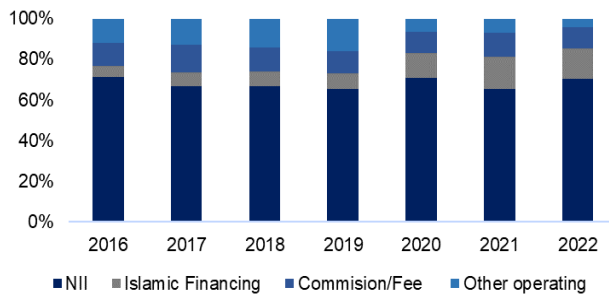
7Y CAGR growth of Interest income at 4%, Interest expenses at 7.5%, while NII grew by 1.5%



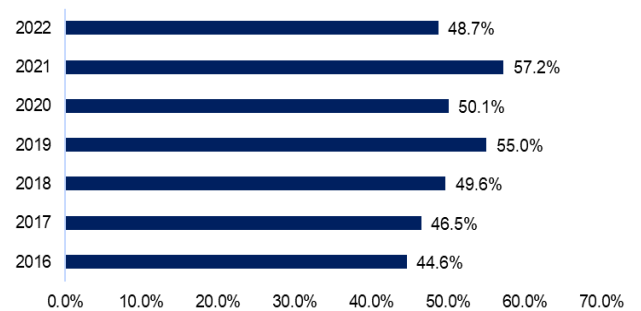
Yield, COF and NIM grew in tandem



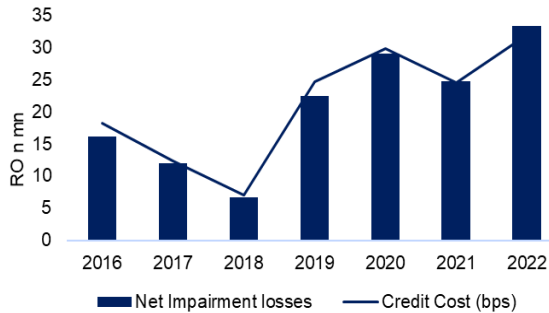
Operating Income mix seen change in favour of Islamic Financing



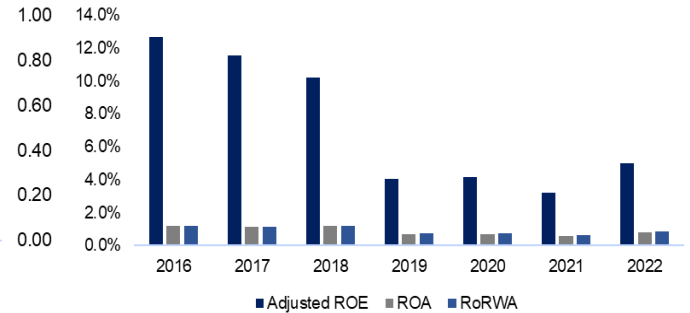
Cost to income has gone up over the years since 2016



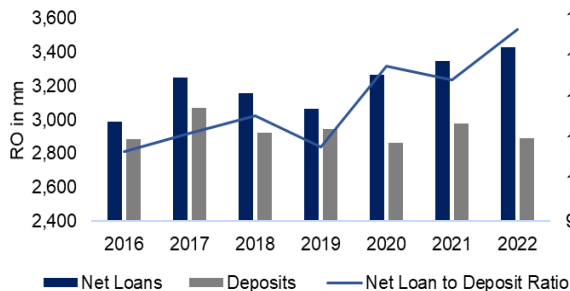
Impairment provisions and Cost of Credit spiked in 2019.....



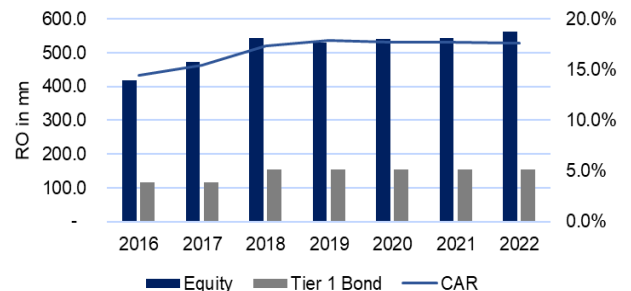
..... affecting all key returns metrics



Net Loans to Deposits ratio improved due to faster pace of growth of Net Loans as compared to Deposits



CAR has improved, no equity dilution and no tier 1 bond issuance





Income Statement (RO 000')	2018	2019	2020	2021	2022	2023E	2024E	2025E
Interest Income	174,766	170,134	174,944	173,132	184,807	200,944	204,450	217,048
Interest Expense	-86,848	-85,485	-82,725	-90,373	-84,146	-95,497	-91,523	-95,109
Net Interest Income	87,918	84,649	92,219	82,759	100,661	105,447	112,928	121,939
Non Interest Income	43,935	45,315	37,774	43,687	42,491	47,859	52,592	58,815
Net Operating Income	131,853	129,964	129,993	126,446	143,152	153,306	165,520	180,754
Operating Expenses	-65,456	-71,474	-65,079	-72,340	-69,683	-70,364	-76,616	-84,126
Provisions expense	-6,654	-22,398	-28,991	-24,651	-33,265	-28,170	-23,212	-19,924
Profit Before Taxation	59,743	36,092	35,923	29,455	40,204	54,772	65,692	76,705
Tax expense	-9,462	-5,848	-5,338	-4,332	-6,031	-8,216	-9,854	-11,506
Profit for the year	50,281	30,244	30,585	25,123	34,173	46,556	55,838	65,199
Additional Tier 1 Coupon	-7,912	-10,912	-10,144	-9,376	-9,376	-10,796	-10,796	-10,796
Profit to shareholders	42,369	19,332	20,441	15,747	24,797	35,760	45,042	54,403

Balance sheet	2018	2019	2020	2021	2022	2023E	2024E	2025E
Cash and balances with CBO	301,505	300,405	208,836	251,479	171,301	178,249	178,547	181,435
Due from banks	329,059	471,158	121,522	125,098	148,353	155,771	163,559	171,737
Loans & advances and financing	3,158,844	3,063,350	3,265,488	3,346,223	3,430,486	3,507,460	3,596,442	3,692,083
Investment securities	304,332	378,551	457,817	446,216	468,160	491,568	516,146	541,954
Fixed Assets	14,917	19,172	21,445	20,563	19,146	23,902	28,391	32,835
Other Assets	104,833	93,209	181,915	249,207	79,886	83,880	88,074	92,478
Total Assets	4,213,490	4,325,845	4,257,023	4,438,786	4,317,332	4,440,830	4,571,159	4,712,521
LIABILITIES AND EQUITY								
Due to banks	368,983	490,179	451,955	460,889	572,842	630,126	693,139	762,453
Customers' deposits	2,924,504	2,943,188	2,861,315	2,975,639	2,891,819	2,940,153	2,989,453	3,039,740
Borrowings	63,875	63,875	35,000	35,000	0	0	0	0
Other liabilities	157,966	142,448	212,889	268,739	135,594	135,594	135,594	135,594
Total Liabilities	3,515,328	3,639,690	3,561,159	3,740,267	3,600,255	3,705,873	3,818,186	3,937,786
Paid-up Capital	375,689	395,291	395,291	395,291	395,291	395,291	395,291	395,291
Other Reserves	107,811	124,928	110,899	118,805	94,193	94,193	94,193	94,193
Retained earnings	59,162	10,436	34,174	28,923	72,093	89,973	107,990	129,751
Shareholder's Equity	542,662	530,655	540,364	543,019	561,577	579,457	597,474	619,235
Tier 1 perpetual bonds	155,500	155,500	155,500	155,500	155,500	155,500	155,500	155,500
Total Equity	698,162	686,155	695,864	698,519	717,077	734,957	752,974	774,735
Total Liabilities and Equity	4,213,490	4,325,845	4,257,023	4,438,786	4,317,332	4,440,830	4,571,159	4,712,521

Cash Flow Statement	2018	2019	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	6,368	137,990	48,459	41,870	18,488	46,356	49,705	58,979
Cash flow from investing activities	-24,801	-83,998	-89,541	6,356	-23,661	-10,731	-11,586	-12,653
Cash flow from financing activities	31,009	-42,429	-50,487	-23,549	-52,774	-28,676	-37,821	-43,438
Net change in cash	12,576	11,563	-91,569	24,677	-57,947	6,948	297	2,888
Cash at the end of period	427,455	312,568	208,336	297,203	239,256	246,204	246,502	249,390



Key Ratios	2018	2019	2020	2021	2022	2023E	2024E	2025E
<u>Operating performance</u>								
Yield on average earning assets	5.1%	5.1%	5.3%	5.3%	5.6%	5.9%	5.9%	6.2%
Cost of funds	3.0%	3.1%	3.0%	3.1%	3.0%	3.3%	3.2%	3.2%
NIM	2.6%	2.5%	2.8%	2.6%	3.1%	3.1%	3.3%	3.5%
Interest income/operating income	149%	149%	158%	163%	155%	157%	151%	149%
Net interest income/operating income	74%	73%	83%	81%	86%	85%	85%	85%
Cost to income ratio	50%	55%	50%	57%	49%	46%	46%	47%
<u>Liquidity</u>								
Net loans to total deposits	96%	89%	99%	97%	99%	98%	98%	97%
Customer deposits/total deposits	89%	86%	86%	87%	83%	82%	81%	80%
Net loans to customer deposits	108%	104%	114%	112%	119%	119%	120%	121%
<u>Asset quality</u>								
Gross NPL ratio	3.7%	4.7%	4.5%	5.1%	5.9%	5.0%	5.0%	4.5%
Provision as a % of gross loans	4.1%	3.7%	4.2%	4.8%	5.9%	6.6%	7.0%	7.3%
Provision coverage	111.5%	79.6%	93.4%	93.3%	101.0%	132.4%	140.8%	163.2%
Cost of credit	20.2%	70.4%	85.0%	70.2%	91.2%	75.0%	60.0%	50.0%
<u>Capital adequacy</u>								
Tier I ratio	15.5%	16.4%	16.3%	16.8%	16.8%	17.4%	17.3%	17.3%
Tier II ratio	1.8%	1.5%	1.4%	1.0%	0.9%	0.8%	0.8%	0.8%
CAR	17.3%	17.9%	17.7%	17.7%	17.6%	18.3%	18.2%	18.1%
Net Equity to Gross Loans	16.5%	16.7%	15.8%	15.5%	15.4%	15.4%	15.4%	15.5%
Net Equity to Total Assets	12.9%	12.3%	12.7%	12.2%	13.0%	13.0%	13.1%	13.1%
<u>Return ratios</u>								
Reported ROE	12.1%	6.3%	6.3%	5.1%	7.0%	9.4%	11.3%	13.2%
Adjusted ROE	10.2%	4.0%	4.2%	3.2%	5.0%	7.2%	9.1%	11.0%
ROA	1.2%	0.7%	0.7%	0.6%	0.8%	1.1%	1.2%	1.4%
Return on Risk-Weighted Assets (RoR)	1.2%	0.7%	0.8%	0.6%	0.8%	1.1%	1.3%	1.5%
<u>Per share ratios</u>								
EPS	0.016	0.006	0.007	0.005	0.008	0.012	0.015	0.018
BVPS	0.200	0.177	0.180	0.181	0.187	0.193	0.199	0.207
DPS	0.010	0.007	0.004	0.002	0.005	0.006	0.009	0.011
<u>Valuation</u>								
Price	0.166	0.123	0.097	0.125	0.175	0.150	0.150	0.150
P/E	10.6	19.1	14.2	23.8	21.1	12.6	10.0	8.3
P/B	0.83	0.69	0.54	0.69	0.94	0.78	0.75	0.73
Dividend Yield	6.0%	5.7%	4.1%	1.6%	2.6%	4.0%	6.0%	7.3%



Key contacts

Research Team

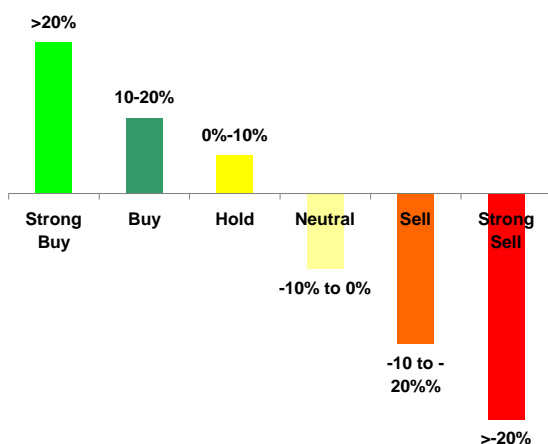
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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