Annual Report 2019

البنك الوطني العماني

NBO

His Majesty Sultan Qaboos bin Said

His Majesty Sultan Haitham bin Tarik

Contents

1

2019 Overview

Our vision:

To be the Bank of Choice

Embarking on a new era of successes, prosperity and welfare

Dear Shareholders,

On behalf of the National Bank of Oman, represented by its board of directors, we would like to express our deep feeling of sorrow and sadness as we find ourselves in the wake of the passing of our beloved His Majesty Sultan Qaboos bin Said, whose absence has surely left an immeasurable gap in our hearts. Our nation's late leader has built a solid foundation to advance our beloved country to where it is today. Therefore, the onus is now on us to continue this trajectory and achieve the hopes and aspirations for our great nation with a great sense of pride and responsibility.

The National Bank of Oman, was the first and only bank to have been granted license to operate by the late Sultan Qaboos bin Said himself and it is a privilege that we have always held with the greatest sense of respect and honour, the Bank has always been dedicated to the fulfillment of his forward-thinking vision, also of serving the Omani people and of our role in the nation's economic progression. We will be proceeding on the same path under the leadership of His Majesty Sultan Haitham bin Tarik, following his directives and guided by his wisdom, while we are embarking on a new era of successes, prosperity and welfare.

On this note, on behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to submit to you the Bank's full year results for 2019.

Rawan bint Ahmed Al Said
Chairperson

Chairperson's Report 2019

Economic developments

The year 2019 saw Oman's public finance performing better with a lower deficit for the first 10 months of the year compared to corresponding period last year, on the back of prudent expenditure management and Government's continued focus on diversification. This is despite challenges faced in the oil market with imbalance between supply and demand, and continued fluctuation in oil prices. Although the GDP has contracted in the first six months of 2019, most analysts predict Oman economy to grow at 3 percent in 2020 with World Bank predicting Oman's real GDP growth to be fastest in GCC in the years 2020 and 2021, given the rising natural gas production and the positive results from the Tanfeedh programme.

While there are clear green shoots visible in several sectors, there is cautious optimism across numerous sectors of the economy as we enter the new decade. The Oman's national budget for 2020 aims to allocate sufficient funds for key development projects and increase the share of non-oil revenues. The budget focuses on completion of infrastructure projects that will help promote economic growth and encourages private sector participation in implementing and managing projects. Emphasis on social spending and basic services such as education, healthcare, housing and social welfare continues to be a priority for the Government and similar to previous years, social spending represents the largest portion of the budget. Also new regulations issued by the Government in 2019 such as the new Commercial Companies Law, Foreign Capital Investment Law, Public Private Partnership Law, Privatization law and Bankruptcy Law are expected to significantly boost the investment climate in Oman.

The banking sector however continues to operate in a difficult environment. Liquidity pressure has not eased, resulting in higher cost of funds and asset quality issues, which forced the Bank to further tighten its lending norms. This is reflected in the lower credit growth in Oman, which for the first 11 months has grown by 3.1 per cent, while deposits have reduced by 0.33 per cent. The Moody's banking sector report published in September 2019 has maintained a negative outlook on Omani Banks, citing tightening liquidity and asset quality.

Operating performance

Given this backdrop, NBO achieved a net profit of OMR 51.4 million compared with OMR 50.6 million for the same period last year, showing an increase of 1.6 per cent.

The Bank selectively grew its loan book in the last several quarters, given its focus to onboard only good quality assets and to avoid exposure to certain sensitive sectors. Over the last couple of years, the Bank has consciously reduced its exposure to real estate and allied sectors. To partially negate the steep rising cost of funds, the Bank actively repriced its existing loan book. This has helped in growing the NII year on year by 1.8 per cent and net interest margin continues to be at a healthy 3 per cent, as a result.

The Bank continues to focus on diversifying its revenue streams, given the challenges in growing NII. Several strategic initiatives like Payments and enhancements in Trade proposition are being implemented and this will help further diversify the revenue base in the year 2020.

Operating expenses increased by 3.1 per cent year on year primarily due to mandatory staff increments and certain one-off costs. The Bank has one of the lowest growing cost bases and will continue to manage costs judiciously, while investing for approved technology/ revenue earning initiatives.

Operating profit, as a result, reduced by 3.8 per cent over corresponding period last year.

Impairment charge is higher compared to last year by 4.7 per cent despite better asset quality and this is primarily due to lower recoveries as compared to last year. In addition to this, reflective of market stress in asset quality, Stage 3 provisions have increased in our Oman business compared to last year, partially offset by reduction in Stage 1 & Stage 2 provisions. The cost of credit for 2019 at 22 bps of average assets compares very favourably to the market. Net cost of credit for the Banking sector in 2019 has increased in excess of 40 per cent year on year.

Net loans and advances to customers as at 31st December 2019 were at 2.8 billion showing a very marginal reduction over last year while customer deposits were at 2.53 billion showing an increase of 3.2 per cent over last year. In terms of deposit mix, the Bank continues to maintain healthy 58 per cent low cost deposits. As mentioned earlier, the Bank has identified certain key strategic initiatives like digital payments and enhancements to our Transaction Banking proposition which are aimed at increasing the low cost deposits for the Bank and we expect to improve the mix in the current year.

The board will be recommending a modest growth in dividends which in absolute quantum will be 5 per cent over last year. This level of dividend approximates to a dividend yield of about 10 per cent which is a key shareholder value driver. The proposed dividend is subject to approval in the Annual General meeting and by regulatory authorities.

The Bank's capital adequacy ratio as at year end, after the proposed dividend is 16.7 per cent, which compares to the regulatory requirement of 13.5 per cent.

Key achievements

Innovation has been a particularly key theme over the last year. The global finance industry is navigating through an ever-changing landscape of digital disruption. By pioneering this disruption, rather than merely reacting to it, NBO has consolidated its position at the forefront of innovation in the industry. This is evident in both the tangible output and the recognition we have received. We are already seeing the fruit of our technological labours, not only the positive response from our customers, but also in a growing accumulation of international awards for innovation and digital leadership.

The Bank was a finalist for the coveted Gartner Eye on Innovation EMEA Awards, and was also rated the Best Innovation Centre in the Asian Banker Awards. We also proudly accepted the award for Best Mobile Banking App Oman 2019 by International Business Magazine and by International Finance.

These awards are a testimony to our team's unrelenting pursuit of excellence and innovation not just for the Bank, but for Oman.

They demonstrate our unwavering efforts to provide our customers with the most cutting-edge and convenient banking solutions.

Compelling solutions

Our innovation-driven initiatives ramped up in 2019, as we introduced a number of initiatives and products that cement our position as digital leaders.

Capital adequacy ratio is

16.7%

NBO continued to thrive on its digital transformation enabling digital on-boarding of customers for prepaid card, launched Pay+ a mobile wallet in collaboration with Ooredoo, and upgraded our own e-wallet with convenient features that make digital payments even easier. In line with payment strategy we enhanced our merchant payment solution with QR based payment acceptance. Our Badeel pre-paid cards continue to go from strength to strength, picking up three awards at The Middle East Cards and Payments Leadership Awards.

Sadara, our Wealth Management and Private Banking proposition, enjoyed considerable growth, as NBO was named the Best Wealth Management Business (Affluent Segment) in Oman in the Asian Banker Oman Awards. The new Systematic Investment Plan launched by the Bank is an excellent tool to help customers invest more broadly and wisely, enabling them to build up a substantial nest egg for the future. This is part of our commitment to promote the value of savings by taking on an advisory role, and this is something we will continue to develop.

The Bank is continuing to invest in data analytics and artificial intelligence, the unveiling of the robot this year, is a symbol of our commitment to offer our customers the best of modern banking.

Our Islamic arm, Muzn, was another big performer, significantly expanding its business, winning some impressive new clients and launching a number of new products.

Strategizing for Oman's sustainable success

At NBO, looking beyond our business aspirations, we have always embraced our responsibility to contribute and add value to communities across the Sultanate. Showing our unwavering commitment towards the people of Oman we invested close to OMR 325,000 in a multitude of corporate social responsibility initiatives, making a difference to communities across the country supporting entrepreneurs and SMEs, promoting the Sultanate's tourism and sports sectors, funding key projects of national importance, inspiring women to achieve personal and professional fulfillment and inspiring the country's young population to innovate and thrive.

NBO remains committed to supporting government led initiatives and in particular, those that boost the partnership between the public and private sector.

We have supported several initiatives, conferences and programs this year also that not only promotes the Sultanate's investment climate and its economic growth but also creating platforms where knowledge and best practices are shared. In 2019, more than 200 students from various colleges and universities across the Sultanate have completed internship programs across the Bank. By fostering Oman's next generation workforce through initiatives, such as the annual internship programme, NBO hopes to inspire young people with all-important practical workplace tools and to generate the future generation of employees.

Invested almost OMR

325,000

in CSR initiatives

More than

200

students

completed internship programs at NBO

Appreciation

On behalf of the members of the Board of Directors, we would like to take this opportunity to reiterate our commitment to His Majesty Sultan Haitham bin Tarik, and remain guided by his wisdom and visionary leadership, which will lead Oman to a new era of prosperity and welfare. We would also like to express our respect and appreciation to the wise government of His Majesty, which works hard and continues on its path towards sustainable economic and social development for the sake of the welfare of Oman and its people.

I would like to acknowledge and thank our valued customers and shareholders for their unwavering support. The Bank's management team and staff continue to be instrumental to the success of NBO and I would like to thank them all for their continued dedication and commitment. I look forward to continuing our work to build a better bank. We would also like to express our appreciation to our regulators, the Central Bank of Oman, the Central Bank of the UAE and the Capital Market Authority for their continued guidance and support.

Looking beyond our business aspirations, we have always embraced our responsibility to contribute and add value to communities across the Sultanate

Board Members' Profiles

Sayyida Rawan Ahmed Al Said, Chairperson

Sayyida Dr. Rawan Ahmed Al Said is the CEO of Takaful Oman SAOG. Prior to joining Takaful Oman, she was the Managing Director and CEO of ONIC Holding Corporation. Before moving to the private sector, Dr. Rawan was the Deputy CEO-Investment for the State General Reserve Fund of Oman, leading the execution of many mega investments internationally. She has almost 30 years of experience in the financial industry, 20 of which are in the public sector.

Sayyida Rawan remains the first and only female CEO in a public listed company in Oman.

She has been a member of the Board of a number of reputed companies and financial institutions in the public and private sectors in Oman and the GCC region. As well as Chairperson at National Bank of Oman, these include Deputy Chairperson in Oman Oil Marketing Company, Board member of Oman National Investments Development Company ONIDCO (TANMIA) and its audit committee. In the public sector, she was on the Board of Oman Oil Company SOAC and its audit committee and the Chairperson of its equity and GCC funds committees. She was a Board member of International General Insurance (IGI) Jordan, and National Finance House (NFH), Bahrain, Deputy Chairperson of Orix Finance, National Life & General Insurance Company SAOC (NLIG) and Al Ahlia Insurance.

She was also a member of the investment committee of the Public Authority for Social Insurance, Board member of the Public Authority for SME Development (Riyada), Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a member of the investment committee of Orphans & Incapacitated Funds in the Ministry of Justice. She was recently appointed a Board member of the Sultan Qaboos University Council.

Awards and Recognitions:

In 2011, She was bestowed the Business Professional (BizPro) Leader Award. In 2012, was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'. In 2014, Rawan was named among the Best Chief Executives in the region by Trend in collaboration with INSEAD (The Business School for the World). Also, she was Awarded Hall of Fame by MARA Excellence Awards. In 2015, she was honored with two prestigious Awards; Asian Women Leadership of the Year from World Leadership Congress and in MENA and Business Leader of the year from the Middle East Accountancy and Finance Excellency Awards 2015. In 2016 she was honored with Honorary Doctorate Degree from Commonwealth University in UK and she was awarded as the Best Takaful CEO from Global Business Outlook, UK. In 2017 she won the best Takaful CEO-Oman, International Finance, London. Dr. Rawan ranked 3rd in Oman for Forbes the Top 100 most powerful Arab Businesswomen 2017. In 2018 She won the CEO Oman from International Finance UK and she won Oman Women of the year awards 2018 for the inspirational woman category and she ranked 3rd in Oman region for Forbes the Top 100 most powerful Arab Businesswomen 2018. In 2019 she won the most influential women award in Islamic finance from Womani, organized by Cambridge.

Sayyida Dr. Rawan has an MSc in Economics & Finance from Loughborough University in the UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University in the UK, and a BA in Economics & Political Science from the American University in Cairo.

H.E. Sheikh Abdulla Bin Ali Bin Jabor Al Thani, Deputy Chairman

Member of the Executive, Nomination and Remuneration Committee (ENRC).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (PSQC) in Qatar, a member of the Board of Directors for United Arab Bank, PJSC in UAE and is the owner of Vista Trading Company (Qatar), a partner in Integrated Intelligence Services Company (Qatar), owner of Abdulla bin Ali & Partners for real estate and commerce (Qatar) and owner of Shaza Hotel, Doha (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree BA in Social Science from Qatar University.

Ms. Amal Suhail Bahwan, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and the Board Risk and Compliance Committee (BRCC).

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group.

She is also the Chairperson and executive committee member of Al Jazeera Steel Products Co. SAOG. and Director and Board Remuneration Committee member of Oman Oil Marketing Co. SAOG.

Ms. Amal has a Bachelor's degree in Education and a Master's deg in Administration from the Sultan Qaboos University, Oman.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Chairperson of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC).

Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has 20 years of experience in the GCC. He has been a director of investment with the Ministry of Defense Pension Fund for the past eight years. Mr. Al Wahaibi is also a member of the boards of Voltamp Energy Company and ACWA Power Company.

Mr. Al Wahaibi holds a Masters of Business Administration degree, specializing in Finance. He is a Chartered Financial Analyst (CFA) charter holder, Chartered Alternative Investment Analyst (CAIA) charter holder, and has a Certificate in Investment Performance Measurement (CIPM).

Mr. Rahul Kar, Director

Chairperson of the Board Audit Committee (BAC).

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a chartered accountant and the financial advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Kar is also a Director and an Audit Committee member of Al Jazeera Steel Products Co. SAOG. He is also a Director and Nomination and Remuneration Committee member of Oman United Insurance Company SAOG.

Mr. Mohammed Ismail Mandani Al Emadi, Director

Member of the Credit Committee of the Board (CCB).

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC) and a member of the Board of Alternatifbank AS (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company QSC up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi has a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California, USA.

Mr. Fahad Badar, Director

Chairperson of the Board Risk and Compliance Committee (BRCC) and member of the Board Audit Committee (BAC).

Mr. Fahad Badar has been a Director of the Bank since May 2016. He is also a member of the Board for United Arab Bank, PJSC in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (PSQC) in Qatar spans over 20 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the international banking, the government and public sector relations and the wholesale banking divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor of Arts DegreeBA in Banking and Finance from the University of Wales.

Mr. Ghassan Khamis Al Hashar, Director

Member of the Board Audit Committee (BAC) and the Board Risk and Compliance Committee (BRCC).

Mr. Al Hashar joined NBO Board as a representative of the Public Authority for Social Insurance (PASI) in March 2017. He is currently the Authority's Director of Investments. He has over 21 years of experience in finance and investment management and represents PASI on the boards of numerous public and private companies. He is also a Board Director at National Life & General Insurance Company SAOG and Oman National Investments Development Company SAOC (TANMIA).

Mr. Al Hashar holds a Masters' degree in Finance and Investment Management.

Mr. Rashid Bin Saif Al-Saadi, Director

Member of the Board Audit Committee (BAC) and a member of the Board Risk and Compliance Committee (BRCC).

Sheikh Rashid has been a member of the Board of Directors since August 2017, and is a renowned financial and investment banker, business executive, entrepreneur and philanthropist. Sheikh Rashid is also the CEO of TANMIA, a company that actively contributes to the Sultanate's economic development.

Sheikh Rashid holds a BSc in Business Administration from Rollins College, USA. His career is marked by many significant achievements and milestones, including a 12-year period with the Diwan of Royal Court.

In 2000, Sheikh Rashid was appointed CEO of TANMIA, which was setting up its investment fund with the Muscat Securities Market. Following his appointment, the responsibility for managing the fund was transferred to the company directly, and two new funds were subsequently established: a private equity fund and a GCC investment fund. These were followed in 2013 with a Sharia fund. In addition, Sheikh Rashid also drove direct investments into various industries, including real estate development, where TANMIA played an active role in the development of the Al Mouj Muscat project, and tourism, where it played a key role in setting up the Kempinski Hotel, Muscat. In the industrial sector, TANMIA contributed to the establishment of Octal Petrochemicals, also extending into the retail sector by partnering with Al Meera Group to set up its business in Oman.

In addition to his executive responsibilities, Sheikh Rashid is the Chairman of Board of Directors of Takaful Oman SAOG and Chairman of Board of Directors of Taajeer Finance Co. SAOG. He is Chairman of the Board of Directors of Oman Hospitality CO SAOC, Chairman of the Board of Directors of Oman Aviation Academy, Deputy Chairman of Minerals Development Oman SAOC and Deputy Chairman of Nakheel Oman Development Co. He is also Director of A'saffa Foods SAOG and Director of Al-Mouj Muscat SAOC, Chairman of the Board for the Waqf Charity Foundation and a Director of Orphans Fund Investments Committee.

Mrs. Najat Ali Al Lawatia, Director

Member of Credit Committee of the Board (CCB).

Ms. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting and has attended various courses in diverse fields of financial management, audit and investments. She is the Deputy Director General for Support Services with the Civil Service Employees Pension Fund and has more than 20 years of relevant experience.

Ms. Najat is also a Director and Chairperson of the Audit Committee of Oman Cement Company SAOG.

Mr. Joseph Abraham, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and Credit Committee of the Board (CCB).

Mr. Abraham was appointed as a Board Member in May 2018. Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets.

Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California, and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles, with a successful track record covering general management, corporate banking, strategy, product management, acquisitions and integrations.
Mr. Abraham was appointed as a Board Member of Alternatif Bank in December 2016.

Executive Management

We work to empower the next generation to thrive in a rapidly changing world by supporting their financial lives and giving them the tools to build a successful future

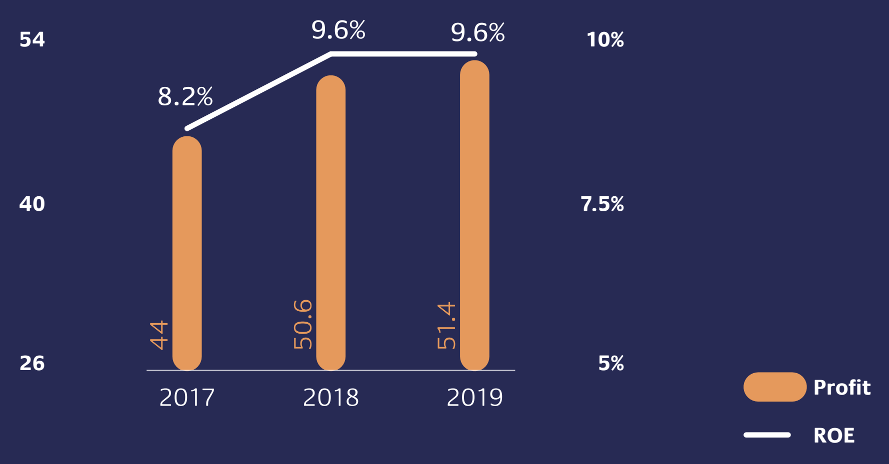
From left to right:

Ananthraman Venkat: GM - Chief Financial Officer, **Stephen Clayton:** GM - Head of International, **Hassan Abdul Amir Shaban**: GM - Chief Government Banking Officer, **Nasser Mohammed Al Hajri**: GM - Chief Operating Officer, **Al Sayyid Wasfi Jamshid Al Said:** Acting Chief Executive Officer, **Nasser Salim Al Rashdi**: GM – Chief Commercial Banking Officer, **Salma Salim Said Al Jaaidi**: GM - Chief Risk Officer, **John Chang**: GM – Chief Retail Banking Officer, **Faizal Mohamed Eledath**: GM - Chief Transformation Officer

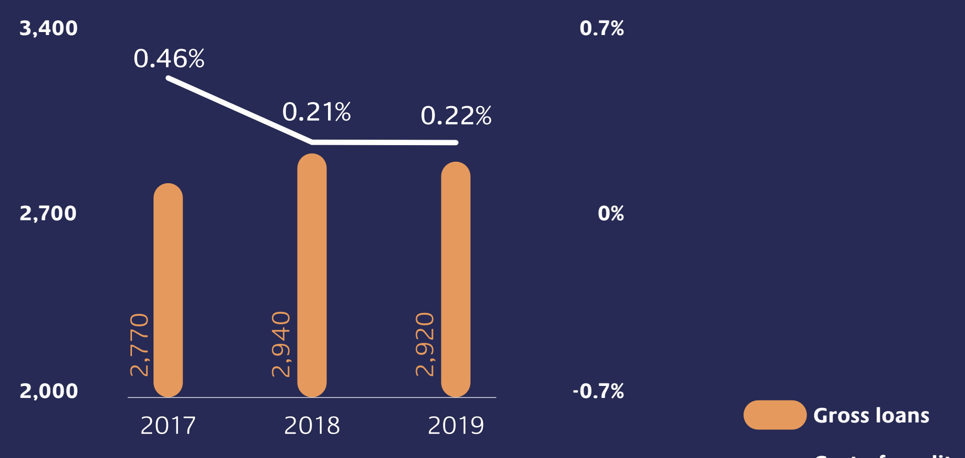
2

Management Discussion and Analysis Report

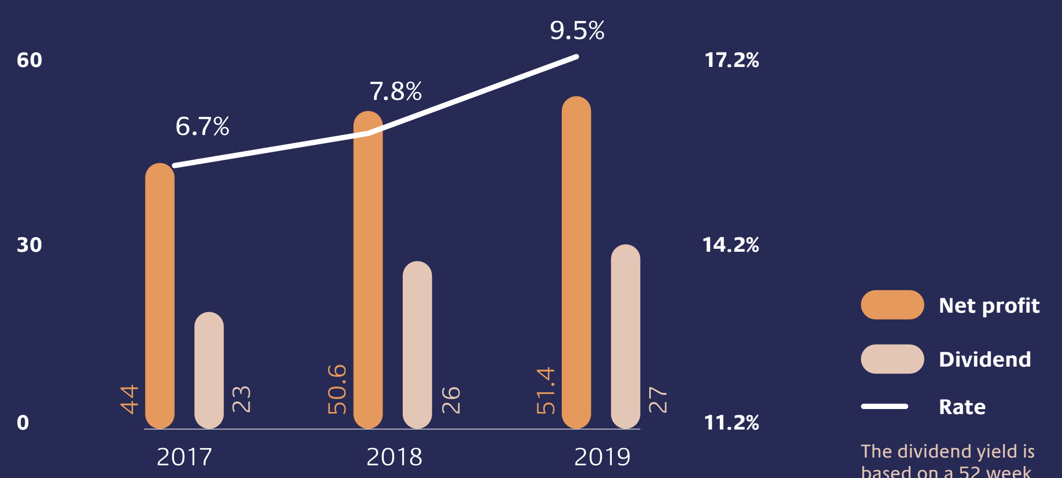
Steady earnings and returns to shareholders



Resilient asset quality and conservative approach

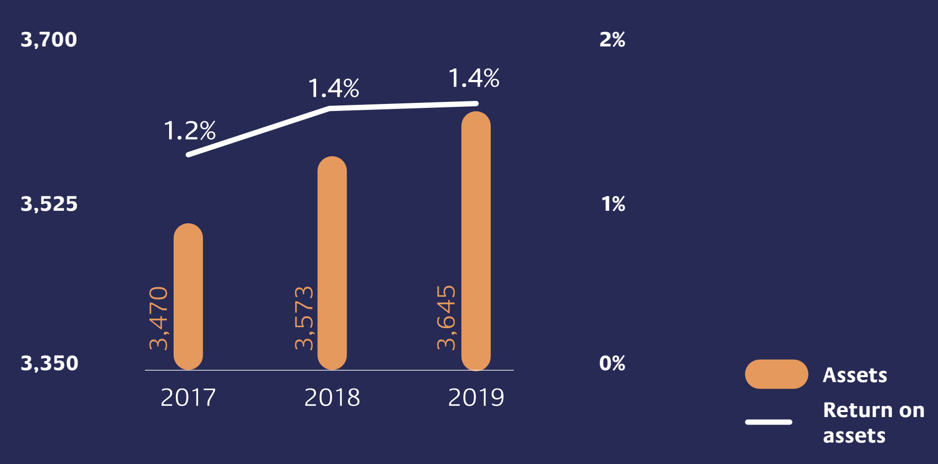


Consistent dividend payout and value creation to the shareholders

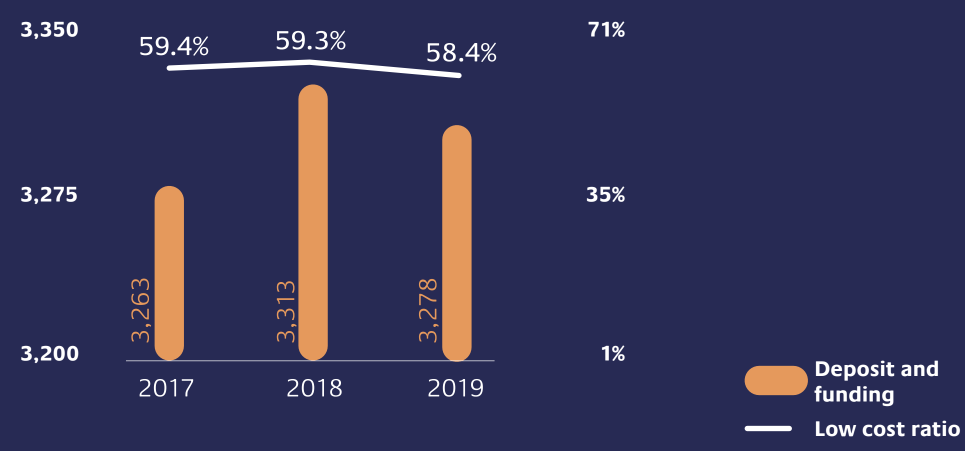


The dividend yield is based on a 52 week average price.

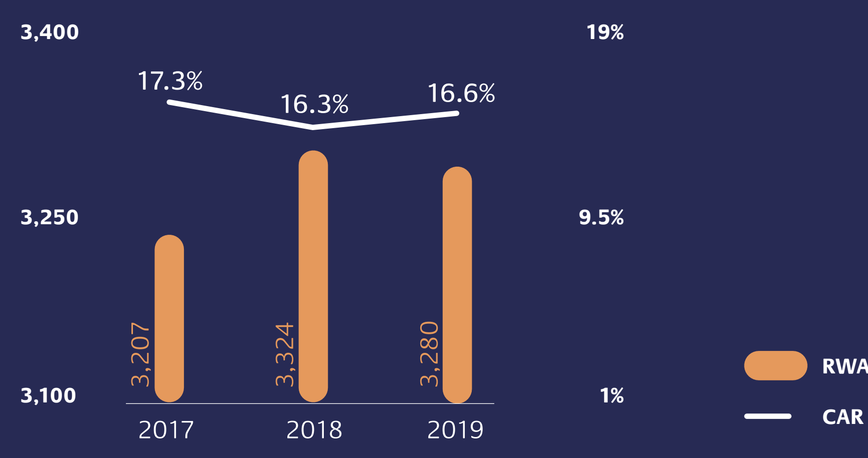
Consistent return on assets



Maintaining stable funding



Strong capitalization



Our strategy focuses on positioning the Bank to deliver a vastly superior customer experience and excel in yielding sustained long term shareholder value

Al Sayyid Wasfi Jamshid Al Said
Acting Chief Executive Officer

Management Discussion and Analysis Report

Management Discussion and Analysis

We find ourselves coming to terms with the passing of our beloved Sultan Qaboos bin Said, whose absence has surely left an immeasurable gap in our hearts. His legacy and achievements for our nation will forever live on, and guide us as we set foot in a new era. We now look forward and the best way we can honor him is by preserving his achievements and ensuring we build on them as individuals and as a country, under the leadership and guidance of His Majesty Sultan Haitham bin Tarik.

A sustainable strategy for long term success

It was a challenging time for the banking sector in Oman during 2019, reflecting uncertainty both locally and in the wider regional economy. For much of the year, the country's economic performance was muted. In the banking sector, on-going liquidity pressures contributed to higher costs of funds, and asset quality issues continued to focus attention on many banks' lending strategies.

Although, like all banks, our performance was impacted by these issues, these sectoral challenges have in fact only served to highlight the prudence and effectiveness of NBO's approach.

Over the past 12 months, we have been agile in adapting to changes in the economy and responding to regional challenges. Our portfolio of corporate customers is among the best constructed, with a healthy level of diversification. Our retail underwriting standards are very robust, with a very low proportion of non-performing loans and our UAE operations, with a new management team in place, are primed for growth.

Financially, we demonstrated our consistent performance in 2019, achieving net profits of OMR 51.4 million compared to 50.6 million over the same period last year, representing a marginal increase of 1.6 per cent.

We have successfully managed our exposure to high-risk sectors such as real estate and construction, and we have achieved growth in net interest income of 1.8% in spite of the difficulties in the market, we have been able to maintain shareholder returns, while avoiding excessive risks. The 9.6% return on equity we achieved, for example, is one of the best in the market, while our average credit loss as a percentage of assets is around half the market average.

Despite the adverse environment, by maintaining a moderate risk appetite, with a focus on preserving capital and being selective in our lending, we have strengthened perceptions of NBO as a reliable, "safe haven", well positioned to capitalize on opportunities as the economic outlook improves.

Our new corporate strategy, which was approved by the Board in mid-2019, prioritizes long-term stability and profitability over short-term gain. To achieve this, we are focusing on three core themes: brand, people and digital, all centered around one strategic objective: to make NBO the clear market leader for customer experience and satisfaction.

Building a brand for the future

NBO was Oman's first local bank, established in 1973 to support the country's development. As such, the NBO brand enjoys a special position in the market and a unique platform to reach investors, business and trade partners.

The growth of our brand reflects the growth of Oman itself, as we work to empower the next generation to thrive in a rapidly changing world by supporting their financial lives and giving them the tools to build a successful future.

Our network of more than 60 branches in key strategic locations, plus our award-winning landmark headquarters on a prime site in Muscat's commercial district, ensure our footprint and our profile are stronger today than they have ever been. We are rightly regarded as the national bank and our brand conveys a sense of stability, credibility and respect that none of our peers can match.

One of our priorities over the past five years has been to rejuvenate our brand to engage younger customers by associating NBO with the concepts of ambition, achievement and innovation. We continued our strong progress towards this goal during 2019.

Today we have a dominant market position in the youth segment in Oman. Our youth customer base is now five times larger than it was five years ago and the most recent Oman Economic Review brand survey showed significant gains for our brand appeal among major segments of the Omani population, with NBO moving up from fourth to second place in the rankings. At the same time, our social media campaigns continue to attract millions of views with our engaging, emotion-driven content.

Going forward, our task is to retain this important customer-base as they grow, professionally and personally, and their banking needs change.

Our brand appeal has significantly increased, we are now ranked second among major segments

Leveraging the potential of our people

Our People are at the heart of our strategy, they are the custodians of our core values and help shape an inspiring performance culture by putting the right systems and interventions in place. We have an unwavering belief that people are the most critical part of being successful, strategically and competitively, in any market. We have embedded it into our corporate strategy, which can only succeed with the hard work, commitment and dedication of our people, at all levels of our organization.

This is why we are committed to being the employer of choice in Oman, as well as the Bank of choice. We strive to ensure that the 1500+ members of our team have enough opportunities to achieve their potential in their careers, our strategy is to recruit the best and then do all we can to retain them. By guiding and supporting our employees to reach their full potential with us, helping them to identify and secure new roles and opportunities, we are building a solid base of talent to drive our future growth.

It is not just about numbers and KPIs. We take a more nuanced, individual approach to understand an individual's motivations, strengths and weaknesses. There is a strong focus on internal advancement and opportunities. Everyone knows what is expected of them and what choices are available to them in terms of more responsibilities, promotion, or job changes. We make sure they have all the resources, training and support to enable them to be purpose driven, perform at their best, and to contribute their ideas and creativity to the success of NBO.

Digital pioneers

NBO has established a fast-growing reputation as a pioneer in digital banking in Oman. We recognize that digitalization is the enabler for how we continue to transform our operations, leverage the strength of our people, innovate with our products and services, and meet the needs of new and existing customers.

For a growing number of people, digital banking – whether online or mobile – is just a natural way to manage their finances. At NBO, we have long recognized this fact and invested in providing a digital customer experience that matches people's preferences and expectations, in terms of ease of use, accessibility and functionality. The Bank has focused on simplifying the journeys and offerings for its customers and has aggressively adopted the use of customer journey mapping and design thinking to deliver a great experience for our customers across physical and digital assets.

Our digital channels now account for more transactions than our branch network, as we make it simple and easy for customers to engage with us digitally. This not only translates to more digitally-engaged customers, but also to higher returns per customer. Mobile banking revenues alone rose by 58% in 2019 compared to 2018 and the number of active digital users increased by 32%.

Digitalization is not only the channel through which we can deliver better, more efficient products and services. It is also a conduit for strengthening our understanding and insights into our customers. This in turn enables us to better tailor our offering to them and better integrate into their daily lives, so banking with NBO becomes a natural, seamless part of what they do.

One of the highest profile innovations we introduced in 2019 was the AI-enabled robot in our Muscat headquarters branch, answering questions and providing information on products and services in simple, natural language. More than a gadget, it's a symbol of our commitment to offering the best possible customer experience and reaffirms our reputation as a leader in innovation in the banking industry.

Mobile banking revenues rose by

58%

in 2019

With our focus on digital we continue to invest in innovations in areas of robotics, artificial intelligence, machine learning

Enhancing the customer experience

In line with this objective, in 2019 we became the first bank in Oman to offer fully digital on-boarding for new Badeel prepaid card customers. This enables both new and existing customers to apply for a Badeel card from anywhere, 24/7, via the mobile app. The entire application process is handled through the app, including identity verification and security, and the card is mailed to the customer directly, with no requirement to visit a branch.

Best Mobile Banking App x2

- International Finance Awards
- International Business Magazine

The Badeel card itself continued to be hugely successful in attracting new customers, winning three awards in 2019. It now accounts for the second largest number of cards in the Bank after debit cards, with the most comprehensive product suite and card benefits in the market.

The success of Badeel is part of our strategy to be the default payments bank in Oman for both retail and corporate business. As such, our merchant network continued to grow in 2019. We introduced new innovations such as wireless POS terminals, the first in the market, and QR Code payments, another first, both providing more convenience and richer sales data for merchants and a faster, seamless user experience for customers. As a result, we achieved a 41% increase in the number of new POS during the year and an 11% increase in the average POS transaction value.

Badeel awards x3

- Best Prepaid Card
- Best Prepaid Product
- Card Innovation of the Year

Middle East Card and Payments Leadership Awards 2019

In addition, we introduced a 'lite' version of our mobile banking app aimed at blue-collar workers and available in six languages. Average transaction values may be small, but the volume is high, bringing a whole new cohort of customers into the NBO ecosystem.

We also leveraged our digital and financial services expertise to partner with Ooredoo, one of the largest telecom provider in Oman, to launch a new mobile payments wallet, Pay+. Fast, simple and secure, Pay+ enables customers to make a wide range of transactions from a single app on their smartphone. By partnering with Ooredoo, along with technology partner Paytm, we are able to capitalize on its large existing customer base in Oman, in line with our overall digital payments strategy.

Best wealth management segment (Affluent Segment)

Asian Banker Awards 2019

Diversifying our income streams

This commitment to optimizing the customer experience extends to every segment of our customer base.

Our revamped Sadara (wealth and private banking proposition) continued its upward trajectory in 2019, and the number of investment clients overall increased an impressive 70% over 2018.

We have strengthened our wealth advisory services and established a home-grown capability to manage the portfolios of high net worth clients through a more personalized, higher value approach. Sadara clients know they can turn to us for the full range of investment advice, private banking needs and the widest range of wealth management products in the market. The new Systematic Investment Plan launched by the Bank is an excellent tool to help customers invest more broadly and wisely, enabling them to build up a substantial nest egg for the future. This is part of our commitment to promote the value of savings by taking on an advisory role, and this is something we will continue to develop.

Similarly, our Mazaya proposition is rapidly gaining traction by offering the same kind of personal, relevant investment advice to other segments of our customer base. As is our new Systematic Investment Plan, which allows customers to invest as little as OMR 100 every month in specified securities, with the advice and guidance of our dedicated investment team.

Our revamped Al Kanz low cost savings account, which includes regular draws for savers to win big cash prizes, is also proving to be a powerful tool to motivate customers to build their wealth through savings.

By providing innovative, tailored services and advice, we are gradually changing people's perceptions from "how much can I borrow?" to "what is the best way to build for tomorrow?", in line with the Government's own efforts in this area.

Another area of the Bank to enjoy significant growth in 2019 was our Muzn Islamic Banking proposition, the first Islamic banking platform in Oman and the first in the Gulf to be headed by a woman.

By providing a more focused and unified approach to customers, and closer alignment and co-working with NBO's corporate and business banking teams, Muzn is one of the year's big success stories, with net profit up 2.25 times. Flagship deals included the OMR 20 million Maryad development in Muscat, the first female residential commercial compound in Oman.

It also launched a number of new products, such as a Kids Wakala savings account.

This performance, together with lower costs and a much improved cost-to-income ratio, contributed to a good growth in operating profits at Muzn.

Focusing on the fundamentals

Perhaps more than any other area of the Bank, our corporate and business banking groups are directly impacted by the wider economic environment in Oman and the UAE corridor. The uncertainties and lack of capital expenditure in the market in 2019 inevitably fed through into transaction levels. Nevertheless, the corporate team achieved growth in terms of volume – assets have withstood the stress in the market, with little or no deterioration in value and strong visibility of cash flows. Our exposure to real estate risks is among the lowest in the market and more effective cross-functional working has enabled us to move from a transaction-focused approach to one that is more advisory led, enabling us to offer holistic solutions based on a deeper understanding of a customer's end-to-end banking requirements. This helps the Bank move away from the traditional sales based approach of offering corporate credit to providing an entire bouquet of products and services addressing most of financial services requirements of a corporate be it borrowing, trade finance, cash management, remittances, investment banking, security services etc. to the client.

Government banking is our backbone, accounting for around 35% of our deposit base. Our corporate internet banking platform – now available in both Arabic and English – is without rival and allows government entities to conduct their banking business with us effectively and efficiently.

Recognizing the benefits of our platform, several major government clients, including the Ministry of Defense, Ministry of Housing, Ministry of Transport and Royal Oman Police, expanded their scope of work with NBO in 2019 and now use our platform for the majority, if not all, of their transactions, including salaries, remittances, tendering, and international payments and purchasing. New clients this year included Muscat Municipality and the Ministry of Manpower, along with major MOU's with Sohar and Salalah industrial / free zones for NBO to be the financial partner for businesses looking to invest.

Our prestigious headquarters building in Muscat is also developing a reputation as a government hub, hosting a regular program of government events, workshops, training sessions, conferences and meetings.

We also work closely with partners such as Oman Banking Association and several government entities to help spread a culture of saving, producing a range of material and initiatives to promote financial inclusion, trying to reach out to previously unbanked sections of the society, creating awareness and sharing knowledge of the benefits of banking relationships and educating them as to how better they can assess and plan for their financial needs. We have organized workshops, roadshows to schools, colleges, labour camps, remote areas to educate students, youth and blue-collared workers on banking and financial planning. Our branch network gives us an added advantage to reach out to citizens for their banking needs in various parts of Oman. Our association with the Muscat and Khareef festival gives us an opportunity to not only be part of the mega events which showcases the best of Oman's culture and heritage but also provides us with a unique opportunity to reach out to thousands of customers and deepen our engagement with the public.

Innovations like Badeel, Pay+, our 'lite' mobile app are also part of our strategy to reach out to the unbanked population of Oman. Our aim is to make it simpler and easier for them to access banking products and services and increase their awareness and understanding of the benefits of banking.

Controlling costs

Throughout 2019, we have continued to manage costs carefully, keeping the growth in our cost base at a low, strategically acceptable level. At the same time, we have ensured that our effective management of costs has not compromised our ability to generate revenues or implement our investment plans.

Part of this is about leveraging our strength as a national bank to make sure we are getting best value from our partners, such as landlords or suppliers. The other element is about investing in areas such as technology and innovation that enable us to create efficiencies elsewhere in our business.

Given that 60% of our costs are staff costs, our focus on costs also ties into our people strategy of retaining, training and empowering our staff to be the best they can be. Reflecting this, our Academy of Excellence organized over 400 training courses and delivered more than 10,000 training days in total in 2019. The Academy offers a range of training and development courses, including professional certifications, online programs delivered through e-learning, one-on-one coaching and on-the-job training.

We also hosted more than 200 interns as part of our internship program, reiterating our commitment to creating job opportunities for young Omanis that will further advance the economic and social development of Oman, in line with the Vision 2040 national development plan.

Investing in innovation

We believe innovation is central to the future development of Oman and we are committed to supporting entrepreneurial businesses and the people behind them.

10,000+
Training days
in 2019

Our ibtikar innovation program sees teams of employees competing to win development funding for their ideas and prototypes, showing how their innovation and ambition can make a tangible contribution to our business. It has been running for six years and has generated dozens of ideas that have helped to improve efficiencies and streamline our services. Our 100% online on-boarding functionality for Badeel pre-paid cards came out of ibtikar, as did our QR-based payments and AI-enhanced anti-fraud mechanisms.

One innovation - 'Marketplace', which enables our merchant customers to target relevant offers and deals to retail customers using their NBO cards – was one of only nine EMEA finalists for Gartner's prestigious "Eye on Innovation" award, while ibtikar itself was named Best Innovation Center in Oman in the Asian Banker awards.

NBO Marketplace
Finalist in Gartner Eye on Innovation awards 2019

In 2019, for the first time, we combined the final round of ibtikar with our annual Hackathon in our first NBO Innovation Day. The event attracted more than 600 student developers, coders, programmers and designers, focusing on three themes: Industry Collaborations, Livable Cities and Easy Banking, and Easy Banking - inspired by Oman's Vision 2040 national priorities.

Ibtikar
"Best Innovation Lab in Oman"
Asian Banker Awards 2019

The Innovation Day was part of our commitment to encourage innovation and support Oman's young and talented minds. As is our 'Innovation in SME Award', which aims to engage with local entrepreneurs and SMEs, to help them turn their next great business idea into a commercial reality.

The Bank is continuing to invest in Business Intelligence that provides analytical services to various functions of the Bank. This helps to monetize data assets of the Bank for risk management, growth and operational optimization. The BI team continues to focus in Artificial Intelligence (AI) & Machine Learning (ML) along with traditional analytics in decision making of different businesses across Retail and Wholesale Bank.

Strategy for sustainable success

The Bank's risk management framework is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The Bank has adequate internal controls and processes in place with respect to its financial statements which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. These controls and processes are driven through various policies, procedures and certifications. The Bank continues to focus on refining and improving its risk measurement systems including automation of processes, not only to ensure compliance with regulatory requirements, but also to ensure better risk-adjusted return and optimal capital utilisation. The Board reviews the risk profile of the Bank at periodic intervals and ensures that risk levels are within the defined risk appetite.

We appreciate the support and guidance of our industry regulator, the Central Bank of Oman, which holds all banks in the Sultanate to the highest standards of governance, and we thank the Central bank of UAE for its continued support. We engage closely with our stakeholders on corporate governance issues and our annual audit ensures we adhere to regulations and comply with all changes introduced to support banks in this challenging environment.

As we look ahead to 2020, there are some signs of green shoots of recovery in the economy. But irrespective any improvement in the market, we are confident that the path we are on is the right one to secure stable, long term growth and weather any future economic turbulence.

The repositioning of our business is in line with our objective to strengthen our position as the Bank of choice in Oman. We have cemented the building blocks of a more resilient, sustainable growth model, based on a relentless focus on our customers' needs, diversifying our income, careful cost management and the potential of our people. Our priority is to deliver a solid, dependable bank that is ideally positioned for sustainable success and consistent shareholder returns. We look forward to continuing to support the development of Oman and its people as we drive forward in our mission to build a bank fit for the future.

We are committed to support and empower Oman's young and talented minds, paving the way for them to follow their passion and lead the way into the future

3

Corporate Governance Report

EY
Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING
TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of National Bank of Oman SAOG (the "Bank") as at and for the year ended 31 December 2019 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Bank includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2019. The Bank's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of National Bank of Oman SAOG to be included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of National Bank of Oman SAOG, taken as a whole.

Ernst & Young LLC

Muscat
9 March 2020

إرنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Board of Directors

Corporate Governance Report – 2019

Corporate governance deals with the way companies are managed and led. It defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (NBO, or the Bank) supports the fostering of a healthy governance culture at the Bank.

Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (CMA) Code of Corporate Governance (the Code) as amended for Muscat Securities Market (MSM) listed companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO) and the new Commercial Companies Law (CCL) of Oman which came into effect in April 2019.

The Bank received the following awards and accolades during 2019

- **Best Mobile Banking App Oman by International Business Magazine**
- **Best Mobile Banking App Oman by International Finance Awards, Banking**
- **Top 25 Companies in Oman by Oman Economic Review**

- **Best Wealth Management Business (Affluent Segment) by Asian Banker Awards Oman**
- **Best Innovation Centre Award by Asian Banker Awards Oman**
- **NBO was also runner up in the prestigious 2019 Gartner Eye on Innovation Awards**

- **2019 Card Innovation of the year by GCC Africa Leadership & Excellence**
- **2019 Prepaid Product of the year by GCC Africa Leadership & Excellence**
- **2019 Prepaid Card of the year by GCC Africa Leadership & Excellence**

In accordance with the directives of the CMA Code, this corporate governance report is included separately in the annual report, which is duly certified by the statutory auditors.

Members of the Board and its committees bring appropriate knowledge, experience and independent judgment to Board meetings and in passing resolutions

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include approving the business objectives of the Bank, approving the strategies and policies for achieving these objectives, and continually reviewing the performance of the Bank in relation to its stated objectives and adherence to policies.

Appointment of Directors

The Board comprises 11 members who were elected by the shareholders in March 2017 for a period of three years. The current term of all the Directors will expire at the end of March 2020.

Process of nomination of the Directors

The nomination of Directors is as per Articles 29 to 34 of the Bank's Articles of Association and also in accordance with CBO, CMA, Ministry of Commerce and Industry (MOCI) CCL and MSM regulations. The Executive, Nomination and Remuneration Committee (ENRC) reviews the appropriate skills and characters required of the Board members and recommends suitable names to the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or otherwise.

Characteristics and core competency of the Board

Members of the Board and its committees bring appropriate knowledge, experience and independent judgment to Board meetings and in passing resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the Executive and Senior Management of the Bank.

Information given to the Board

The Directors are given appropriate and timely information so they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank in an induction pack and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is the Sultanate of Oman or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board members in line with the Code's requirements:

Table (1)

Name of Director	Representing	Category of the Director*
Sayyida Rawan Ahmed Al Said – Chairperson	Herself	NEX-IND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	The Commercial Bank - Equity Investor	NEX-NIND
Ms. Amal Suhail Bahwan – Director	Suhail Bahwan Group Holding - Equity Investor	NEX-NIND
Mr. Hamad Mohammed Al Wahaibi – Director	Himself	NEX-IND
Mr. Mohd Ismail Mandani Al Emadi – Director	Himself	NEX-NIND
Mr. Rahul Kar – Director	Himself	NEX-IND
Mr. Fahad Abdul Rahman Badar – Director	Himself	NEX-NIND
Mr. Ghassan Khamis Ali Al-Hashar – Director	Public Authority for Social Insurance - Equity Investo	NEX-IND
Mrs. Najat Ali Al Lawatia – Director	Civil Service Pension Fund - Equity Investo	NEX-NIND
Mr. Rashid A Saadi	Himself	NEX-IND
Mr. Joseph Abraham	Himself	NEX-NIND

*NEX: Non-Executive Director, IND: Independent, NIND: Non-Independent

As per the CMA guidelines, five Board members are currently considered as independent (which is more than one third of the Board) as per the required minimum number of independent directors as stated in the Bank's Articles of Association and the CCL.

Table (2)

Name of the Director	Other Board Committees Membership*	No. of other S.A.O.G Boards memberships	No. of Board meetings attended	Attended last AGM on 25th March 2019
Sayyida Rawan Ahmed Al Said – Chairperson	ENRC	1	11	Yes
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	ENRC	NIL	11	Yes
Ms. Amal Suhail Bahwan	ENRC / BRCC	3	10 (2 by proxy)	Yes
Mr. Mohd Ismail Mandani Al Emadi	CCB	NIL	11 (2 by proxy)	Yes
Mr. Hamad Mohammed Al Wahaibi	CCB / ENRC	2	11 (2 by proxy)	Yes
Mr. Rahul Kar	BAC	2	11 (1 by proxy)	Yes
Mr. Fahad Badar	BRCC / BAC	NIL	11 (1 by Proxy)	Yes
Mr. Ghassan Al-Hashar	BAC / BRCC	1	11 (2 by proxy)	Yes
Mrs. Najat Al Lawatia	CCB	1	9	Yes
Mr. Rashid Al Saadi	BAC / BRCC	3	11 (3 by proxy – non-consecutive)	Yes
Mr. Joseph Abraham	ENRC / CCB	NIL	11 (1 by proxy)	Yes

*ENRC: Executive, Nomination and Remuneration Committee / BAC: Board Audit Committee / CCB: Credit Committee of the Board / BRCC: Board Risk and Compliance Committee

The Board comprises of 11 members

Elected by the shareholders in March 2017

For a period of 3 years

Number and dates of Board meetings

NBO held 11 Board meetings during 2019: January 29, March 25, April 29, June 12, June 21, June 27, July 30, September 18, October 29, December 11 and December 12, 2019. The maximum interval between two meetings was 55 days. This is in compliance with the current regulations, which require meetings to be held within a maximum time gap of four months.

Remuneration to Board and top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the currently active top five senior managers of the Bank in 2019 is RO 1,533,225/-.

Staff service contracts are two years for expatriate officers and determined by the prevailing labor laws for Omanis. The notice period is between one to three months for existing contracts.

As all members of the Board are Non-Executive Directors, accordingly no fixed remuneration or performance linked incentives are applicable.
The Non-Executive Directors are paid sitting fees and reimbursement of expenses for attending the Board and Committee meetings. In addition to the sitting fees paid, the total remuneration for the Directors in 2019 is RO 90,400.000, subject to the Annual General Meeting approval proposed to be held on March 25, 2020.

The details of the sitting fees paid or accrued for payment during 2019 are as follows:

Table (3)

Name of the Directors	Total fees RO
Sayyida Rawan Ahmed Al Said – Chairperson	10,000*
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	10,000*
Ms. Amal Suhail Bahwan	9,600
Mr. Mohammed Ismail Mandani Al Emadi	10,000*
Mr. Hamad Mohammed Al Wahaibi	10,000*
Mr. Rahul Kar	10,000*
Mr. Fahad Badar	10,000*
Mr. Ghassan Al-Hashar	10,000*
Mrs. Najat Al Lawati	10,000*
Mr. Rashid Al Saadi	10,000*
Mr. Joseph Abraham	10,000*
Total	**109,600**

*The total amount of sitting fees that can be paid to a Director during a financial year is RO 10,000 according to current regulations.

11

Board meetings

in 2019

The total training, hotel and travel expenses related to Board Members during 2019 is RO 44,828.

Board committees

As at the end of December 2019, the Board of Directors has four standing committees: Executive, Nomination and Remuneration Committee (ENRC), the Board Audit Committee (BAC),, the Board Risk and Compliance Committee (BRCC) and the Credit Committee of the Board (CCB).

Board Audit Committee (BAC):

The BAC comprises of four members, three of whom are independent and one is non-independent. The committee met nine times in 2019.

The composition of the BAC and members' attendance at meetings are given in the table below:

Table (4)

Name	Position	Meetings attended	Remarks
Mr. Rahul Kar	Chairperson	9	
Mr. Ghassan Khamis Al Hashar	Member	9 (1 by proxy)	
Mr. Rashid Al-Saadi	Member	7	
Mr. Mohd Ismail Mandani Al-Emadi	Member	5	Left the committee on July 1, 2019
Mr. Fahad Badar	Member	4	Joined the committee on July 1, 2019

The Audit Committee Charter specifies the responsibility and authority of the BAC. It is approved annually by the Board.

The responsibilities of the Committee as specified in the Audit Committee Charter include but are not limited to:

- Provide recommendations to the Board of Directors for putting before the Annual General Meeting for the appointment and removal of external auditors, as well as specifying the fees considering the independence of such auditors.
- Discuss with the external auditors their audit plan and the results of their audit, including whether they have had full access to all relevant documents.
- Approve non-audit services awarded to the external auditors (statutory) prior to commencing the engagement and ensure that their independence is not compromised in any manner, and that such engagements comply with Capital Market Authority Oman (CMA) regulations.
- Review and approve the Audit Division's Charter, annual budget, staffing and their compensation (including bonus) and organization structure of audit division.
- Review and approve the appointment, promotion, replacement, reassignment or dismissal of the Chief Internal Auditor of the Bank.
- Review and discuss and approve the overall scope of the annual internal audit plan with the Chief Internal Auditor, including the adequacy of the individual audits, staffing and their full access to all relevant documents.
- Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- Review and discuss with the Chief Internal Auditor findings of critical importance arising from the internal audits carried out in the period between meetings.
- Review management's responsiveness to internal audit findings and recommendations and assess internal audit effectiveness.
- Review and discuss with management, internal auditors and external auditors the adequacy and effectiveness of the internal control system, including information technology security, accounting and financial controls and the Bank's system to monitor and manage business risk, and its legal and ethical compliance programs. They may appoint external consultants if deemed necessary.
- Submit the minutes of all BAC meetings to the Board, or discuss the matters discussed at each committee meeting with the Board.
- Periodically assess and report to the Board of Directors, its own performance against its annual work plan, considering the effective use of committee time, responsiveness to the Board-approved charter, and the effectiveness of relationships and communications with management, auditors and the full Board.
- Review and reassess the charter at least annually and obtain the approval of the Board of Directors.
- Meet with external and internal auditors separately, at least once per annum without the management, to hear their views and to consult them vis-à-vis enhancing the level of corporate governance and compliance.
- Serve as a channel of communication between external auditors and the Board and also internal auditors and the Board.
- Oversee the financial reporting process on behalf of the Board, including review of the annual and quarterly financial statements before publication, review of qualifications/reservations in the draft financial statements and discussion of the accounting principles. In particular, any changes in the accounting policies, principles and accounting estimates in comparison to the previous year, any adoption of new accounting policies, any departure from International Financial Reporting Standards (IFRS) and non-compliance with the disclosure requirements prescribed by regulatory authorities such as CBO, CMA etc., should be critically reviewed and discussed with the management and auditors.
- Ensure that management of the Bank has put in place an appropriate system for the adoption of relevant accounting policies and principles regarding the accuracy and fairness of the financial statements. Against this system, the committee should review the financial statements for any content of fictitious or fraudulent nature.
- Review the details of all proposed related party transactions in line with the Bank's policy (complies with the CMA Code of Corporate Governance) and provide appropriate recommendations to the Board.
- Periodically review internal audit findings on the 'restructured' loans upgraded to 'regular' category for information and provide appropriate directions thereon to the management.
- Review details of any fraud reports presented in line with CBO regulations.

Credit Committee of the Board (CCB):

The CCB comprises four members. The committee has met 11 times during 2019. The names of the members, their positions and their meeting attendance appear in the table below:

Table (5)

Name	Position	Meetings attended	Remarks
Mr. Hamad Al Wahaibi	Chairperson	11	
Mrs. Najat Ali Al Lawatia	Member	10	
Mr. Rashid Al-Saadi	Member	5	Left the committee on July 1, 2019
Mr. Fahad Badar	Member	3	Left the committee on July 1, 2019
Mr. Mohd Ismail Mandani Al-Emadi	Member	5	Joined the committee on July 1, 2019
Mr. Joseph Abraham	Member	4 (1 by proxy)	Joined the committee on July 1, 2019

The CCB's main responsibilities include but are not limited to:

- Approve and renew credit transactions up to the maximum legal limits of the Bank, including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends, including higher risk assets, exposures and other reports at least every quarter.

Board Risk and Compliance Committee (BRCC):

The BRCC comprises four members. The committee has met 5 times during 2019. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring, review management of recovery strategies of problem loans and adequacy of provisioning. It is also responsible for reviewing, assessing and monitoring the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.

The names of the members of the BRCC, their positions and their meeting attendance appear in the table below:

Table (6)

Name	Position	Meetings attended	Remarks
Mr. Fahad Badar	Chairperson	5	
Mr. Ghassan Khamis Al Hashar	Member	5	
Ms. Amal Suhail Bahwan	Member	2	
Mr. Rashid Al-Saadi	Member	1	Joined the committee on July 1, 2019
Mr. Mohd Ismail Mandani Al-Emadi	Previous Chairperson	2	Left the committee on July 1, 2019

The responsibilities of the BRCC, as specified in the Terms of Reference, include but are not limited to:

The Committee sets the policy on all risk issues and maintains oversight of all Bank risks through the Management Risk Committee (MRC). More specifically, the key responsibilities of the Committee are:

a. Approval of new policies of the Bank and periodic review of existing policies.
b. To establish an appropriate credit risk environment.
c. To develop appropriate operational risk management.
d. To consider the strategic risks facing the Bank and refer suggestions for mitigating such risks to the full Board.
e. To maintain oversight of interest rate risk, the Bank's balance sheet and income risks.
f. Management of liquidity risk.
g. Management of all other market risks, including foreign exchange.
h. Approval of credit loss write-offs that are over the limits prescribed for the management.
i. Management of people risk.
j. Overseeing information security risk and business continuity risk.
k. Review management of recovery strategies of problem loans and adequacy of provisioning.
l. Formulation and review of the key risk appetites of the Bank.

The Committee sets the policy on all risk issues and maintains oversight of all Bank risks through the Management Risk Committee (MRC)

Additionally, the BRCC's responsibilities include but are not limited to:

1. Build and promote compliance culture.
2. Review, assess and monitor the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.
3. Discuss with senior management the outcome of the Monitoring & Reviews program in assessing the overall adequacy and effectiveness of the Bank's legal, regulatory and ethical compliance framework.
4. Review significant compliance risk areas and the steps management has taken to monitor, control, and report such compliance risk exposures.
5. Highlight key concerns related to CBO examination reports and discuss status of issues raised.

The BRCC's responsibilities include reviewing significant compliance risk areas

1. Specific responsibilities of the BRCC include:

a. Recommend the risk strategy of the Bank, including but not limited to credit strategy, for Board approval.
b. Recommend the risk charter of the Bank for Board approval and review the charter annually.
c. Set a high-level bank-wide risk policy framework within the segments of credit, market, operational, reputational, legal, strategic and accounting risks.
d. Establish risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as appropriate.
e. Monitor the enterprise-wide dashboard of risk through the MRC.
f. Review and assess the performance of MRC and the Risk Group in monitoring and controlling all risk to ensure that risk strategies and policies approved by the Board are adhered to and implemented.
g. Direct oversight over regulatory and legal compliance through the MRC.
h. Regularly review stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and that predicted by the risk measures.
i. Monitor compliance of various risk parameters by business lines.
j. Approval and annual review of all asset and liability product strategies to include but not be restricted to: all retail lending products and deposit products, treasury and investment products and any other non-standard products relating to corporate banking.
k. Direct oversight over specific credit policy issues including but not limited to:
   - Credit rating models, country limits, concentration issues, loan review mechanism and findings classification policy for loans and provisioning policy.
   - Approval of new product strategies/initiatives having credit implications for the Bank.
   - Review of appropriateness of credit authorities and delegations to management.
   - Periodic review of the Bank's credit risk rating methodology and appropriateness of risk ratings.
l. Endorse the ICAAP document for the approval of the Board.
m. Review the Corporate Governance Report.

Executive, Nomination & Remuneration Committee of the Board (ENRC)

The ENRC comprises five members and met 5 times during the year 2019.

The names of the ENRC members, their positions and their meeting attendance appear in the table below:

Table (7)

Name	Position	Meetings attended	Remarks
Sayyida Rawan Ahmed Al Said	Chairperson	5	
Sheikh Abdulla Bin Ali Bin Jabor Al Thani	Deputy Chairman	5	
Ms. Amal Suhail Bahwan	Member	4	
Mr. Hamad Mohammed AL Wahaibi	Member	5	
Mr. Joseph Abraham	Member	5	

The main responsibilities of the ENRC as specified in the Terms of Reference include but are not limited to:

- Develop the long-term strategy of the Bank based on economic and market conditions and the Board's vision, and recommend it for Board approval.
- Review the Bank's overall strategy and monitor implementation and execution.
- Review the performance of the Bank against approved strategy and budgets.
- Review and recommend for Board approval the Bank's annual budgets and business plans, including all operating and capital expenditure budgets of the Bank in line with the long-term strategy and changes in economic, market and regulatory environments.
- Review reports and analysis of the Bank's financial and operating performance and evaluate key performance indicators against their accompanying strategies.
- Review the performance of the Investment Banking function, including all investments reports.
- Review and recommend to the Board the Bank's proposals for capital raising plan.
- Review and approve the Banks dividend policy and recommend to the Board the proposed dividend payout.
- Review and approve the Bank's brand vision.
- Review and approve the Bank's human resources manual and policy and the Bank's compensation policy and bonus plan.
- Be responsible for setting the Bank's remuneration framework for management and staff as per the Bank's compensation policy and bonus plan and ensure its proper implementation.
- Review prevailing compensation and benefits and ensure consistency with market trends as per the Bank's compensation policy and bonus plan in accordance with regulatory guidelines.
- Review, approve and amend policies related to employee reward and performance-related incentive plans and assume the function and responsibilities of the Remuneration Committee as specified in the Bank's compensation policy, as approved by the Board.
- Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager and above.
- Review and approve major changes in the Bank's organizational structure at the level of divisional heads and above.
- Have specific responsibility to recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership and development of the Bank's properties.
- Approve the acquisition and sale of any property required for the business of the Bank.
- Approve the appointment of construction companies and consultants for the Bank's head office and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned by the Bank.
- Oversee the performance and implementation of any property-related projects.
- Propose the annual CSR and sustainability budget to the Board, which shall submit the same to the shareholders in their Annual General Meeting for approval.
- Identify methods of payment for CSR and sustainability initiatives.
- Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and sustainability initiatives.
- Adopt a transparent method in preparing the nomination policy targeting directors of high competence and caliber, without prejudice to the right of any of the shareholders to stand for election or to nominate whoever they see fit.
- Exert the best efforts to the assist the Bank in formulating clear, credible and accessible policies to inform shareholders about Directors' and executives' remuneration.
- Prepare detailed job descriptions of the role and responsibilities for Directors, including the Chairperson. This will facilitate the orientation of the Directors towards their tasks and roles and appraise their performance.
- Look for and nominate qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

Board members profiles

Sayyida Rawan Ahmed Al Said, Chairperson

Chairperson of the ENRC

Sayyida Dr. Rawan Ahmed Al Said is the CEO of Takaful Oman SAOG. Prior to joining Takaful Oman, she was the Managing Director and CEO of ONIC Holding Corporation. Before moving to the private sector, Dr. Rawan was the Deputy CEO-Investment for the State General Reserve Fund of Oman, leading the execution of many mega investments internationally. She has almost 30 years of experience in the financial industry, 20 of which are in the public sector.

Sayyida Rawan remains the first and only female CEO in a public listed company in Oman.

She has been a member of the Board of a number of reputed companies and financial institutions in the public and private sectors in Oman and the GCC region. As well as Chairperson at National Bank of Oman, these include Deputy Chairperson in Oman Oil Marketing Company, Board member of Oman National Investments Development Company ONIDCO (TANMIA) and its audit committee. In the public sector, she was on the Board of Oman Oil Company SOAC and its audit committee and the Chairperson of its equity and GCC funds committees. She was a Board member of International General Insurance (IGI) Jordan, and National Finance House (NFH), Bahrain, Deputy Chairperson of Orix Finance, National Life & General Insurance Company SAOC (NLIG) and Al Ahlia Insurance.

She was also a member of the investment committee of the Public Authority for Social Insurance, Board member of the Public Authority for SME Development (Riyada), Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a member of the investment committee of Orphans & Incapacitated Funds in the Ministry of Justice. She was recently appointed a Board member of the Sultan Qaboos University Council.

Awards and Recognitions:

In 2011, She was bestowed the Business Professional (BizPro) Leader Award. In 2012, was ranked 14th in Forbes Middle East for the ‘Most Powerful Arab Business Women in Listed Companies’. In 2014, Rawan was named among the Best Chief Executives in the region by Trend in collaboration with INSEAD (The Business School for the World). Also, she was Awarded Hall of Fame by MARA Excellence Awards. In 2015, she was honored with two prestigious Awards; Asian Women Leadership of the Year from World Leadership Congress and in MENA and Business Leader of the year from the Middle East Accountancy and Finance Excellency Awards 2015. In 2016 she was honored with Honorary Doctorate Degree from Commonwealth University in UK and she was awarded as the Best Takaful CEO from Global Business Outlook, UK. In 2017 she won the best Takaful CEO-Oman, International Finance, London. Dr. Rawan ranked 3rd in Oman for Forbes the Top 100 most powerful Arab Businesswomen 2017. In 2018 She won the CEO Oman from International Finance UK and she won Oman Women of the year awards 2018 for the inspirational woman category and she ranked 3rd in Oman region for Forbes the Top 100 most powerful Arab Businesswomen 2018. In 2019 she won the most Influential women award in Islamic finance from Womani, organized by Cambridge.

Sayyida Dr. Rawan has an MSc in Economics & Finance from Loughborough University in the UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University in the UK, and a BA in Economics & Political Science from the American University in Cairo.

In 2016 she was honored with Honorary Doctorate Degree from Commonwealth University in UK. In 2018 she won Oman Women of the year awards 2018 for the inspirational woman category and she was ranked 3rd in Oman region for Forbes the Top 100 most powerful Arab Businesswomen 2018. In 2019 she won the most Influential women award in Islamic finance from Womani, organized by Cambridge

H.E. Sheikh Abdulla Bin Ali Bin Jabor Al Thani, Deputy Chairman

Member of the Executive, Nomination and Remuneration Committee (ENRC)

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (PSQC) in Qatar, a member of the Board of Directors for United Arab Bank, PJSC in UAE and is the owner of Vista Trading Company (Qatar), a partner in Integrated Intelligence Services Company (Qatar), owner of Abdulla bin Ali & Partners for real estate and commerce (Qatar) and owner of Shaza Hotel, Doha (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree BA in Social Science from Qatar University.

Ms. Amal Suhail Bahwan, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and the Board Risk and Compliance Committee (BRCC).

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group.

She is also the Chairperson and executive committee member of Al Jazeera Steel Products Co. SAOG. and Director and Board Remuneration Committee member of Oman Oil Marketing Co. SAOG.

Ms. Amal has a Bachelor's degree in Education and a Master's deg in Administration from the Sultan Qaboos University, Oman.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Chairperson of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC)

Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has 20 years of experience in the GCC. He has been a director of investment with the Ministry of Defense Pension Fund for the past eight years. Mr. Al Wahaibi is also a member of the boards of Voltamp Energy Company and ACWA Power Company.

Mr. Al Wahaibi holds a Masters of Business Administration degree, specializing in Finance. He is a Chartered Financial Analyst (CFA) charter holder, Chartered Alternative Investment Analyst (CAIA) charter holder, and has a Certificate in Investment Performance Measurement (CIPM).

Mr. Mohammed Ismail Mandani Al Emadi, Director

Member of the Credit Committee of the Board (CCB)

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014. He is also a member of the Board for The Commercial Bank (PSQC) and a member of the Board of Alternatifbank AS (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company QSC up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi has a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California, USA.

Mr. Rahul Kar, Director

Chairperson of the Board Audit Committee (BAC)

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a chartered accountant and the financial advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Kar is also a Director and an Audit Committee member of Al Jazeera Steel Products Co. SAOG. He is also a Director and Nomination and Remuneration Committee member of Oman United Insurance Company SAOG.

Mr. Fahad Badar, Director

Chairperson of the Board Risk and Compliance Committee (BRCC) and member of the Board Audit Committee (BAC).

Mr. Fahad Badar has been a Director of the Bank since May 2016. He is also a member of the Board for United Arab Bank, PJSC in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (PSQC) in Qatar spans over 20 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the international banking, the government and public sector relations and the wholesale banking divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor of Arts Degree BA in Banking and Finance from the University of Wales.

Mr. Ghassan Khamis Al Hashar, Director

Member of the Board Audit Committee (BAC) and the Board Risk and Compliance Committee (BRCC).

Mr. Al Hashar joined NBO Board as a representative of the Public Authority for Social Insurance (PASI) in March 2017. He is currently the Authority's Director of Investments. He has over 21 years of experience in finance and investment management and represents PASI on the boards of numerous public and private companies. He is also a Board Director at National Life & General Insurance Company SAOG and Oman National Investments Development Company SAOC (TANMIA).

Mr. Al Hashar holds a Masters’ degree in Finance and Investment Management.

Mrs. Najat Ali Al Lawatia, Director

Member of Credit Committee of the Board (CCB).

Ms. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting and has attended various courses in diverse fields of financial management, audit and investments. She is the Deputy Director General for Support Services with the Civil Service Employees Pension Fund and has more than 20 years of relevant experience.

Ms. Najat is also a Director and Chairperson of the Audit Committee of Oman Cement Company SAOG.

Mr. Rashid Bin Saif Al-Saadi, Director

Member of the Board Audit Committee (BAC) and a member of the Board Risk and Compliance Committee (BRCC).

Sheikh Rashid has been a member of the Board of Directors since August 2017, and is a renowned financial and investment banker, business executive, entrepreneur and philanthropist. Sheikh Rashid is also the CEO of TANMIA, a company that actively contributes to the Sultanate's economic development.

Sheikh Rashid holds a BSc in Business Administration from Rollins College, USA. His career is marked by many significant achievements and milestones, including a 12-year period with the Diwan of Royal Court.

In 2000, Sheikh Rashid was appointed CEO of TANMIA, which was setting up its investment fund with the Muscat Securities Market. Following his appointment, the responsibility for managing the fund was transferred to the company directly, and two new funds were subsequently established: a private equity fund and a GCC investment fund. These were followed in 2013 with a Sharia fund. In addition, Sheikh Rashid also drove direct investments into various industries, including real estate development, where TANMIA played an active role in the development of the Al Mouj Muscat project, and tourism, where it played a key role in setting up the Kempinski Hotel, Muscat. In the industrial sector, TANMIA contributed to the establishment of Octal Petrochemicals, also extending into the retail sector by partnering with Al Meera Group to set up its business in Oman.

In addition to his executive responsibilities, Sheikh Rashid is the Chairman of Board of Directors of Takaful Oman SAOG and Chairman of Board of Directors of Taajeer Finance Co. SAOG. He is Chairman of the Board of Directors of Oman Hospitality CO SAOC, Chairman of the Board of Directors of Oman Aviation Academy, Deputy Chairman of Minerals Development Oman SAOC and Deputy Chairman of Nakheel Oman Development Co. He is also Director of A'saffa Foods SAOG and Director of Al-Mouj Muscat SAOC, Chairman of the Board for the Waqf Charity Foundation and a Director of Orphans Fund Investments Committee.

Mr. Joseph Abraham, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and Credit Committee of the Board (CCB)

Mr. Abraham was appointed as a Board Member in May 2018. Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets.

Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California, and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles, with a successful track record covering general management, corporate banking, strategy, product management, acquisitions and integrations.
Mr. Abraham was appointed as a Board Member of Alternatif Bank in December 2016.

Management team

The Bank's management structure is headed by the Acting Chief Executive Officer (ACEO), whose appointment, functions and package are determined by the Board.

The ACEO is supported by the General Managers who lead functional groups in the Bank. The organization chart also includes Divisional Heads of all the direct subordinates of the ACEO.

The following table gives details of the top nine senior management officers along with their positions:

Table (8)

Name	Position
Al Sayyid Wasfi Jamshid Al Said	Acting CEO
Mr. Nasser Mohammed Al Hajri	GM - Chief Operating Officer
Mr. Ananthraman Venkat	GM - Chief Financial Officer
Mrs. Salma Salim Said Al Jaaidi	GM - Chief Risk Officer
Mr. Hassan Abdul Amir Shaban	GM - Chief Government Banking Officer
Mr. Nasser Salim Al Rashdi	GM – Chief Commercial Banking Officer
Mr. Stephen Clayton	GM – Head of International (UAE and Egypt)
Mr. John Chang	GM – Chief Retail Banking Officer
Mr. Faizal Mohamed Eledath	GM - Chief Transformation Officer

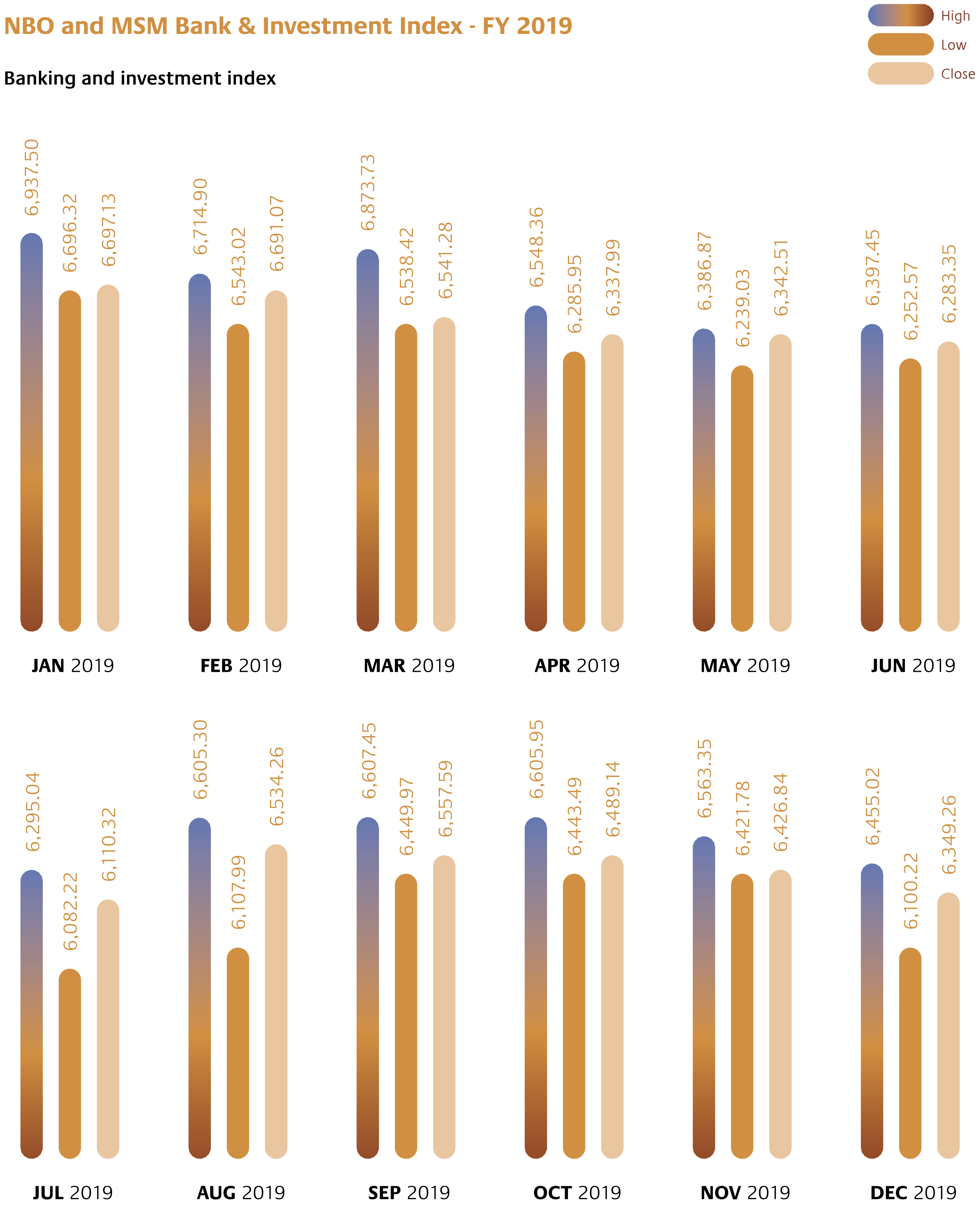
Market price data:

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2019.

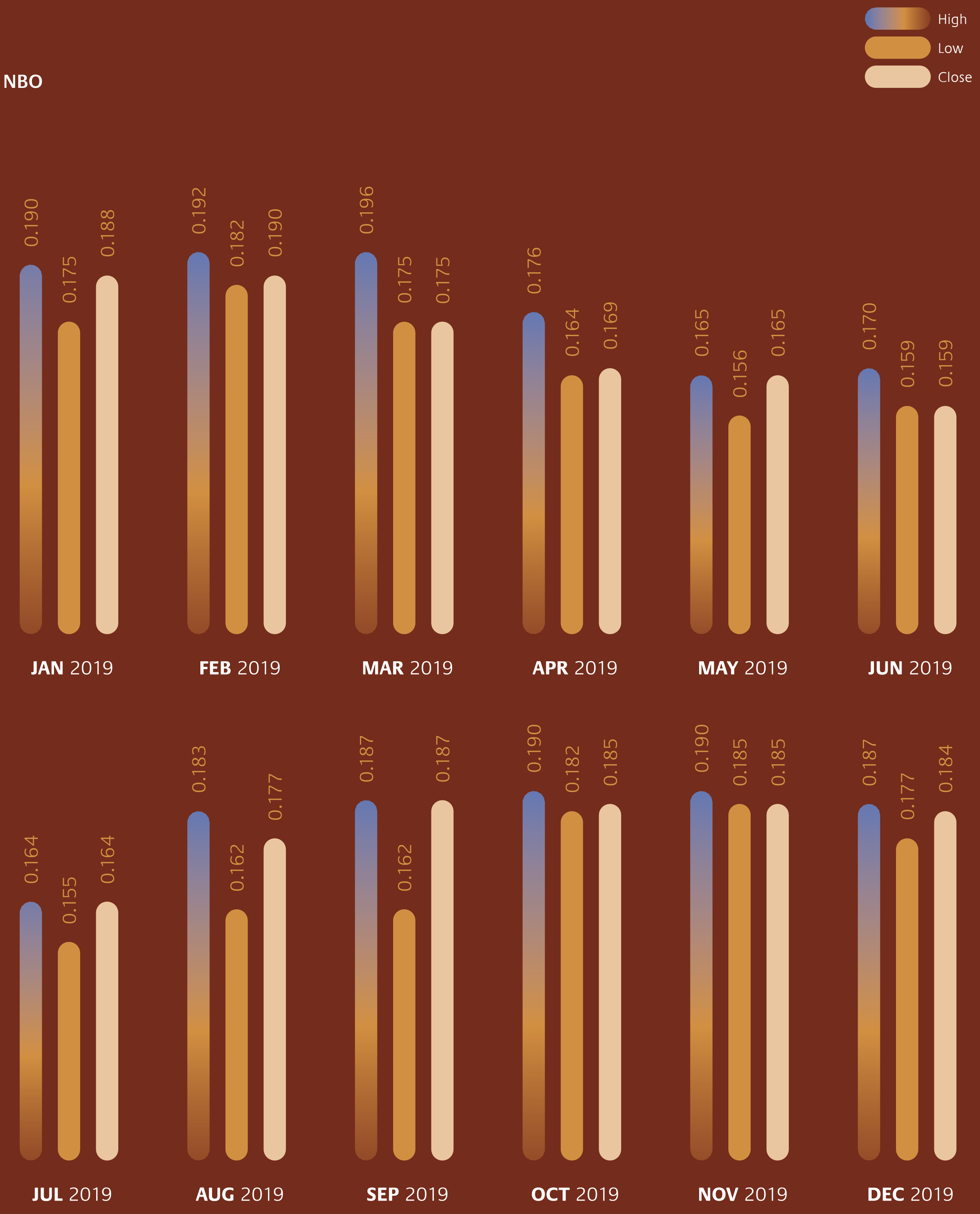
Table (9)

NBO and MSM Bank & Investment Index - FY 2019

Banking and investment index



NBO



Related party transactions

Details of all transactions where a Director or other related parties might have a potential interest are provided to the Board for their review and approval. The interested Director neither participates in the discussions, nor do they vote on such matters.

On a half yearly basis, as of June 30 and December 31 of each financial year, the details of the Bank's related parties are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting, along with a statement that transactions are on an arm's length and independent basis and are reasonable.

Internal control review

The Board attaches great importance to maintaining a strong control environment and their review covers all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for establishing, maintaining and reviewing a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines and has approved the updated policies including credit, expenditure, disclosure and corporate governance.

The Bank's financial position, and operational and business performance is regularly reported to the Board. The actual performance achieved against budgets and the prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. They are monitored through compliance with policies and procedures manuals, desk performance instructions and other circulars.

Shareholders

Communication with shareholders and investors

The Board is committed to ensure that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own web site, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's web-site address is **www.nbo.om**.

Quarterly results are published and made public. Investor Relations page / Results & Reports page

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the annual report and the summary financial statements are sent by post to all shareholders, along with the notice of the forthcoming Annual General Meeting of the Bank. Shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The Bank also displays official new releases on its website **www.nbo.om/en/Pages/News/Home.aspx** for shareholders, analysts and investors.

Distribution of dividends

The distribution of dividends to Bank shareholders during the last five years appears in the table below:

Table (10)

Year	Cash dividend	Bonus shares
2015	17%	10%
2016	15.92%	5%
2017	15%	5%
2018	16%	0%
2019	16.8%	0%

Financial information is prepared using appropriate accounting policies that are consistently applied

Corporate Social Responsibility (CSR)

During 2019, the Bank distributed donations to charitable organizations and other non-profitable organizations and participated in CSR initiatives totalling RO 324,591.662. This is within the budget limit of RO 380,000 approved by the Annual General Meeting held on March 25, 2019.

Details of the Bank's main donations and CSR initiatives in 2019:

Table (11)

1. **NBO's Scholarships Program**

To mark our 45th National Day Celebrations, NBO's Chairman had announced the launch of a unique scholarship program, enabling 15 students from low-income families to complete their undergraduate degrees at top universities in the UK.

Amount Spent: **OMR 177,380.662/-**

2. **NBO Hackathon**

The third edition of NBO Hackathon saw 600+ registrations from students from various schools and colleges across the Sultanate. Hackathon encourages young people to think innovatively and develop new solutions to challenges.

Amount Spent: **OMR 42,545/-**

3. **Shahr Al Attaa**

To engage with the community and support low-income families ahead of the holy month of Ramadhan, NBO's staff distributed food hampers to over 1,200 families across the Sultanate.

Amount Spent: **OMR 26,116/-**

4. **Muscat & Khareef Festival**

These festivals seek to promote tourism in the Sultanate. We supported the Muscat Festival in January 2019 and the Khareef Festival in July 2019.

Amount Spent: **OMR 15,000/-**

5. **Tawasul**

The Tawasul series was created by young Omanis to address social challenges in a humorous and relatable way. This year the creators of the show focused on different social challenges and dedicated a full episode to encouraging a saving culture and responsible banking.

Amount Spent: **OMR 10,000/-**

6. **Supporting Local Talent**

NBO continued to support the leading Omani racing driver Ahmed Al Harthy, who has been representing Oman globally.

Amount Spent: **OMR 10,000/-**

7. **Oman Science Festival**

The festival was focused on providing a platform for students to innovate and explore the possibilities of innovation, science and the fourth industrial revolution.

Amount Spent: **OMR 10,000/-**

8. **NBO's 49th National Day Celebrations**

We marked Oman's 49th National Day by organizing a special celebration at our head office. The celebrations were also open to the general public.

Amount Spent: **OMR 4,950/-**

9. **Women@NBO**

This program aims to inspire women at NBO to achieve personal and professional fulfilment, and empower them to unlock their full potential. This year the event was extended to the public, resulting in active participation from students.

Amount Spent: **OMR 4,100/-**

10. **First Kaderoon Conference**

The Kaderoon conference aims to train individuals with special needs to better prepare themselves for the workplace and teach them skills to excel at work.

Amount Spent: **OMR 4,000/-**

11. **Corporate Governance Conference**

The Bank supported the Oman Centre for Governance & Sustainability in organizing the second Corporate Governance Conference. The event combined prestigious international and local speakers, key decision makers within the country, top management of leading companies and various other participants.

Amount Spent: **OMR 3,000/-**

12. **Youth Clubs**

The Bank supported a number of youth clubs in a Ministry of Sports Affairs program to train young people in different skills, including social responsibilities.

Amount Spent: **OMR 3,000/-**

13. **Oman Cancer Association – 2019 Walkathon**

The Bank supported the OCA Walkathon, which helped raise awareness of cancer and the importance of regular screenings.

Amount Spent: **OMR 500/-**

14. **NBO's Innovation Incubator Program (Committed)**

To inspire the conceptualization and development of new business ideas amongst Oman's youth and to encourage the transformation of these ideas into businesses with robust and sustainable business plans and strategies that will become key drivers of Oman's economic growth.

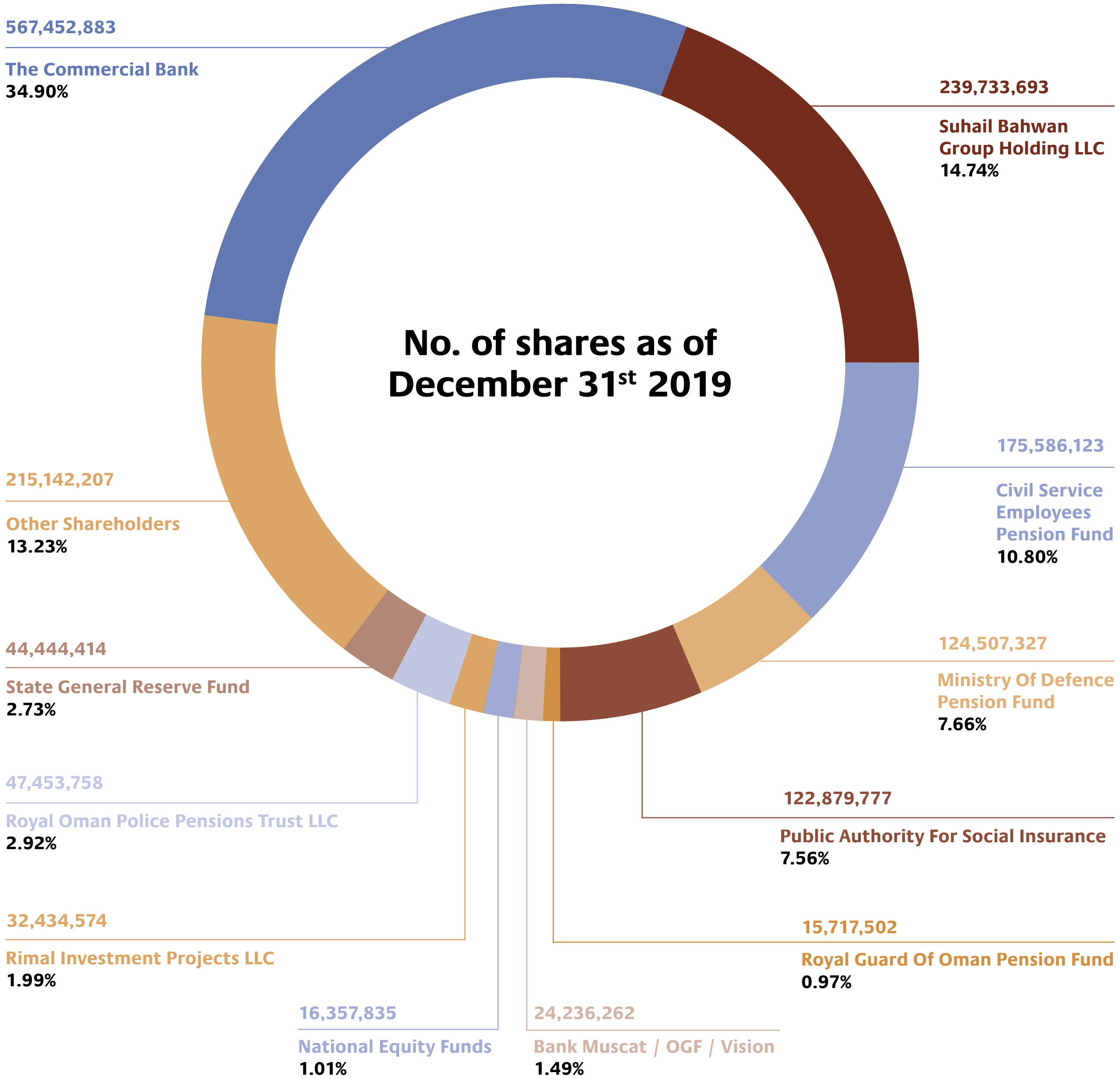
Amount Spent: **OMR 14,000/-**

TOTAL: OMR 324,591.662/-

Distribution of shareholding:

Major shareholders (1% and above)

Table (12)



Total

Total shares: **1,625,946,355**

The shareholding pattern as on 31 December 2019 was:

Table (13)

Number of shares	Number of shareholders	Total shares	% of capital
7,000,000 and above	15	1,451,469,892	89%
3,000,000 to 6,999,999	12	45,495,110	3%
1,500,000 to 2,999,999	23	52,014,774	3%
500,000 to 1,499,999	40	36,431,025	2%
100,000 to 499,999	116	27,905,904	2%
Below 100,000	939	12,629,650	1%
Total	**1145**	**1,625,946,355**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of this Annual Report.

There are no global depository receipts, warrants or any convertible instruments outstanding.

Details of non-compliance

CBO circular BM 1134 and Annexure 4 of the Code of Corporate Governance require the Bank to provide details of non-compliance. This includes any penalties, strictures imposed on the Bank by the MSM / CMA or any statutory authority such as the CBO, on any matter related to capital markets, during the last three years (2017, 2018 and 2019). The Bank has identified the following amounts below paid during the last three years.

As of 2019, the Bank had complied with all relevant regulatory requirements in the last three years with the below exceptions:

During the FY 2019, the Bank was penalized OMR 4,000 for exceeding the real estate exposure on consolidated basis at 63.5% from the regulatory ceiling of 60%. The Bank was also penalized OMR 38,000 for not fully complying with the AML Law on Counter Money Laundering and Terrorism Financing. Further, the Bank was penalized OMR 10,000 for not complying with regulatory guidelines on the Compliance Function. As the Bank had delayed implementation of the Fraud Risk Management system, a penalty of OMR 4,000 was levied. In addition, due to a technical issue the Bank was delayed in the settlement of some trades, which resulted in a fine of OMR 3,116. Also due to technical issues in the payment system, settlement of payment to Muscat Clearing and Depository was delayed which led to an OMR 260 penalty. In the United Arab Emirates, the Bank was penalized AED 300,000 for not achieving Emiratization targets and AED 14,673 for a delay in labour renewals. Total penalties: OMR 92,382.

During the FY 2018, the Bank was penalized OMR 8,000 for not considering CBO's prior approval on structured products and providing access to some of the Banks systems to outsourced contracts. The Bank was also penalized OMR 10,000 for a delay in responding to some customer requests and OMR 30,000 for a delay in fulfilling requirements of the payment system. Regulatory guidelines were not considered for impact analysis and recovering fees from some retail customers, which resulted in a penalty of OMR 8,000. Total penalties: OMR 56,000.

During the FY 2017, the Bank was penalized OMR 20,000 for not considering CBO guidelines while recovering charges from a few retail customers and for upgrading and declassifying loans for few cases. The CBO also penalized the Bank OMR 3,600 for not prescribing any cut-off amount for quarterly risk review of loans classification. The Bank had also not considered CBO's prior approval on employing outsourced staff, which resulted in a penalty of OMR 10,000. Total penalties: OMR 33,600.

Auditors

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance, providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

There are no global depository receipts, warrants or any convertible instruments outstanding

ERNST & Young (E & Y) profile

Profile of statutory auditors

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,889 partners and approximately 124,318 professionals. Globally, EY operates in more than 150 countries and employs 328,597 professionals in 700 offices. Please visit **ey.com** for more information about EY.

EY in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2019, EY billed an amount of RO 148,767 towards professional services rendered to the Company (RO 128,000 for audit and RO 20,767 for tax and other services).

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review, the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the Code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

Rawan bint Ahmed Al Said
Chairperson of the Board of Directors

4

Basel II and III - Pillar III Report 2019

EY
Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF OMAN SAOG IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman's (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of National Bank of Oman SAOG ("the bank") as at and for the year ended 31 December 2019. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2019 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young LLC

Muscat
9 March 2020

ارنست ويونغ ش م م
EY Ernst & Young LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Capital Structure

The authorised share capital of the Bank as at 31 December 2019 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the Bank as at 31 December 2019 is 1,625,946,355 shares of RO 0.100 each.

The Bank has assigned capital for operations in UAE and Egypt, amounts equivalent to RO 40.92 million and RO 19.25 million respectively. These amounts cannot be withdrawn without the approval of the Central Banks of the respective countries. In addition, within Oman, the Bank has allocated RO 20.0 million of capital towards the Islamic banking window.

The Bank's consolidated capital structure as at close of 31 December 2019, based on Central Bank of Oman's (CBO) guidelines is as follows:

(RO'000)

Elements of Capital	Amount
Tier I capital	
Local banks	
Paid-up capital	162,595
Share premium	34,465
Legal reserve	54,198
Subordinated debt reserve	-
Retained earnings*	156,155
Common equity Tier I before regulatory adjustments	407,413
Deduction	
Deferred tax asset	-
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	(8,077)
Common equity Tier I	399,336
Additional Tier I capital	
Tier I Perpetual Bond	115,500
Tier I capital after all deductions	**514,836**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	1,171
General loan loss provision / General loan loss reserve	27,901
Total Tier II Capital	**29,072**
Total regulatory capital	**543,908**

*Note: Retained earnings are after deduction of RO 27.32 million towards proposed cash dividend, which is subject to CBO approvals and shareholders approval in AGM.

Capital adequacy

Qualitative disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily)
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business

The capital management plan envisaged for the Bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the Bank aims to ensure that on a risk adjusted return on capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

Capital adequacy calculation is prepared and submitted for ALCO's review every month

The ultimate objective of capital management is 3-fold – stability, efficiency and informed decision-making

Qualitative disclosures:

A set of triggers is followed as part of the capital management so as to provide the Bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The Bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

Position as at 31.12.2019 (RO'000)

Elements of capital	Amount
Tier I capital (after supervisory deductions)	**514,836**
Tier II capital (after supervisory deductions & upto eligible limits)	**29,072**
Tier III capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
Of which, total Eligible Tier III Capital	-
Risk Weighted Assets (RWAs) – Banking Book	**2,988,435**
Risk Weighted Assets (RWAs) – Operational Risk	**243,431**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**3,231,866**
Minimum required capital to support RWAs of banking book and operational risk	436,302
Minimum required capital comprises of;	
i. **Tier I capital**	407,230
ii. **Tier II capital**	29,072
Balance Tier I capital available for supporting Trading Book	107,606
Balance Tier II capital available for supporting Trading book	-
Risk Weighted Assets (RWAs) – Trading Book	**47,698**
Total capital required to support Trading Book	6,439
Minimum Tier I capital required for supporting Trading Book	1,835
Total Regulatory Capital	**543,908**
Total Risk Weighted Assets – Whole bank	**3,279,564**
BIS Capital Adequacy Ratio	**16.6**

Basel III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; certain mandatory capital adequacy disclosures are made below:

Position as at 31.12.2019 (RO'000)

Details	Gross balance (book value)	Net balance (book value)	Risk weighted assets
On balance sheet items	3,745,902	3,579,325	2,707,667
Off balance sheet items	305,696	305,695	272,928
Derivatives	7,840	7,840	7,840
Operational Risk	-	-	243,431
Market Risk	-	-	47,698
Total	**4,059,438**	**3,892,860**	**3,279,564**
Common equity Tier I Capital	-	-	399,336
Additional Tier I Capital	-	-	115,500
Tier II Capital	-	-	29,072
Total Regulatory Capital	-	-	**543,908**
Total required Capital @ 13.5%	-	-	442,741
Capital requirement for credit risk	-	-	403,439
Capital requirement for market risk	-	-	6,439
Capital requirement for operational risk	-	-	32,863
Common equity Tier I Ratio			12.2
Tier I Ratio	-	-	**15.7**
Total Capital ratio	-	-	**16.6**

Risk exposure and assessment:

Risk management

The primary objective of risk management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises Corporate Credit Risk, SME Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Loan Review section. All risk management functions report to Chief Risk Officer and are independent from Business Units.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:-

Credit Risk

Qualitative disclosures:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fail to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

Credit risk (continued)

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

The Bank has in place a robust credit risk management structure comprised of Corporate Credit Risk, SME credit risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

Corporate credit risk and SME credit risk:

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate Banking and Financial Institutions exposures while SME Credit Risk Division independently reviews Business Banking and Small Business Unit exposures. Both the Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the Bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

Retail credit risk

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of the retail portfolio. The Bank has an automated Loan Collection System in order to enhance its collections and recovery processes. It also has an automated Loan Origination System to further enhance its Retail Credit Risk framework.

Loan review mechanism

An independent Loan Review Mechanism Division evaluates the quality of loan book, balance between risk and reward and brings about qualitative improvements in credit administration. The division evaluates effectiveness of loan administration, integrity of credit grading process, assessment of expected credit losses, portfolio quality, etc.

Remedial management

Remedial Management is responsible for pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries, rehabilitating these relationships so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

Credit risk (continued)

Credit Administration and Control

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a "maker and checker" concept.
- Disbursement of funds for all approved credit exposures is appropriately authorized.

Risk reporting and measurement systems

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

In addition, the Bank conducts industry studies in various sectors considered to have a bearing on the portfolio credit quality, such as, real estate, leasing, and sectors impacted by volatility in commodity prices. For FIG exposures the Bank conducts stress tests and quarterly reviews of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. These reports are reviewed periodically by the Management and Board Risk Committees.

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and default trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Measurement

Impairment losses on loans and advances:

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

Credit risk (continued)

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection • Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

- historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
- size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,
- the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.

Credit risk (continued)

5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counter parties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Credit risk (continued)

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer / facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
f. Deferment / delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

Credit risk (continued)

Model risk management (continued)

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Bank in terms of usage of models.

Credit risk management policy:

A comprehensive set of Corporate Credit Risk Policy and Procedures Manuals, provides detailed policy guidelines and embedded in which are the regulatory/ in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Financial Institutions Group (FIG) exposures are managed as per the Financial Institutions Policy guidelines. Retail Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit Policies and Procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines.

Quantitative disclosure:

i. Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2019:

(RO'000)

S. No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31 December 2019	31 December 2018
1	Overdrafts	93,178	97,559	107,387	99,724
2	Personal loans	1,381,588	1,370,008	1,362,833	1,401,890
3	Loans against trust receipts	52,646	62,821	66,420	49,227
4	Other loans	1,350,666	1,217,763	1,370,949	1,363,321
5	Bills purchased / discounted	15,319	29,609	12,257	25,923
	Total	**2,893,397**	**2,777,760**	**2,919,846**	**2,940,085**

ii. Geographic distribution of exposures by major types of credit exposure as at 31 December 2019:

(RO'000)

S. No	Type of Credit Exposure	Oman	Other GCC countries	Others	Total
1	Overdrafts	85,507	21,880	-	107,387
2	Personal loans	1,362,357	476	-	1,362,833
3	Loans against trust receipts	61,968	4,452	-	66,420
4	Other loans	1,291,796	74,685	4,468	1,370,949
5	Bills purchased / discounted	11,252	1,005	-	12,257
	Total	**2,812,880**	**102,498**	**4,468**	**2,919,846**

Credit risk (continued)

iii. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2019:

(RO'000)

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Gross Total	Off Balance Sheet Exposure
1	Import trade	-	529	-	61,968	62,497	-
2	Export trade	-	-	-	-	-	-
3	Wholesale & retail trade	21,364	160,542	329	1,959	184,194	37,790
4	Mining & quarrying	606	65,318	1,611	-	67,535	555
5	Construction	36,518	127,909	3,382	736	168,545	168,144
6	Manufacturing	16,293	199,875	3,070	1,757	220,995	57,484
7	Electricity, gas and water	-	133,974	68	-	134,042	1,816
8	Transport and communication	4,318	96,163	39	-	100,520	17,722
9	Financial institutions	10,938	278,841	-	-	289,779	138,367
10	Services	10,698	208,296	1,527	-	220,521	17,112
11	Personal loans	-	1,362,833	-	-	1,362,833	238
12	Agriculture and allied activities	974	3,037	-	-	4,011	167
13	Government	-	9,096	-	-	9,096	-
14	Non-resident lending	-		-	-	-	-
15	All others	5,678	87,369	2,231	-	95,278	36,372
	Total	**107,387**	**2,733,782**	**12,257**	**66,420**	**2,919,846**	**475,767**

iv. Residual contractual maturity as at 31 December 2019 of the whole loan portfolio, broken down by major types of credit exposure:

(RO'000)

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	5,369	90,084	5,907	18,106	119,466	123,701
2	1-3 months	5,369	204,527	3,390	25,139	238,425	167,749
3	3-6 months	5,369	96,690	2,960	22,042	127,061	54,175
4	6-9 months	5,369	46,079	-	1,133	52,581	41,245
5	9-12 months	5,369	153,344	-	-	158,713	48,782
6	1-3 years	26,848	374,590	-	-	401,438	33,985
7	3-5 years	26,847	278,472	-	-	305,319	5,432
8	Over 5 years	26,847	1,489,996	-	-	1,516,843	698
	Total	**107,387**	**2,733,782**	**12,257**	**66,420**	**2,919,846**	**475,767**

Credit risk (continued)

v. Total loan broken down by major industry or counter party type as at 31 December 2019:

(RO'000)

S. No	Economic Sector	Gross Loans	Of which, NPL as per IFRS-9	Stage-1 and stage-2 prov as per	Stage 3 prov held as per IFRS-9	Provisions made during the year	Advances written off during the year
1	Import trade	62,497	-	1,357	-	-	-
2	Export trade	-	-	-	-	-	-
3	Wholesale & retail trade	184,194	23,921	2,105	17,229	3,840	5,420
4	Mining & quarrying	67,535	1,310	1,204	450	5	159
5	Construction	168,545	42,552	6,008	27,259	6,461	2,237
6	Manufacturing	220,995	12,005	2,551	4,716	2,811	15,955
7	Electricity, gas and water	134,042	52	633	52	-	-
8	Transport and communication	100,520	2,847	682	2,440	2,506	3,698
9	Financial institutions	289,779	-	2,352	-	-	-
10	Services	220,521	23,395	2,435	18,487	224	808
11	Personal loans	1,362,833	37,522	16,720	15,127	1,435	2,737
12	Agriculture and allied activities	4,011	-	272	-	-	1,354
13	Government	9,096	-	9	-	-	-
14	Non-resident lending	-	-	61	-	-	-
15	All others	95,278	5	455	2,689	(2,396)	2,164
	Total	**2,919,846**	**143,609**	**36,844**	**88,449**	**14,886**	**34,532**

vi. Amount of impaired loans as at 31 December 2019, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. No	Gross Loans	Gross Loans	Of which, NPL as per IFRS -9	Stage-1 and stage-2 prov as per IFRS-9	Stage-3 prov held as per / IFRS-9	Provisions made during the year	Advances written off during the year
1	Oman	2,812,880	102,036	36,064	55,733	8,848	14,577
2	Other GCC Countries	102,498	41,573	778	32,716	6,036	19,792
3	Others	4,468	0	2	-	2	163
	Total	**2,919,846**	**143,609**	**36,844**	**88,449**	**14,886**	**34,532**

Credit risk (continued)

vii. Movement of gross loans

(RO'000)

Movement of Gross loans during the year 2019					
S. No	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	2,264,335	535,231	140,519	2,940,085
2	Migration / changes (+/-)	(17,444)	(32,625)	50,069	-
3	New loans	537,472	159,961	1,842	699,275
4	Recovery of loans	(497,316)	(173,377)	(14,289)	(684,982)
5	Loans written off	-	-	(34,532)	34,532
6	**Closing balance**	**2,287,047**	**489,190**	**143,609**	**2,919,846**
7	Total Provisions	14,486	22,358	88,449	125,293

Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures:

- The Bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the Bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the Bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2019, subject to the standardized approach is as below:

(RO'000)

S. No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	573,851	-	-	-	50	-	573,901
2	Banks	-	35,966	-	48,029	26,177	-	110,172
	Unrated							
1	Corporate	-	7,958	-	-	1,241,755	-	1,249,713
2	Retail	-	-	-	-	893,593	-	893,593
3	Claims secured by residential property	-	-	299,800	-	131,919	-	431,719
4	Claims secured by commercial property	-	-	-	-	161,600	-	161,600
5	Past due loans	-	-	-	-	142,357	-	142,357
6	Other assets	43,862	205	-	-	138,294	192	182,553
7	Venture Capital & Private Equity Investments	-	-	-	-	-	295	295
8	Off-balance Sheet Items	6,058	16,916		26,353	264,208	-	313,535
	Total Banking Book	**623,771**	**61,045**	**299,800**	**74,382**	**2,999,953**	**487**	**4,059,438**

Credit risk mitigation

Qualitative Disclosures:

The Bank holds collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, and other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals.

Quantitative disclosures:

(RO'000)

S.No	Details	Amount
1	Corporate Cash Collateral	80,192
2	Specific provisions and reserve interest on loans and advances and due from banks	86,385
	Total	**166,577**

The capital requirement on credit risk as at 31 December 2019 is RO ('000) 403,439

Market risk

The objective of Bank's Market Risk Management is to manage and control market risk exposures which arises from fluctuations in interest rates, foreign exchange rates and equity prices while maintaining a market profile consistent with Bank's risk appetite. The board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors the exposure on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Separate Market Risk policies exist for the Bank's operations in Egypt and UAE to be compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitors the Market Risk positions of the Bank.

Trading book

Foreign Exchange Risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements.

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positions are monitored on daily basis to ensure open currency position is maintained within the regulatory limit of 40% of net-worth.

Value-at-risk (VaR) is used to estimate the potential losses on risk positions as a result of movements in market rates and prices. The VaR is computed every month for all non-pegged currencies in which the Bank's end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

The Bank holds investment that are Fair Value Through Profit and Loss account (FVTPL) consisting of investments in portfolio of equities and funds which is managed by the Investment Banking division. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports.

For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 13.5% to reflect the general market risk.

Capital required for trading book as at 31 December 2019:

Foreign Exchange Risk - RO ('000) 6,439

Banking book

Equity price risk

The proprietary equity positions are held in the Fair Value Through Other Comprehensive Income (FVOCI) category as part of Banking book exposure and not in the FVTPL category. As such, no VaR is calculated for the FVOCI portfolio. These are marked to market on a daily basis which are circulated to the management and required actions, if any, are promptly taken as per the investment Policy, which inter-alia provides sector concentration limits, trigger levels and other guidelines for prudent management of the portfolio.

Interest rate risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank and impact on the earnings of the Bank up to one year.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

The methods for interest rate sensitivity analysis are a traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital) as per methodology provided by Basel Committee in 2004.

Quantitative disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2019	200 bps increase	200 bps decrease
Earnings impact - RO'000s	6,786	(6,786)
Earnings impact - USD'000s	17,626	(17,626)

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. The interest rate risk of the Bank have been within the prescribed limit during the year.

The Bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2019 was as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	2.27%	7,240	-	-	-	326,532	333,772
Due from banks and other money market placements (net)	3.06%	88,919	20,405	-	-	52	109,376
Loans, advances and financing activities for customers (net)	5.59%	933,730	633,030	669,011	565,786	-	2,801,557
Financial investments	5.13%	28,186	3,813	84,553	121,740	54,257	292,549
Premises and equipment	N/A	-	-	-	-	66,694	66,694
Other assets	N/A	-	-	-	-	40,746	40,746
Total assets		**1,058,075**	**657,248**	**753,564**	**687,526**	**488,281**	**3,644,694**
Due to banks and other money market deposits	2.95%	274,161	9,625	-	-	-	283,786
Customers' deposits and unrestricted investment accounts	2.09%	153,812	1,539,882	394,370	-	443,454	2,531,518
Euro medium term notes	5.09%	-	-	192,500	-	-	192,500
Other liabilities	N/A	341	-	-	-	69,478	69,819
Taxation	N/A	-	-	-	-	13,221	13,221
Subordinated debt	7.88%	-	-	115,500	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	-	-
Tier I Perpetual Bonds	N/A	-	-	-	-	438,350	438,350
Total liabilities and shareholders' equity		**428,314**	**1,549,507**	**702,370**	**-**	**964,503**	**3,644,694**
Total interest rate sensitivity gap		**622,521**	**(892,259)**	**51,194**	**687,526**	**(468,982)**	**-**
Cumulative interest rate sensitivity gap		**622,521**	**(269,738)**	**(218,544)**	**468,982**	**-**	

Basel II and III - Pillar III Report 2019

Liquidity risk

Qualitative disclosures:

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk occurs when the Bank is unable to meet short term obligation when falling due which may raise a potential risk to earnings and capital of the Bank. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or impacting Bank's reputation. The Bank manages the liquidity risk based on Central Bank of Oman guidelines, Liquidity Risk Policy and Liquidity Contingency Plan.

NBO takes a two-tiered approach to Liquidity Risk Management:

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan that documents the procedures that the Bank would adopt to withstand either temporary or prolonged disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO. Additionally, the Bank has also set internal mismatch limits by currency and limits for ensuring that liquidity lines are sufficient to meet short term maturing obligations.

The liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the regulatory and internal limits. The Bank also periodically conducts stress tests on liquidity based on market and bank specific scenarios .

Management periodically reviews the strategy and policies related to management of liquidity to ensure that necessary actions are implemented for monitoring and controlling liquidity risk.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required. ALCO is kept informed regularly of the liquidity position of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

The scope and nature of the risk reporting and/or measurement system:

Scope and nature of risk reporting:

Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, setting out the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded, the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

A Liquidity Lines statement is also prepared based on assumptions set out in the Liquidity Policy to evaluate the Bank's ability to meet its liabilities maturing in one month time band. Further, the liquidity of the Bank is assessed under bank specific and market specific stress scenarios and impact on gap positions and Liquidity Lines is estimated. Daily Financial Risk Report is used for monitoring the daily ratios and gaps and Early Warning Indicators for assessing any potential liquidity impact of leading indicators. These reports are regularly reviewed by the ALCO, Management and Board Risk Committee.

Liquidity risk (continued)

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions.

In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements. The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

	1 Jan 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Minimum LCR	60%	70%	80%	90%	100%

Basel III Liquidity Framework

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

Liquidty Coverage Ratio (LCR)

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on January 1, 2019, as per the time-line given below:

Liquid Coverage Ratio as per Basel III based on weighted average value is 290%

Net Stable Funding Ratio (NSFR)

The standard of Net Stabe Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective Janauray 2018, with a minimum ratio of 100% as per the regulatory guidance.

Net Stable Funding Ratio (NSFR) as per Basel III is 109% as of 31 December 2019

Liquidity risk (continued)

Net Stable Funding Ratio (NSFR)

The standard of Net Stabe Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective Janauray 2018, with a minimum ratio of 100% as per the regulatory guidance.

Item	Unweight value	Weighted value
Available Stable Funding		
Regulatory capital	543,908	543,908
Liabilities with effective residual maturities of one year or more	709,649	709,649
Retail and small business customers		
• Stable Deposits	702,101	666,996
• Less Stable Deposits	155,465	139,919
Wholesale Funding		
• Operational and short term funding	1,298,225	649,112
• Other wholesale funding	642,855	207,250
Total Available Stable Funding		**2,916,834**
Required Stable Funding		
High quality liquid assets		
• Coins, banknotes and reserves with CBO	326,531	-
• Other Level 1 assets	244,568	12,228
Funding to financial institutions with residual maturities of less than six months not included in the above categories	88,588	13,288
Funding not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	452,075	211,849
Unencumbered residential mortgages that would qualify for the 35% or lower risk weight under Basel II standardised approach for credit risk	299,800	194,870
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	2,218,226	2,218,226
Off Balance Sheet Exposures		
Irrevocable and conditionally revocable credit and liquidity facilities to any client	7,538	377
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	490,674	24,534
Total Required Stable Funding		**2,675,372**
NSFR (Min Basel III requirement - 100%)		**109.0%**

Leverage Ratio

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. Minimum Leverage Ratio standard will be made applicable to all the Banks effective from 31 December 2019.

Basel III leverage ratio framework and disclosure requirements

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure
(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	31-Dec-2019
1	Total consolidated assets as per published financial statements	3,644,694
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	7,840
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	236,022
7	Other adjustments	
8	**Leverage ratio exposure**	**3,888,556**

Table 2: Leverage ratio common disclosure template
(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	31-Dec-2019
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,644,694
2	(Asset amounts deducted in determining Basel III Tier I capital)	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**3,644,694**
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	7,840
5	Add-on amounts for PFE associated with all derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**7,840**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other Off-balance sheet exposures	-
17	Off-balance sheet exposure at gross notional amount	490,674
18	(Adjustments for conversion to credit equivalent amounts)	(254,651)
19	Off-balance sheet items (sum of lines 17 and 18)	236,023
	Capital and total exposures	
20	Tier I capital	519,897
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,888,557**
	Leverage Ratio	
22	Basel III leverage ratio (%)	13.4

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2019 was as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	265,478	28,361	293,839	22,556	17,377	39,933	333,772
Due from banks and other money market placements (net)	75,149	13,437	88,586	11,165	9,625	20,790	109,376
Loans, advances and financing activities for customers (net)	357,890	249,638	607,528	706,750	1,487,279	2,194,029	2,801,557
Financial investments	64,382	22,068	86,450	62,134	143,965	206,099	292,549
Premises and equipment	-	-	-	-	66,694	66,694	66,694
Other assets	32,597	8,149	40,746	-	-	-	40,746
Total assets	**795,496**	**321,653**	**1,117,149**	**802,605**	**1,724,940**	**2,527,545**	**3,644,694**
Due to banks and other money market deposits	150,961	17,325	168,286	115,500	-	115,500	283,786
Customers' deposits and unrestricted investment accounts	547,429	819,736	1,367,165	668,344	496,009	1,164,353	2,531,518
Euro medium term notes	66,082	1,033	67,115	2,704	-	2,704	69,819
Other liabilities	-	-	-	192,500	-	192,500	192,500
Taxation	13,221	-	13,221	-	-	-	13,221
Subordinated debt	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	438,350	438,350	438,350
Tier I perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	**777,693**	**838,094**	**1,615,787**	**979,048**	**1,049,859**	**2,028,907**	**3,644,694**

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The Bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

Capital requirement for operational risk as per Basel II is RO (000s) 32,863

Insurance is another tool used by the Bank as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, incomplete transactions, Directors and Officers liability and cyber liability insurance etc. as obtained by the Bank, aim at protecting the Bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the Bank has set in place a special operational risk appetite against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigants are put in place.

Basel III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2019.

Prepared under the Guidelines on composition of capital disclosure requirements

Table 2a (RO'000)

	Balance sheet as in published financial statements
Assets	31-Dec-19
Cash and balances with Central Bank of Oman	328,531
Certificates of deposit	5,241
Due from banks	84,476
Loans and advances to banks	24,900
Loans and advances	2,801,557
Investments in securities	292,549
Property and equipment	66,694
Deferred tax assets	-
Other assets	40,746
Total assets	**3,644,694**
Liabilities	
Due to banks	283,786
Customer deposits	2,531,518
Euro medium term notes	192,500
Other liabilities	83,040
Subordinated bonds	-
Total liabilities	**3,090,844**
Shareholders' Equity	
Paid - upshare capital	162,595
Share premium	34,465
Legal reserve	54,198
General reserve	-
Retained earnings	183,471
Other reserves	9,446
Cumulative changes in fair value of investments	(5,825)
Subordinated debt reserve	-
Tier I perpetual bond	115,500
Total shareholders' equity	**553,850**
Total liability and shareholders' funds	**3,644,694**

Basel III – Transition Disclosure (continued):

Prepared under the Guidelines on composition of capital disclosure requirements

Table 2b (RO'000)

	Balance sheet as in published financial statements	Reference
Assets	31-Dec-19	
Cash and balances with Central Bank of Oman	328,531	
Certificates of deposit	5,241	
Balance with banks and money at call and short notice	84,476	
Investments in securities	292,549	
Loans and advances Of which:		
Loans to Banks - Gross	25,371	
General Provisions considered for Tier II	(471)	A1
Net Loans to banks	24,900	
Loans to Customers - Gross	2,908,216	
Specific Provisions	(79,229)	
General Provisions considered for Tier II	(27,430)	A1
Net Loans to customers	2,801,557	
Fixed assets	66,694	
Other assets of which:	40,746	
Deferred tax assets	-	
Amount considered for CET1	-	A2
Current year allocation - not eligible	-	
Total Assets	**3,644,694**	
Capital & Liabilities		
Paid-up Capital	197,060	
Of which:		
Amount eligible for CET1	197,060	C1
Amount eligible for AT1	-	
Reverses and Surplus	183,471	
Of which: Amount eligible for CET1		
Retained earnings carried forward	156,155	C2
Profit for current year not eligible	27,316	
Legal reserve	54,198	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
Total Amount eligible for CET1	**54,198**	C3
Tier I perpetual bond	115,500	C7
Proposed Cash Dividend	27,316	
Cumulative changes in fair value of investments	(8,077)	
Amount eligible for Tier I	8,077	A2
Revaluation reserve	3,621	
Total Capital	**553,850**	
Deposits of which:		
Deposits from banks	283,786	
Customer deposits	2,397,191	
Deposits of Islamic Banking window	134,327	
Euro medium term notes	192,500	
Other deposits (Sub-debt)	-	C6
Other liabilities & provisions of which:	83,040	
Total	**3,644,694**	

Basel III Common disclosure

Prepared under the Guidelines on composition of capital disclosure requirements

Table 4 (RO'000)

Basel III common disclosure template to be used during the transition of regulatory adjustments	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier I capital: instruments and reserves		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060	C1
Retained earnings	156,155	C2
Accumulated other comprehensive income (and other reserves)	54,198	C3
Public sector capital injections grandfathered until 1 January 2018	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier I capital before regulatory adjustments	407,413	
Common Equity Tier I capital: regulatory adjustments		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	A2
Cumulative fair value gains or losses on available for sale instruments	(8,077)	
Total regulatory adjustments to Common equity Tier I	**(8,077)**	
Common Equity Tier I capital (CET1)	399,336	
Additional Tier I capital: instruments (Tier I Perpetual Bond)	115,500	C7
Additional Tier I capital: regulatory adjustments - nil		
Tier I capital (T1 = CET1 + AT1)	514,836	
Tier II capital: instruments and provisions		
Directly issued qualifying Tier II instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier II	-	C6-C4
Tier II instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-	
Of which: instruments issued by subsidiaries subject to phase out	-	
General provisions	27,901	A1
Cumulative fair value gains or losses on available for sale instruments	1,171	C5
Tier II capital before regulatory adjustments	29,072	
Tier II capital: regulatory adjustments		
National specific regulatory adjustments	-	
Regulatory adjustments applied to Tier II in respect of amounts subject to pre-Basel III treatment.	-	
Of which: Cumulative fair value gains or losses on available for sale instruments	-	
Total regulatory adjustments to Tier II capital	-	
Tier II capital (T2)	**29,072**	
Total capital (TC = T1 + T2)	**543,908**	

Basel III Common disclosure (continued):

(RO'000)

	Amounts
Common Equity Tier I capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	197,060
Retained earnings	156,155
Accumulated other comprehensive income (and other reserves)	54,198
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier I capital before regulatory adjustments	407,413
Common Equity Tier I capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Gains and losses due to changes in own credit risk on fair valued liabilities.	(8,077)
Total regulatory adjustments to Common equity Tier I	**(8,077)**
Common Equity Tier I capital	399,336
Additional Tier I capital: instruments	115,500
Additional Tier I capital: regulatory adjustments Nil	
Tier I capital	514,836
Tier II capital: instruments and provisions	
Directly issued qualifying Tier II instruments plus related stock surplus	1,171
Directly issued capital instruments subject to phase out from Tier II	-
Tier II instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-
Of which: instruments issued by subsidiaries subject to phase out	-
Provisions	27,901
Tier II capital before regulatory adjustments	29,072
Tier II capital: regulatory adjustments	
National specific regulatory adjustments	-
Regulatory adjustments applied to Tier II in respect of amounts subject to pre-Basel III treatment.	-
Of which: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier II capital	-
Tier II capital	**29,072**
Total capital	**543,908**
Total risk weighted assets	**3,279,564**
of which: Credit risk weighted assets	2,988,435
of which: Market risk weighted assets	47,698
of which: Operational risk weighted assets	243,431

Basel III Common disclosure (continued):

(RO'000)

	Amounts
Capital Ratios	
Common Equity Tier I (as a percentage of risk weighted assets)	12.2
Tier I (as a percentage of risk weighted assets)	15.7
Total capital (as a percentage of risk weighted assets)	16.6
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB / D-SIBbuffer requirement expressed as a percentage of risk weighted assets)	-
Of which: capital conservation buffer requirement	-
Of which: bank specific countercyclical buffer requirement	-
Of which: D-SIB / G-SIB buffer requirement	-
Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets	2.7
National minima (if different from Basel III)	
National Common Equity Tier I minimum ratio (if different from Basel III minimum)	9.5
National Tier I minimum ratio (if different from Basel III minimum)	11.5
National total capital minimum ratio (if different from Basel III minimum)	13.5

Basel II and III - Pillar III Report 2019

Disclosure template for main features of all regulatory capital instruments

1. **Common Equity**

Common equity comprises of 1,625,946,449 equity shares of RO 0.100 each fully paid up, issued and governed under the laws of Sultanate of Oman.

2. **All other regulatory capital instruments**

1	Issuer	-	National Bank of Oman
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS1321921899
3	Governing law(s) of the instrument	-	English
4	Transitional Basel III rules	-	Additional Tier I
5	Post-transitional Basel III rules	-	Eligible
6	Eligible at solo / group / group & solo	-	Solo
7	Instrument type	-	Additional Tier I
8	Amount recognised in regulatory capital	-	RO 115.5 million
9	Par value of instrument	-	RO 115.5 million
10	Accounting classification	-	Equity
11	Original date of issuance	-	18-Nov-15
12	Perpetual or dated	-	Perpetual
13	Original maturity date	-	Not applicable
14	Issuer call subject to prior supervisory approval	-	Yes
15	Optional call date, contingent call dates and redemption amount	-	18-Nov-20
16	Subsequent call dates, if applicable	-	Every five years

Coupons / dividends			
17	Fixed or floating dividend/coupon	-	Fixed
18	Coupon rate and any related index	-	7.875%
19	Existence of a dividend stopper	-	Yes
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary
21	Existence of step up or other incentive to redeem	-	No
22	Non-cumulative or cumulative	-	Non cumulative
23	Convertible or non-convertible	-	Non convertible
24	If convertible, conversion trigger(s)	-	Not applicable
25	If convertible, fully or partially	-	Not applicable
26	If convertible, conversion rate	-	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable
28	If convertible, specify instrument type convertible into	-	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable
30	Write-down feature	-	Yes
31	If write-down, write-down trigger(s)	-	Non viability event
32	If write-down, full or partial	-	Full (See note)
33	If write-down, permanent or temporary	-	Permanent
34	If temporary write-down, description of write-up mechanism	-	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	Subordinated to Senior Liabilities and Tier II - Subordinated debts
36	Non-compliant transitioned features	-	No
37	If yes, specify non-compliant features	-	Not applicable

Note: The Capital Securities can be cancelled (in the case of a write-down in whole) or written-down in part on a pro rata basis (in the case of a write-down in part) as determined by the Bank in conjunction with the Regulator in accordance with the Capital Regulations.

This report on Basel II & III disclosures was authorized for issue by the Board of Directors on 27 January 2020.

Rawan bint Ahmed Al Said
Chairperson

5

Statement of Financial Positions at 31 December 2019

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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG (the "bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International independence standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Report on the audit of the financial statements (continued)

Key audit matters (continued)

1. Impairment provision on loans, advances and financing activities for customers subject to credit risk

Key audit matters	*How our audit addressed the key audit matters*
At 31 December 2019 the Bank reported gross loans, advances and financing activities for customers amounting to RO 2,919.85 million and RO 118.29 million of expected credit loss allowances. Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for loans, advances and financing activities for customers, we considered this matter as a key audit matter. The key areas of judgement include: ▸ The identification of exposure with a significant deterioration in credit quality. ▸ Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. ▸ The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model. The accounting policies relating to estimating impairment provision on loans, advances and financing activities for customers, critical accounting estimates and judgements, and the disclosures relating to impairment of loans, advances and financing activities for customers associated with credit risk are set out in notes 3.2, 2.4.2 and 6 to the financial statements.	Our audit procedures in this area included the following: • Evaluated the appropriateness of the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • Obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and management assumptions; • Evaluated Bank's key judgments and estimates made in the ECL computation and involved specialists to assist in evaluating the judgments and estimates relating to probability of default, macro-economic variables and recovery rates; • For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Bank's staging; and - ECL calculation. • Checked the completeness of the loans, advances and financing activities for customers (including off balance sheets) in the ECL calculation as of 31 December 2019. We understood the theoretical soundness and tested the mathematical integrity of the models; • Checked the consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • Considered the adequacy of the disclosures in the financial statements in relation to impairment of loans, advances and financing activities for customers and other financial assets subject to credit risk as required under IFRS 9.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Other information included in the bank's 2019 Annual Report
Those charged with governance and management are responsible for the other information. Other information consists of the information included in the bank's 2019 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2019 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis
- Financial statements of the Islamic Banking Window
- Basel II Pillar III and Basel III Report of the bank
- Basel II Pillar III and Basel III Report of the Islamic Banking Services.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law, as amended, and CMA of the Sultanate of Oman.

Ernst Young LLC

B. Hindy

Bassam Moustafa Hindy
Muscat
9 March 2020

ارنست ويونغ ش م م
س ت: ١٣٢٤٠١٣
ص ب: ١٧٥٠ روي – ١١٢، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Statement of Financial Position
As at 31 December 2019

2018	2019	Assets	Notes	2019	2018
USD'000	USD'000			RO'000	RO'000
818,325	**866,940**	Cash and balances with Central Banks	4	**333,772**	315,055
254,712	**284,094**	Due from banks and other money market placements (net)	5	**109,376**	98,064
7,297,940	**7,276,771**	Loans, advances and financing activities for customers (net)	6	**2,801,557**	2,809,707
600,387	**759,868**	Financial investments	7	**292,549**	231,149
167,169	**173,231**	Premises and equipment	8	**66,694**	64,360
141,783	**105,834**	Other assets	9	**40,746**	54,587
9,280,316	**9,466,738**	**Total assets**		**3,644,694**	3,572,922
		Liabilities			
405,062	**737,106**	Due to banks and other moneymarket deposits	10	**283,786**	155,949
6,369,823	**6,575,371**	Customers' deposits and unrestricted investment accounts	11	**2,531,518**	2,452,382
797,787	**500,000**	Euro medium term notes	12	**192,500**	307,148
242,945	**181,349**	Other liabilities	13	**69,819**	93,534
27,062	**34,340**	Taxation	14	**13,221**	10,419
44,156	**-**	Subordinated debt	15	**-**	17,000
7,886,835	**8,028,166**	**Total liabilities**		**3,090,844**	3,036,432
		Equity			
422,325	**422,325**	Share capital	16	**162,595**	162,595
89,519	**89,519**	Share premium	17	**34,465**	34,465
140,774	**140,774**	Legal reserve	18	**54,198**	54,198
42,964	**9,405**	Other non-distributable reserves	19	**3,621**	16,541
67,571	**70,951**	Proposed cash dividend	21	**27,316**	26,015
330,328	**405,598**	Retained earnings		**156,155**	127,176
1,093,481	**1,138,572**	**Total shareholders' equity attributable to the equity holders of the Bank**		**438,350**	420,990
300,000	**300,000**	Tier I Perpetual Bond	20	**115,500**	115,500
1,393,481	**1,438,572**	**Total equity**		**553,850**	536,490
9,280,316	**9,466,738**	**Total liabilities and equity**		**3,644,694**	3,572,922

The attached notes 1 to 35 form part of these financial statements.

The financial statements were authorised for issue on 27 January 2020 in accordance with a resolution of the Board of Directors.

Chairperson

Acting Chief Executive Officer

Statement of Comprehensive Income
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
USD'000	USD'000			RO'000	RO'000
396,506	**425,257**	Interest income	23	**163,724**	152,655
(163,810)	**(190,065)**	Interest expense	24	**(73,175)**	(63,067)
232,696	**235,192**	Net interest income		**90,549**	89,588
16,296	**19,888**	Income from Islamic financing and investment activities		**7,657**	6,274
(9,047)	**(10,844)**	Unrestricted investment account holders' share of profit		**(4,175)**	(3,483)
7,249	**9,044**	Net Income from Islamic financing and investment activities		**3,482**	2,791
239,945	**244,236**	Net interest income and net income from Islamic financing and Investment activities		**94,031**	92,379
95,158	**89,132**	Other operating income	25	**34,316**	36,636
335,103	**333,368**	**Operating income**		**128,347**	129,015
(99,886)	**(100,774)**	Staff costs		**(38,798)**	(38,456)
(48,906)	**(48,678)**	Other operating expenses	26	**(18,741)**	(18,829)
(11,577)	**(15,862)**	Depreciation	8	**(6,107)**	(4,457)
(160,369)	**(165,314)**	**Total operating expenses**		**(63,646)**	(61,742)
174,734	**168,054**	**Profit from operations before impairment losses and tax**		**64,701**	67,273
(48,021)	**(38,668)**	Credit loss expense – customers' loan	6 & 13	**(14,887)**	(18,488)
11,751	**8,579**	Recoveries and releases from provision for credit losses	6	**3,303**	4,524
17,075	**9,987**	Recoveries from loans and advances written off		**3,845**	6,574
(18)	**(21)**	Provisions – others		**(8)**	(7)
(19,213)	**(20,123)**	**Total impairment losses (net)**		**(7,747)**	(7,397)
155,521	**147,931**	**Profit before tax**		**56,954**	59,876
(24,073)	**(14,345)**	Taxation	14	**(5,523)**	(9,268)
131,448	**133,586**	**Profit for the year**		**51,431**	50,608
		Other comprehensive expense			
		Items that will not be reclassified subsequently to profit or loss			
(4,392)	**(3,229)**	Revaluation (losses)/gains on equity instruments at fair value through other comprehensive income		**(1,243)**	(1,691)
		Items that will be reclassified subsequently to profit or loss			
(1,281)	**1,528**	Debt instruments at fair value through other comprehensive income		**588**	(493)
(244)	**(847)**	Tax effect of net results on FVOCI financial investments		**(326)**	(94)
(5,917)	**(2,548)**	**Other comprehensive expense for the year**		**(981)**	(2,278)
125,531	**131,038**	**Total comprehensive income for the year**		**50,450**	48,330
0.06	**0.07**	Earnings per share: (USD) – Basic and diluted – (RO)	28	**0.027**	0.024

The attached notes 1 to 35 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2019

Statement of Changes in Equity (continued)
For the year ended 31 December 2019

	Attributable to equity holders of Bank				Attributable to equity holders of Bank					
	Share capital	**Share premium**	**Legal reserve**	**Other non-distributable reserves**	**Proposed cash dividend (note 21)**	**Proposed stock dividend (note 21)**	**Retained earnings**	**Total**	**Tier I perpetual bond**	**Total equity**
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2019	**162,595**	**34,465**	**54,198**	**16,541**	**26,015**	**-**	**127,176**	**420,990**	**115,500**	**536,490**
Total comprehensive income for the year	-	-	-	**(981)**	-	-	**51,431**	**50,450**	-	**50,450**
Dividend paid (note 21)	-	-	-	-	**(26,015)**	-	-	**(26,015)**	-	**(26,015)**
Payment of Tier I perpetual bond	-	-	-	-	-	-	**(9,096)**	**(9,096)**	-	**(9,096)**
Reversal of WHT on Tier I perpetual bond	-	-	-	-	-	-	**2,021**	**2,021**	-	**2,021**
Transfer to impairment reserve	-	-	-	**5,061**	-	-	**(5,061)**	-	-	-
Transfer to retained earnings	-	-	-	**(17,000)**	-	-	**17,000**	-	-	-
Proposed dividend	-	-	-	-	**27,316**	-	**(27,316)**	-	-	-
Balance at 31 December 2019	**162,595**	**34,465**	**54,198**	**(3,621)**	**27,316**	-	**156,155**	**438,350**	**115,500**	**553,850**
Balance at 31 December 2019 – In USD'000	**422,325**	**89,519**	**140,774**	**(9,405)**	**70,951**	-	**405,598**	**1,138,572**	**300,000**	**1,438,572**
Balance at 1 January 2018	154,852	34,465	51,617	23,489	23,228	7,743	135,365	430,759	115,500	546,259
Impact of adopting IFRS 9	-	-	-	(70)	-	-	(23,684)	(23,754)	-	(23,754)
Restated opening balance under IFRS 9	154,852	34,465	51,617	23,419	23,228	7,743	111,681	407,005	115,500	522,505
Total comprehensive income for the year	-	-	-	(2,278)	-	-	50,608	48,330	-	48,330
Issue of bonus shares (note 28)	7,743	-	-	-	-	(7,743)	-	-	-	-
Dividend paid (note 21)	-	-	-	-	(23,228)	-	-	(23,228)	-	(23,228)
Interest on Tier I perpetual bond	-	-	-	-	-	-	(9,096)	(9,096)	-	(9,096)
Accural of WHT on Tier I perpetual bond	-	-	-	-	-	-	(2,021)	(2,021)	-	(2,021)
Transfer to retained earnings	-	-	-	(8,000)	-	-	8,000	-	-	-
Transfer to subordinated debt reserve	-	-	-	3,400	-	-	(3,400)	-	-	-
Transfer to legal reserve (note 18)	-	-	2,581	-	-	-	(2,581)	-	-	-
Proposed dividend	-	-	-	-	26,015	-	(26,015)	-	-	-
Balance at 31 December 2018	162,595	34,465	54,198	16,541	26,015	-	127,176	420,990	115,500	536,490
Balance at 31 December 2018 – In USD'000	422,325	89,519	140,774	42,964	67,571	-	330,328	1,093,481	300,000	1,393,481

Statement of Cash Flow
For the year ended 31 December 2019

2018	2019	Operating activities	Notes	2019	2018
USD'000	USD'000			RO'000	RO'000
155,521	**147,931**	Profit before taxation		**56,954**	59,876
		Adjustments for:			
11,577	**15,862**	Depreciation	8	**6,107**	4,457
48,021	**38,668**	Provision for credit losses – customers' loans		**14,887**	18,488
(213)	**239**	Provision for credit losses / write back - due from banks		**92**	(82)
231	**(218)**	Impairment losses on available for sale investments	7	**(84)**	89
-	**(28)**	Profit on sale of equipment (net)		**(11)**	-
(306)	**309**	Profit on sale of investments	25	**119**	(118)
(3,268)	**(3,584)**	Investment income		**(1,380)**	(1,258)
211,563	**199,179**	Operating profit before changes in operating assets and Liabilities		**76,684**	81,452
17,122	**(26,364)**	Due from banks and other money market placements		**(10,150)**	6,592
(50,138)	**295,070**	Due to banks and other money market deposits		**113,602**	(19,303)
(487,748)	**(17,555)**	Loans, advances and financing activities for customers (net)		**(6,759)**	(187,783)
(25,003)	**33,182**	Other assets		**12,775**	(9,626)
(23,078)	**205,548**	Customers' deposits		**79,136**	(8,885)
198,031	**(297,787)**	Euro medium term notes		**(114,648)**	76,242
27, 605	**(68,852)**	Other liabilities		**(26,508)**	10,628
(131,646)	**322,421**	Cash from/(used in) operating activities		**124,132**	(50,683)
(15,408)	**(4,312)**	Taxes paid		**(1,660)**	(5,932)
(147,054)	**318,109**	Cash from/(used in) operating activities		**122,472**	(56,615)
		Investing activities			
(151,696)	**(214,922)**	Purchase of investments		**(82,745)**	(58,403)
6,634	**47,603**	Proceeds from sale of investments		**18,327**	2,554
14,285	**-**	Proceeds from maturity of government development bonds		**-**	5,500
(7,906)	**(9,506)**	Purchase of premises and equipment	8	**(3,660)**	(3,044)
52	**416**	Disposal of premises and equipment		**160**	20
3,268	**3,584**	Dividend income	25	**1,380**	1,258
-	**(47)**	Translation differences on premises and equipment and tax		**(18)**	-
(135,363)	**(172,873)**	Net cash used in investing activities		**(66,556)**	(52,115)

Statement of Cash Flow (continued)
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
USD'000	USD'000			RO'000	RO'000
		Financing activities			
(60,332)	**(67,571)**	Payment of dividend		**(26,015)**	(23,228)
(20,779)	**(44,156)**	Repayment in subordinated debt		**(17,000)**	(8,000)
(28,875)	**(18,377)**	Interest on Tier I perpetual bond		**(7,075)**	(11,117)
(109,986)	**(130,104)**	Net cash used in financing activities		**(50,090)**	(42,345)
(392,403)	**15,133**	Increase / (decrease) in cash and cash equivalents		**5,826**	(151,075)
1,056,009	**663,605**	Cash and cash equivalents at the beginning of the year		**255,488**	406,563
663,606	**678,738**	Cash and cash equivalents at the end of the year		**261,314**	255,488
		Representing			
817,026	**865,641**	Cash and balances with Central Banks	4	**333,272**	314,555
191,701	**195,198**	Due from banks maturing within three months		**75,151**	73,805
(345,121)	**(382,101)**	Due to banks maturing within three months		**(147,109)**	(132,872)
663,606	**678,738**	**Total**		**261,314**	255,488

Notes to the Financial Statements
As at 31 December 2019

1. Legal status and principal activities

National Bank of Oman SAOG ("NBO", "the Bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in Retail, Wholesale, Investment and Islamic banking services within the Sultanate of Oman and in the overseas branches in the United Arab Emirates and Egypt. In Oman the Bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The Bank is in the process of closing down its operations in Egypt and expects the closure process to be completed in the first quarter of 2020. The Bank has its headquarters in Muscat, and registered address of the Bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank has a primary listing on the Muscat Securities Market. Its bonds and AT1 capital instruments are listed in Euronext Dublin.

The Bank employed 1,593 employees as of 31 December2019 (31 December 2018 - 1,563).

The Bank employed 1,593 employees as of 31 December 2019

2. Basis of preparation

2.1 Basis of measurement

The financial statements are prepared under the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as trading and at fair value through profit or loss (FVTPL)
- Financial assets at fair value through other comprehensive income;
- Recognised assets and liabilities that are hedged are measured at fair value in respect of the risk thatis hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.4.

2.2 Functional and presentation currency

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the Bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law of Oman, as amended and the Capital Market Authority of the Sultanate of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

The Bank presents its statement of financial position broadly in order of liquidity.

Notes to the Financial Statements
As at 31 December 2019

2. Basis of Preparation (continued)

2.4 Significant accounting judgments and estimates

In preparation of the Bank's financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The significant use of judgments and estimates are as follows:

2.4.1 Going concern

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

2.4.2 Financial instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2019 pertain to IFRS 9, Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

<u>Assessment of Significant Increase in Credit Risk</u>

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The Bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Bank has established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Notes to the Financial Statements
As at 31 December 2019

2. Basis of Preparation (continued)

2.4.2 Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

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

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Bank's ECL calculation will have forecasts of the relevant macroeconomic variables.

The Bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Scenarios are probability-weighted according to the Bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macro-economic variable and the respective weights under the three scenarios is periodically assessed by the Bank.

In some instances, the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Bank's Governance process for oversight.

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and roll-over options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk on similar financial instruments and where the credit losses would not be mitigated by management actions.

Governance

In addition to the existing risk management framework, the Bank has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee comprises of senior representatives from Chief executive office, finance, risk management and internal audit and will be responsible for reviewing and approving key inputs and assumptions used in the Bank's ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Bank's financial statements.

2.4.3 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.4 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Notes to the Financial Statements
As at 31 December 2019

2. Basis of Preparation (continued)

2.4.5 Investment Funds

The Bank acts as fund manager and investment advisor to investment funds. For all funds managed by the Bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the Bank as fund manager without cause, and the Bank's aggregate economic interest is in each case less than 5%. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

2.5 Standards, amendments and interpretations effective in 2019 and relevant for the Bank's operations

For the year ended 31 December 2019, the Bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2019.

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty Over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 19 Plan, Amendment, Curtailment or Settlement
- Annual IFRS Improvement Process
    - IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity
    - IAS 23 Borrowing Costs – Borrowing costs eligible for capitalisation

The adoption of these standards and interpretations has not resulted in any major changes to the Bank's accounting policies except IFRS 16 whose effects on the Bank's consolidated financial statements are mentioned below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019.

Nature of effect of adoption of IFRS 16:

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognised based on the present value of the remaining lease payments,

Notes to the Financial Statements
As at 31 December 2019

2. Basis of Preparation (continued)

Nature of effect of adoption of IFRS 16: (continued)

discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:

The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Impact on transition

As at 1 January 2019, the Group recorded right-of-use assets of RO 4.92 million and lease liabilities of RO 2.79million. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 4% at 1 January 2019.

Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3.24 - Leases for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.5 - Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Bank but are not yet mandatory for the year ended 31 December 2019:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

Phase 1 Interest Rate Benchmark Reform (IBOR) Amendments to IFRS 9, IAS 39 and IFRS 7 were published by the IASB in September 2019, which includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The Bank is assessing the impact of Phase 1 IBOR amendments which are effective for annual periods beginning on or after 1 January 2020.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the

Notes to the Financial Statements
As at 31 December 2019

2. Basis of Preparation (continued)

Leases previously accounted for as operating leases (continued)

Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except for the changes related to IFRS 9 as explained in note 2.5.

3.1 Financial instruments – initial recognition

a. Date of recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

b. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

c. Measurement categories of financial assets and liabilities

The Bank has applied IFRS 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments at the fair value designation.

3.2 Financial assets and liabilities

3.2.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost

The Bank only measures due from banks, loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.2.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost (continued)

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.2.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost (continued)

Contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.2.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

3.2.3 Debt instruments at FVOCI

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.2.4 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 (Financial Instruments - Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.2.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.2.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

OR

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.2.6 Financial assets and financial liabilities at fair value through profit or loss (continued)

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

OR

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3.2.7 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, under IFRS 9 – an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 6.

3.2.8 Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

3.2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The bank designates certain derivatives as either:

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

ii. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); **OR**

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.2.9 Derivative financial instruments and hedging activities (continued)

iii. hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note 3.10.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.3 Reclassifications

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

3.4 Derecognition of the financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; **OR**
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

Financial assets (continued)

- Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

3.5 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortized cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial iability with modified terms is recognised in the statement of income.

3.6 Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12-month ECL.

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

3.6.1 Measurement of ECL

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

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

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.6.1 Measurement of ECL (continued)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3.6.2 Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing is first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses.

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset.

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.6.2 Overview of the ECL principles (continued)

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset.

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

3.6.3 The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that are expected to be received. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3.6.4 Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.6.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.6.6 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.6.7 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products.

3.7 Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected amortized fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3.8 Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.9 Write-off

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

3.10 Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortized over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

3.11 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.12 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.13 Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.13 Premises and equipment (continued)

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

Right-of-use assets are presented together with premises and equipment in the statement of financial position (refer note 8). Right of use assets are depreciated on a straight line basis over the lease term.

The rates of depreciation are based upon the following estimated useful lives:

- Buildings on freehold land: 25 to 40 years
- Leasehold improvements: Over the lease terms 3 to 10 years
- Motor vehicles: 4 years
- Furniture: 3 to 10 years
- Equipment: 5 to 20 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.14 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

3.15 Deposits

All money market and customer deposits are carried at amortized cost using EIR.

3.16 Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortized cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

3.17 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the Bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.18 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.19 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.20 Perpetual Bond

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as component within equity.

3.21 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss. Interest income on interest bearing financial assets classified at FVOCI under IFRS 9, is recorded by using EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.23 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.24 Leases – prior to 1 January 2019

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right of use assets
The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. [Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term,] the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

Lease costs for the period ended 30 September 2019 relating to the right-of-use assets amounting to KD 36,342 are included under depreciation expenses.

b. Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g, a changes in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c. Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.24 Leases – prior to 1 January 2019 (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Judgement and estimates:

Significant judgement in determining the lease term of contracts with renewal and termination options – Group as lessee. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy, construction of significant leasehold improvements or significant customization to the leased asset).

3.25 Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail banking, wholesale banking, commercial banking, head office and Islamic. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3.28 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.29 Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Notes to the Financial Statements
As at 31 December 2019

3. Significant accounting policies (continued)

3.30 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.31 Foreign currency translation

i. Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

ii. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortized costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

iii. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

3.32 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

4. Cash and balances with central banks

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
148,153	**113,930**	Cash	**43,863**	57,039
5,696	**5,195**	Treasury bills with Central Banks	**2,000**	2,193
-	**13,613**	Certificate of Deposit with Central Banks	**5,241**	-
663,177	**732,903**	Other balances with Central Banks	**282,168**	255,323
817,026	**865,641**	**Cash and cash equivalents**	**333,272**	314,555
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
818,325	**866,940**	**Cash and balances with Central Banks**	**333,772**	315,055

i. At 31 December 2019, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (31 December 2018: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.

ii. Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2019 is 3% of total customer's deposits and for Central bank of UAE, is 1% of time deposits and 14% of all other deposits.

iii. ECL on the cash and balances with Central customer's Banks is not material and accordingly no adjustment has been accounted by the Bank.

Notes to the Financial Statements
As at 31 December 2019

5. Due from banks and other money market placements (net)

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
34,000	**65,899**	Loans and advances to banks	**25,371**	13,090
133,854	**119,857**	Placement with banks	**46,145**	51,534
87,842	**99,561**	Demand balances	**38,331**	33,819
255,696	**285,317**	**Due from banks and other money market placement**	**109,847**	98,443
(984)	**(1,223)**	Less: allowance for credit losses	**(471)**	(379)
254,712	**284,094**	**Net due from banks and other money market placement**	**109,376**	98,064

Movement in allowances for the credit losses is set out below:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
244	**984**	Balance at beginning of year	**379**	94
953	**-**	Impact of adopting IFRS 9	**-**	367
1,197	**984**	**Restated opening balance under IFRS 9**	**379**	461
(213)	**239**	Provided / (Released) during the year	**92**	(82)
984	**1,223**	**Balance at end of year**	**471**	379

The credit quality and the maximum exposure to credit risk based on bank's internal credit rating system and the year-end staging classification is disclosed in note 30.1 to the financial statements.

6. Loans, advances and financing activities for customers (net)

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
259,023	**278,927**	Overdrafts	**107,387**	99,724
3,641,273	**3,539,826**	Personal loans	**1,362,833**	1,401,890
127,862	**172,520**	Loans against trust receipts	**66,420**	49,227
67,332	**31,836**	Bills discounted	**12,257**	25,923
3,541,094	**3,560,906**	Other loans	**1,370,949**	1,363,321
7,636,584	**7,584,015**	**Gross loans, advances and financing activities for customers**	**2,919,846**	2,940,085
(338,644)	**(307,244)**	Allowance for credit losses and contractual interest	**(118,289)**	(130,378)
7,297,940	**7,276,771**	**Net loans and advances**	**2,801,557**	2,809,707

Gross loans, advances and financing activities for customers include RO 140 million due from related parties at 31 December 2019 (31 December 2018 – RO 115 million) (refer note 27).

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

The movement in the provision for impairment of loans, advances and financing activities and contractual interest for customers is set out below:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
302,678	**338,644**	Balance at beginning of year	**130,378**	116,531
35,821	-	Impact of adopting IFRS 9	-	13,791
338,499	**338,644**	**Restated opening balance under IFRS 9**	**130,378**	130,322
71,950	**66,829**	Provided during the year	**25,729**	27,701
(11,751)	**(8,579)**	Recovered/ released during the year	**(3,303)**	(4,524)
(60,044)	**(89,694)**	Written off during the year	**(34,532)**	(23,117)
(10)	**44**	Translation difference	**17**	(4)
338,644	**307,244**	**Balance at end of year**	**118,289**	130,378

Provided during the period includes contractual interest reserved for RO 7.65 million.

Recovered/released during the period includes recovery of reserved interest for RO 1.60 million.

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

As of 31 December 2019, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 144 million (31 December 2018 – RO 141 million).

The credit quality and the maximum exposure to credit risk based on bank's internal credit rating system and the year-end staging classification is disclosed in note 30.1 to the financial statements.

The table below analyses the concentration of gross loans and advances by various sectors.

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
3,641,273	**3,539,826**	Personal	**1,362,833**	1,401,890
668,652	**752,673**	Financial institutions	**289,779**	257,431
550,434	**574,013**	Manufacturing	**220,995**	211,917
591,730	**572,782**	Service	**220,521**	227,816
504,242	**478,426**	Wholesale and retail trade	**184,194**	194,133
491,081	**437,779**	Construction	**168,545**	189,066
313,395	**348,161**	Electricity, gas and water	**134,042**	120,657
246,969	**261,091**	Transport and communication	**100,520**	95,083
293,129	**247,476**	Others	**95,278**	112,855
196,765	**175,415**	Mining and quarrying	**67,535**	75,755
124,802	**162,329**	Import trade	**62,497**	48,049
517	**23,626**	Government	**9,096**	199
13,595	**10,418**	Agriculture	**4,011**	5,234
7,636,584	**7,584,015**	**Total Gross Loans**	**2,919,846**	2,940,085

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
7,306,925	**7,306,183**	Sultanate of Oman	**2,812,880**	2,813,166
313,268	**266,229**	United Arab Emirates	**102,498**	120,608
384	-	Egypt	-	148
16,007	**11,603**	Others	**4,468**	6,163
7,636,584	**7,584,015**	**Total**	**2,919,846**	2,940,085

Impairment charge and provision held as of 31 December 2019

Difference	As per IFRS 9	As per CBO Norms	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
-	30,106	30,106	Impairment Loss charged to profit and loss	11,591	11,591	-
14,742	325,436	310,694*	Provisions required	119,617*	125,293	5,676
-	3.62	3.62	Gross non-performing loan ratio (percentage)	3.62	3.62	-
0.16	1.56	1.40	Net non-performing loan ratio (percentage)	1.40	1.56	0.16

*Excludes contractual interest reserve amounting 11.63 million (USD 30.21 million)

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
	Stage 1	2,287,046	31,613	12,395	19,218	2,274,651	-
Standard	Stage 2	411,848	4,596	12,583	(7,987)	399,265	-
	Stage 3	-	-	-	-	-	-
Subtotal		**2,698,894**	**36,209**	**24,978**	**11,231**	**2,673,916**	**-**
	Stage 1	-	-	-	-	-	-
Special Mention	Stage 2	77,343	824	4,862	(4,038)	72,481	-
	Stage 3	-	-	-	-	-	-
Subtotal		**77,343**	**824**	**4,862**	**(4,038)**	**72,481**	**-**
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	20,476	5,061	11,336	(6,042)	9,140	233
Subtotal		**20,476**	**5,061**	**11,336**	**(6,042)**	**9,140**	**233**
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	27,521	10,068	10,945	(220)	16,576	657
Subtotal		**27,521**	**10,068**	**10,945**	**(220)**	**16,576**	**657**
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	95,612	67,456	66,168	12,028	29,444	10,740
Subtotal		**95,612**	**67,456**	**66,168**	**12,028**	**29,444**	**10,740**
	Stage 1	583,716	-	2,091	(2,091)	581,625	-
Other items not covered under CBO circular BM 977 and related instructions	Stage 2	152,395	-	4,913	(4,913)	147,482	-
	Stage 3	-	-	-	-	-	-
Subtotal		**736,111**	**-**	**7,004**	**(7,004)**	**729,107**	**-**
Total	**Stage 1**	**2,870,762**	**31,613**	**14,486**	**17,127**	**2,856,276**	**-**
	Stage 2	**641,585**	**5,421**	**22,358**	**(16,937)**	**619,227**	**-**
	Stage 3	**143,609**	**82,584**	**88,449**	**5,765**	**55,160**	**11,630**
	Total	**3,655,957**	**119,617**	**125,293**	**5,954**	**3,530,663**	**11,630**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2019:

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
	Stage 1	5,940,379	82,111	32,194	49,917	5,908,185	-
Standard	Stage 2	1,069,735	11,938	32,683	(20,745)	1,037,052	-
	Stage 3	-	-	-	-	-	-
Subtotal		**7,010,114**	**94,049**	**64,877**	**29,172**	**6,945,237**	**-**
	Stage 1	-	-	-	-	-	-
Special Mention	Stage 2	200,890	2,141	12,630	(10,489)	188,260	-
	Stage 3	-	-	-	-	-	-
Subtotal		**200,890**	**2,141**	**12,630**	**(10,489)**	**188,260**	**-**
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	53,185	13,145	29,445	(15,695)	23,740	605
Subtotal		**53,185**	**13,145**	**29,445**	**(15,695)**	**23,740**	**605**
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	71,484	26,150	28,428	(571)	43,056	1,707
Subtotal		**71,484**	**26,150**	**28,428**	**(571)**	**43,056**	**1,707**
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	248,342	175,209	171,865	31,240	76,477	27,896
Subtotal		**248,342**	**175,209**	**171,865**	**31,240**	**76,477**	**27,896**
	Stage 1	1,516,145	-	5,432	(5,432)	1,510,713	-
Other items not covered under CBO circular BM 977 and related instructions	Stage 2	395,831	-	12,761	(12,761)	383,070	-
	Stage 3	-	-	-	-	-	-
Subtotal		**1,911,976**	**-**	**18,193**	**(18,193)**	**1,893,783**	**-**
Total	**Stage 1**	**7,456,524**	**82,111**	**37,626**	**44,485**	**7,418,898**	**-**
	Stage 2	**1,666,456**	**14,079**	**58,074**	**(43,995)**	**1,608,382**	**-**
	Stage 3	**373,011**	**214,504**	**229,738**	**14,974**	**143,273**	**30,208**
	Total	**9,495,991**	**310,694**	**325,438**	**15,464**	**9,170,553**	**30,208**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2019:

Impairment charge and provision held as of 31 December 2018

Difference	As per IFRS 9	As per CBO Norms	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	USD'000			RO'000	RO'000	RO'000
-	36,288	36,288	Impairment Loss charged to profit and loss	13,971	13,971	-
68,591	365,119	296,528*	Provisions required	114,163*	140,571	26,408
-	3.36	3.36	Gross non-performing loan ratio (percentage)	3.36	3.36	-
(0.38)	1.01	1.39	Net non-performing loan ratio (percentage)	1.39	1.01	(0.38)

*Excludes contractual interest reserve amounting to RO 16.72 million (USD 43.44 million)

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2018:

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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,264,336	32,073	14,480	17,593	2,249,856	-
	Stage 2	397,651	4,474	12,557	(8,083)	385,094	-
	Stage 3	-	-	-	-	-	-
Subtotal		**2,661,987**	**36,547**	**27,037**	**9,510**	**2,634,949**	**-**
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	137,580	3,553	14,824	(11,271)	124,787	
	Stage 3	-	-	-	-	-	-
Subtotal		**129,060**	**3,553**	**14,824**	**(11,271)**	**124,787**	**-**
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	11,701	2,230	4,076	(1,618)	7,625	228
Subtotal		**11,701**	**2,230**	**4,076**	**(1,618)**	**7,625**	**228**
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	32,374	12,740	15,234	(1,663)	17,140	831
Subtotal		**32,374**	**12,740**	**15,234**	**(1,663)**	**17,140**	**831**
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	96,444	59,094	68,639	6,120	27,805	15,665
Subtotal		**96,444**	**59,094**	**68,639**	**6,120**	**27,805**	**15,665**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	604,983	-	2,466	(2,466)	602,517	-
	Stage 2	159,391	-	8,294	(8,294)	151,097	-
	Stage 3	-	-	-	-	-	-
Subtotal		**764,374**	**-**	**10,760**	**(10,760)**	**753,614**	**-**
Total	**Stage 1**	**2,869,319**	**32,073**	**16,945**	**15,128**	**2,852,374**	**-**
	Stage 2	**694,622**	**8,027**	**33,644**	**(25,617)**	**660,978**	**-**
	Stage 3	**140,519**	**74,063**	**89,982**	**805**	**50,537**	**16,724**
	Total	**3,704,460**	**114,163**	**140,571**	**(9,684)**	**3,563,888**	**16,724**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2018:

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Standard	Stage 1	5,881,392	83,307	37,609	45,698	5,843,783	-
	Stage 2	1,032,859	11,621	32,616	(20,995)	1,000,243	-
	Stage 3	-	-	-	-	-	-
Subtotal		**6,914,251**	**94,928**	**70,225**	**24,703**	**6,844,026**	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	357,352	9,228	33,230	(24,002)	324,122	-
	Stage 3	-	-	-	-	-	-
Subtotal		**357,352**	**9,228**	**33,230**	**(24,002)**	**324,122**	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	30,392	6,695	10,587	(3,300)	19,805	592
Subtotal		**30,392**	**6,695**	**10,587**	**(3,300)**	**19,805**	**592**
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	84,088	33,090	39,569	(4,320)	44,519	2,159
Subtotal		**84,088**	**33,090**	**39,569**	**(4,320)**	**44,519**	**2,159**
Loss	Stage 1				-	-	-
	Stage 2				-	-	-
	Stage 3	250,504	152,586	183,565	9,710	66,939	40,689
Subtotal		**250,504**	**152,586**	**183,565**	**9,710**	**66,939**	**40,689**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,571,384		6,404	(6,404)	1,564,980	-
	Stage 2	414,002		21,542	(21,542)	392,460	-
	Stage 3	-	-	-	-	-	-
Subtotal		**1,985,386**	-	**27,946**	**(27,946)**	**1,957,440**	-
Total	**Stage 1**	**7,452,776**	**83,307**	**44,013**	**39,294**	**7,408,763**	**-**
	Stage 2	**1,804,213**	**20,849**	**87,388**	**(66,539)**	**1,716,825**	**-**
	Stage 3	**364,983**	**192,371**	**233,721**	**2,090**	**131,263**	**43,440**
	Total	**9,621,972**	**296,527**	**365,122**	**(25,153)**	**9,256,851**	**43,440**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.3 Restructured loans as at 31 December 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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	12,340	221	84	137	12,256	-
	Stage 2	29,842	458	2,711	(2,253)	27,131	-
	Stage 3	-	-	-	-	-	-
Subtotal		**42,182**	**679**	**2,795**	**(2,116)**	**39,387**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	34,902	14,219	15,323	433	19,579	1,537
Subtotal		**34,902**	**14,219**	**15,323**	**433**	**19,579**	**1,537**
Total	**Stage 1**	**12,340**	**221**	**84**	**137**	**12,256**	**-**
	Stage 2	**29,842**	**458**	**2,711**	**(2,253)**	**27,131**	**-**
	Stage 3	**34,902**	**14,219**	**15,323**	**433**	**19,579**	**1,537**
	Total	**77,084**	**14,898**	**18,118**	**(1,683)**	**58,966**	**1,537**

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	32,052	574	218	356	31,834	-
	Stage 2	77,512	1,190	7,042	(5,852)	70,470	-
	Stage 3	-	-	-	-	-	-
Subtotal		**109,564**	**1,764**	**7,260**	**(5,496)**	**102,304**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	90,655	36,932	39,800	1,124	50,855	3,992
Subtotal		**90,655**	**36,932**	**39,800**	**1,124**	**50,855**	**3,992**
Total	**Stage 1**	**32,052**	**574**	**218**	**356**	**31,834**	**-**
	Stage 2	**77,512**	**1,190**	**7,042**	**(5,852)**	**70,470**	**-**
	Stage 3	**90,655**	**36,932**	**39,800**	**1,124**	**50,855**	**3,992**
	Total	**200,219**	**38,696**	**47,060**	**(4,372)**	**153,159**	**3,992**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.4 Restructured loans as at 31 December 2018

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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	76,488	980	1,227	(247)	75,261	-
	Stage 2	20,725	2,510	5,325	(2,815)	15,400	-
	Stage 3				-	-	-
Subtotal		**97,213**	**3,490**	**6,552**	**(3,062)**	**90,661**	-
Classified as non-performing	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	34,702	11,771	15,635	(905)	19,067	2,959
Subtotal		**34,702**	**11,771**	**15,635**	**(905)**	**19,067**	**2,959**
Total	**Stage 1**	**76,488**	**980**	**1,227**	**(247)**	**75,261**	**-**
	Stage 2	**20,725**	**2,510**	**5,325**	**(2,815)**	**15,400**	**-**
	Stage 3	**34,702**	**11,771**	**15,635**	**(905)**	**19,067**	**2,959**
	Total	**131,915**	**15,261**	**22,187**	**(3,967)**	**109,728**	**2,959**

Amounts in USD'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 under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)+(8)-(5)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	198,670	2,545	3,187	(642)	195,483	-
	Stage 2	53,831	6,519	13,831	(7,312)	40,000	-
	Stage 3				-	-	-
Subtotal		**252,501**	**9,065**	**17,018**	**(7,953)**	**235,483**	-
Classified as non-performing	Stage 1				-	-	-
	Stage 2				-	-	-
	Stage 3	90,135	30,574	40,610	(2,350)	49,525	7,686
Subtotal		**90,135**	**30,574**	**40,610**	**(2,350)**	**49,525**	**7,686**
Total	**Stage 1**	**198,670**	**2,545**	**3,187**	**(642)**	**195,483**	**-**
	Stage 2	**53,831**	**6,519**	**13,831**	**(7,312)**	**40,000**	**-**
	Stage 3	**90,135**	**30,574**	**40,610**	**(2,350)**	**49,525**	**7,686**
	Total	**342,636**	**39,639**	**57,628**	**(10,304)**	**285,008**	**7,686**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.5 Movement in Expected credit losses (ECL) as at 31 December 2019

Assets	Stage 1 RO' 000	Stage 2 RO' 000	Stage 3 RO' 000	Total RO' 000
Exposure subject to ECL				
Loans and advances and financing activities for customers	2,287,047	489,190	143,609	2,919,846
Investment securities (debt)	293,056			293,056
Loan commitments and financial guarantees	625,324	152,395		777,719
Due from banks, central banks and other financial assets	109,847			109,847
Movement of ECL	**3,315,274**	**641,585**	**143,609**	**4,100,468**
Loans and advances and financing activities for customers	14,542	25,868	89,968	130,378
Investment securities (debt)	591	-	-	591
Loan commitments and financial guarantees	1,432	7,791	-	9,223
Due from banks, central banks and other financial assets	379	-	-	379
	16,944	**33,659**	**89,968**	**140,571**
Net transfer between stages				
Loans and advances and financing activities for customers	553	(3,689)	3,136	-
Investment securities (debt)	-	-	-	-
Loan commitments and financial guarantees	1,510	(1,510)	-	-
Due from banks, central banks and other financial assets	-	-	-	-
	2,063	**(5,199)**	**3,136**	**-**
Charge for the Period (net)				
Loans and advances and financing activities for customers	(2,700)	(4,734)	29,877	22,443
Investment securities (debt)	(84)	-	-	(84)
Loan commitments and financial guarantees	(1,828)	(1,369)	-	(3,197)
Due from banks, central banks and other financial assets	92	-	-	92
	(4,520)	**(6,103)**	**29,877**	**19,254**
Write off for the period				
Loans and Advances to Customers	-	-	(34,532)	(34,532)
	-	**-**	**(34,532)**	**(34,532)**
Closing Balance - As at 31 December 2019				
Loans and advances and financing activities for customers	12,395	17,445	88,449	118,289
Investment securities (debt)	507	-	-	507
Loan commitments and financial guarantees	1,114	4,912	-	6,026
Due from banks, central banks and other financial assets	471	-	-	471
	14,487	**22,357**	**88,449**	**125,293**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.5 Movement in Expected credit losses (ECL) as at 31 December 2019 (continued)

Assets	Stage 1 USD' 000	Stage 2 USD' 000	Stage 3 USD' 000	Total USD' 000
Exposure subject to ECL				
Loans and advances and financing activities for customers	**5,940,381**	**1,270,624**	**373,010**	**7,584,015**
Investment securities (debt)	**761,184**	**-**	**-**	**761,184**
Loan commitments and financial guarantees	**1,624,219**	**395,831**	**-**	**2,020,050**
Due from banks, central banks and other financial assets	**285,317**	**-**	**-**	**285,317**
Movement of ECL	**8,611,101**	**1,666,455**	**373,010**	**10,650,566**
Loans and advances and financing activities for customers	**37,771**	**67,190**	**233,683**	**338,644**
Investment securities (debt)	**1,535**	**-**	**-**	**1,535**
Loan commitments and financial guarantees	**3,719**	**20,236**	**-**	**23,955**
Due from banks, central banks and other financial assets	**984**	**-**	**-**	**984**
	44,009	**87,426**	**233,683**	**365,118**
Net transfer between stages				
Loans and advances and financing activities for customers	**1,436**	**(9,581)**	**8,145**	**-**
Investment securities (debt)	**-**	**-**	**-**	**-**
Loan commitments and financial guarantees	**3,922**	**(3,922)**	**-**	**-**
Due from banks, central banks and other financial assets	**-**	**-**	**-**	**-**
	5,358	**(13,503)**	**8,145**	**-**
Charge for the Period (net)				
Loans and advances and financing activities for customers	**(7,013)**	**(12,296)**	**77,603**	**58,294**
Investment securities (debt)	**(218)**	**-**	**-**	**(218)**
Loan commitments and financial guarantees	**(4,748)**	**(3,556)**	**-**	**(8,304)**
Due from banks, central banks and other financial assets	**239**	**-**	**-**	**239**
	(11,740)	**(15,852)**	**77,603**	**50,011**
Write off for the period				
Loans and Advances to Customers	**-**	**-**	**(89,694)**	**(89,694)**
	-	**-**	**(89,694)**	**(89,694)**
Closing Balance - As at 31 December 2019				
Loans and advances and financing activities for customers	**32,195**	**45,312**	**229,737**	**307,244**
Investment securities (debt)	**1,318**	**-**	**-**	**1,318**
Loan commitments and financial guarantees	**2,894**	**12,759**	**-**	**15,653**
Due from banks, central banks and other financial assets	**1,223**	**-**	**-**	**1,223**
	37,630	**58,071**	**229,737**	**325,438**

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)

6.6 Movement in Expected credit losses (ECL) as at 31 December 2018

Assets	Stage 1 RO' 000	Stage 2 RO' 000	Stage 3 RO' 000	Total RO' 000
Exposure subject to ECL				
Loans and advances and financing activities for customers	2,264,335	535,231	140,519	2,940,085
Investment securities (debt)	231,741			231,741
Loan commitments and financial guarantees	429,929	159,391		589,320
Due from banks, central banks and other financial assets	98,443			98,443
	3,024,448	694,622	140,519	3,859,589
Opening Balance - as at 1 January 2018				
Loans and advances and financing activities for customers	12,474	44,394	73,454	130,322
Investment securities (debt)	502			502
Loan commitments and financial guarantees	1,423	7,671		9,094
Due from banks, central banks and other financial assets	461			461
	14,860	52,065	73,454	140,379
Net transfer between stages				
Loans and advances and financing activities for customers	4,232	(10,677)	6,445	-
Investment securities (debt)	-	-	-	-
Loan commitments and financial guarantees	(1,198)	1,198	-	-
Due from banks, central banks and other financial assets	-	-	-	-
	3,034	(9,479)	6,445	-
Charge for the Period (net)				
Loans and advances and financing activities for customers	(2,163)	(7,864)	33,200	23,173
Investment securities (debt)	89	-	-	89
Loan commitments and financial guarantees	1,207	(1,078)	-	129
Due from banks, central banks and other financial assets	(82)	-	-	(82)
	(949)	(8,942)	33,200	23,309
Write off for the period				
Loans and Advances to Customers	-	-	(23,117)	(23,117)
	-	-	(23,117)	(23,117)
Closing Balance - as at 31 December 2018				
Loans and advances and financing activities for customers	14,543	25,853	89,982	130,378
Investment securities (debt)	591	-	-	591
Loan commitments and financial guarantees	1,432	7,791	-	9,223
Due from banks, central banks and other financial assets	379	-	-	379
	16,945	33,644	89,982	140,571

Notes to the Financial Statements
As at 31 December 2019

6. Loans, advances and financing activities for customers (net) (continued)
6.6 Movement in Expected credit losses (ECL) (continued)

Assets	Stage 1 USD' 000	Stage 2 USD' 000	Stage 3 USD' 000	Total USD' 000
Exposure subject to ECL				
Loans and advances and financing activities for customers	5,881,389	1,390,211	364,984	7,636,584
Investment securities (debt)	601,925	-	-	601,925
Loan commitments and financial guarantees	1,116,699	414,002	-	1,530,701
Due from banks, central banks and other financial assets	255,696	-	-	255,696
	7,855,709	**1,804,213**	**364,984**	**10,024,906**
Opening Balance - as at 1 January 2018				
Loans and advances and financing activities for customers	32,400	115,309	190,790	338,499
Investment securities (debt)	1,304	-	-	1,304
Loan commitments and financial guarantees	3,696	19,925	-	23,621
Due from banks, central banks and other financial assets	1,197	-	-	1,197
	38,597	**135,234**	**190,790**	**364,621**
Net transfer between stages				
Loans and advances and financing activities for customers	10,992	(27,732)	16,740	-
Investment securities (debt)	-	-	-	-
Loan commitments and financial guarantees	(3,112)	3,112	-	-
Due from banks, central banks and other financial assets	-	-	-	-
	7,880	**(24,620)**	**16,740**	**-**
Charge for the Period (net)				
Loans and advances and financing activities for customers	(5,618)	(20,426)	86,233	60,189
Investment securities (debt)	231	-	-	231
Loan commitments and financial guarantees	3,135	(2,801)	-	334
Due from banks, central banks and other financial assets	(213)	-	-	(213)
	(2,465)	**(23,227)**	**86,233**	**60,541**
Write off for the period				
Loans and Advances to Customers	-	-	(60,044)	(60,044)
	-	**-**	**(60,044)**	**(60,044)**
Closing Balance - as at 31 December 2018				
Loans and advances and financing activities for customers	**37,774**	**67,151**	**233,719**	**338,644**
Investment securities (debt)	**1,535**	**-**	**-**	**1,535**
Loan commitments and financial guarantees	**3,719**	**20,236**	**-**	**23,955**
Due from banks, central banks and other financial assets	**984**	**-**	**-**	**984**
	44,012	**87,387**	**233,719**	**365,118**

Notes to the Financial Statements
As at 31 December 2019

7. Financial investments

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
		Fair value through profit and loss		
		Quoted investments - Oman		
12,660	**12,104**	Banking and investment sector	**4,660**	4,874
12,660	**12,104**	**Total**	**4,660**	4,874
		Quoted investments - Foreign		
1,044	**1,019**	Banking and investment sector	**392**	402
1,044	**1,019**	**Total**	**392**	402
		Unquoted investments		
5,626	**6,550**	Banking and investment sector	**2,522**	2,166
647	**-**	Service sector	**-**	249
6,273	**6,550**	**Total**	**2,522**	2,415
19,977	**19,673**	**Total Fair value through profit and loss**	**7,574**	7,691
		Total FVOCI – Equity investments		
		Quoted investments - Oman		
5,280	**3,307**	Manufacturing sector	**1,273**	2,033
51,590	**29,338**	Service sector	**11,295**	19,862
-	**1,766**	Banking and investment sector	**680**	-
56,870	**34,411**	**Total**	**13,248**	21,895
		Quoted investments - Overseas		
7,945	**51,257**	Banking and investment sector	**19,734**	3,059
7,945	**51,257**	**Total**	**19,734**	3,059
		Unquoted investments		
766	**766**	Banking and investment sector	**295**	295
94	**93**	Service sector	**36**	36
860	**859**	**Total**	**331**	331
65,675	**86,527**	**Total FVOCI – Equity instruments**	**33,313**	25,285
		Debt instruments measured at FVOCI		
		Quoted investments - Oman		
8,808	**10,309**	Government Development Bonds	**3,969**	3,391
8,808	**10,309**	**Total FVOCI – Debt instruments**	**3,969**	3,391
74,483	**96,836**	**Total FVOCI**	**37,282**	28,676

Notes to the Financial Statements
As at 31 December 2019

7. Financial investments (continued)

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
		Investment measured at amortized cost		
		Quoted investments - Oman		
436,270	**564,166**	Government Development Bonds	**217,204**	167,964
7,792	**27,211**	Government Sukuk	**10,476**	3,000
11,272	**1,428**	Banking and investment sector	**550**	4,340
15,000	**15,000**	Manufacturing sector	**5,775**	5,775
24,260	**24,280**	Service sector	**9,348**	9,340
494,594	**632,085**	**Total**	**243,353**	190,419
		Quoted investments - Foreign		
12,868	**12,591**	Government Development Bonds	**4,847**	4,954
12,868	**12,591**	**Total**	**4,847**	4,954
507,462	**644,676**	**Total amortized cost**	**248,200**	195,373
601,922	**761,185**	**Total financial investments**	**293,056**	231,740
(1,535)	**(1,317)**	Less: Impairment	**(507)**	(591)
600,387	**759,868**	**Total financial investments**	**292,549**	231,149

Movement in allowances for the credit losses for debt securities at fair value through other comprehensive income and amortized cost:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
NA	**1,535**	Balance at beginning of year	**591**	NA
1,304	**-**	Impact of adopting IFRS 9	**-**	502
1,304	**1,535**	**Restated opening balance under IFRS 9**	**591**	502
231	**(218)**	Provided during the year	**(84)**	89
1,535	**1,317**	**Balance at end of year**	**507**	591

Notes to the Financial Statements
As at 31 December 2019

7. Financial investments (continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the Bank's investment portfolio are as follows:

Bank's portfolio	Carrying value		Bank's portfolio	Carrying value
%	USD'000		%	RO'000
		2019		
79.0%	**601,691**	Government Development Bonds-Oman	**79.0%**	**231,651**
		2018		
79.2%	475,584	Government Development Bonds-Oman	79.2%	183,100

In 2019, the Bank received dividends of RO 1.38 million from its FVOCI equities (2018: RO 1.25 million for FVOCI equities), recorded as other operating income.

There have been no significant changes in debt instruments measured at FVOCI gross balances, which have contributed to significant changes to the ECL over the year.

The fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification are disclosed in note 30.1 to the financial statements.

The credit rating profile of investment debt securities, based on the lowest rating assigned by the major international rating agencies, was as follows:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
24,260	**24,281**	Rated	**9,348**	9,340
16,429	**16,429**	Unrated	**6,325**	6,325
475,584	**614,281**	Sovereign	**236,498**	183,100
516,273	**654,991**	**Total**	**252,171**	198,765

Notes to the Financial Statements
As at 31 December 2019

8. Premises and equipment

	Freehold land and buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Right to use assets	Total
Carrying amount:	RO'000	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2019, net of accumulated					
Depreciation	50,054	12,040	2,266	-	64,360
Impact of adopting IFRS 16	-	-	-	4,918	4,918
Additions	128	1,099	2,433	-	3,660
Disposals	(4)	(16)	(130)	-	(150)
Transfers	139	3,413	(3,552)	-	-
Translation difference	12	1	-	-	13
Depreciation	(1,767)	**(2,828)**	-	**(1,512)**	**(6,107)**
Balance at 31 December 2019, net of accumulated depreciation	**48,562**	**13,709**	**1,017**	**3,406**	**66,694**
At cost	60,844	44,862	1,017	4,918	111,641
At revaluation	4,385	-	-	-	4,385
Accumulated depreciation	(16,667)	(31,153)	-	(1,512)	(49,332)
Net carrying value at 31 December 2019	**48,562**	**13,709**	**1,017**	**3,406**	**66,694**
Net carrying value at 31 December 2019 – USD'000	**126,135**	**35,607**	**2,642**	**8,847**	**173,231**

	Freehold land and buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress		Total
Reconciliation of carrying amount:	RO'000	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2018, net of accumulated					
Depreciation	51,249	12,486	2,060		65,795
Additions	14	1,175	1,855		3,044
Disposals	(4)	(12)	(4)		(20)
Transfers	613	1,032	(1,645)		-
Translation difference	(2)	-	-		(2)
Depreciation	(1,816)	(2,641)	-		(4,457)
Balance at 31 December 2018, net of accumulated depreciation	50,054	12,040	2,266		64,360
At cost	62,087	41,633	2,266		105,986
At revaluation	4,385	-	-		4,385
Accumulated depreciation	(16,418)	(29,593)	-		(46,011)
Net carrying value at 31 December 2018	50,054	12,040	2,266		64,360
Net carrying value at 31 December 2018 – USD'000	130,010	31,273	5,886		167,169

Notes to the Financial Statements
As at 31 December 2019

8. Premises and equipment
(continued)

Land and buildings above includes owned land and buildings at net carrying value of RO 47.56 million-USD 123.53 million, (2018 – RO 48.66 million- USD 126.39 million) out of which freehold land at a cost of RO 8.56 million – USD 22.22 million (2018 – RO 8.56 million – USD 22.22 million) is not depreciated and not re-valued.

The Bank has a policy to revalue its owned buildings at the end of every five years. In accordance with Bank's policy, three buildings on freehold land were re-valued at their open market value by an independent professional valuer, during 2015. Should the buildings on freehold land be carried at cost less depreciation, the net carrying amount would have been RO 37.34 million – USD 96.99 million (2018 –RO 38.33 million – USD 99.56 million).

Set out below are the carrying amount of lease liabilities (included under other liabilities and the movement during the period. The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of RO 3.4 million as at 1 January 2019.

Particular	Amount in RO '000
As at 1 January 2019-Effect of adoption of IFRS 16	**3,406**
Payments	(613)
As at 31 December 2019	**2,793**

9. Other assets

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
66,138	**60,247**	Interest receivable and others	**23,195**	25,464
1,169	**6,868**	Positive fair value of derivatives (note 34)	**2,644**	450
72,570	**38,719**	Customers' indebtedness for acceptances	**14,907**	27,939
1,906	-	Deferred tax (note 14)	-	734
141,783	**105,834**	**Total**	**40,746**	54,587

10. Due to banks and other money market deposits

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
390,610	**728,000**	Borrowings	**280,280**	150,385
14,452	**9,106**	Other balances	**3,506**	5,564
405,062	**737,106**	**Total**	**283,786**	155,949

Notes to the Financial Statements
As at 31 December 2019

11. Customers' deposits and unrestricted investment accounts

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
2,262,068	**2,283,145**	Current accounts	**879,011**	870,896
1,515,555	**1,556,099**	Savings accounts	**599,098**	583,489
2,592,200	**2,736,127**	Term deposits	**1,053,409**	997,997
6,369,823	**6,575,371**	**Total**	**2,531,518**	2,452,382

12. Euro medium term notes

The Bank has established Euro medium term programme for USD 1,500 million. These Bonds are listed in the Irish Stock Exchange.

As at year end the Bank had the following issuances:

As at 31 December 2018, The carrying amount of EMTN was stated after taking into account the amount of MTM value of the fair value hedge. (Refer note 34).

	2019	2018
Issuance made in year 2014 maturing in 2019	-	USD 300 million
Issuance made in year 2018 maturing in 2023	**USD 500 million**	USD 500 million
Total	**USD 500 million**	**USD 800 million**

13. Other liabilities

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
137,826	**109,218**	Interest payable and others	**42,049**	53,063
-	**7,255**	Lease commitment	**2,793**	-
5,294	**6,021**	Staff entitlements	**2,318**	2,038
72,567	**38,719**	Liabilities under acceptances	**14,907**	27,939
23,957	**15,652**	Allowances for credit losses for loan Commitments and Financial Guarantees	**6,026**	9,223
3,301	**3,621**	Negative fair value of derivatives (note 34)	**1,394**	1,271
-	**863**	Deferred tax liability (note 14)	**332**	-
242,945	**181,349**	**Total**	**69,819**	93,534

Lease Commitment are as follows:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
-	**4,701**	Reclassification from Lease commitments on transition to IFRS 16 on 1 January 2019	**1,810**	-
-	**2,180**	Transition impact of IFRS 16	**839**	-
-	**6,881**	Lease liability as at 1 January 2019	**2,649**	-
-	**6,805**	Additions during the year	**2,620**	-
-	**260**	Finance charges on lease	**100**	-

Notes to the Financial Statements
As at 31 December 2019

13. Other liabilities (continued)

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
-	**(5,099)**	Lease payments	**(1,963)**	-
-	**8,847**	Lease liability as at 31 December 2019	**3,406**	-
-	**(1,592)**	Less: Prepaid expenses	**(613)**	-
-	**7,255**	Lease liabilities (net)	**2,793**	-
		Staff entitlements are as follows:		
4,580	**5,208**	End of service benefits	**2,005**	1,763
714	**813**	Other liabilities	**313**	275
5,294	**6,021**	**Total**	**2,318**	2,038
		Movement in the end of service benefits liability are as follows:		
4,073	**4,580**	Liability as at 1 January	**1,763**	1,568
1,496	**1,132**	Expense recognised in the statement of comprehensive income	**436**	576
(989)	**(503)**	End of service benefits paid	**(194)**	(381)
4,580	**5,209**	**Liability as at 31 December**	**2,005**	1,763

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
NA	**23,957**	Balance at beginning of year	**9,223**	NA
23,620	**-**	Impact of adopting IFRS 9	**-**	9,094
23,620	**23,957**	Restated opening balance under IFRS 9	**9,223**	9,094
337	**(8,305)**	(Released) / provided during the period / year	**(3,197)**	129
23,957	**15,652**	**Balance at year end**	**6,026**	9,223

14. Taxation

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
Current tax expense				
22,176	**12,423**	Current year	**4,783**	8,538
1,897	**1,922**	Deferred tax adjustment	**740**	730
24,073	**14,345**	**Total**	**5,523**	9,268

The Bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income (2018: 15% of consolidated taxable income)
- United Arab Emirates: 20% of taxable income
- Egypt: 22.50% of taxable income

Notes to the Financial Statements
As at 31 December 2019

14. Taxation (continued)

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
155,521	**147,931**	Accounting profit	**56,954**	59,876
23,328	**22,190**	Tax at applicable rate	**8,543**	8,981
1,787	**1,832**	Non-deductible expenses	**705**	688
(2,542)	**(1,292)**	Tax exempt revenues	**(497)**	(979)
-	**(9,255)**	Tax allowance related to previous years	**(3,563)**	-
(397)	**(1,052)**	Others	**(405)**	(152)
22,176	**12,423**	**Total**	**4,783**	8,538

The Bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2013.

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's financial position as at 31 December 2019

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2017.

Tax liability

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
22,176	**12,423**	Income tax and other taxes – Current year	**4,783**	8,538
4,886	**21,917**	Income tax and other taxes – Prior years	**8,438**	1,881
27,062	**34,340**	**Total**	**13,221**	10,419

Recognised deferred tax assets / (liabilities)

Deferred tax assets / (liabilities) are attributable to the following:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
1,948	**26**	Deductible temporary differences relating to provisions and revaluation of buildings	**10**	750
(42)	**(889)**	FVOCI investments	**(342)**	(16)
1,906	**(863)**	**Total**	**(332)**	734

Notes to the Financial Statements
As at 31 December 2019

14. Taxation (continued)

Movement of deferred tax asset / (liability)

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
4,047	**1,906**	Balance at the beginning of the year	**734**	1,558
(1,897)	**(1,922)**	Reversed during the year	**(740)**	(730)
(244)	**(847)**	Tax effect of movement in FVOCI investments during the year	**(326)**	(94)
1,906	**(863)**	**Total**	**(332)**	734

15. Subordinated debt

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
64,935	**44,156**	At 1 January	**17,000**	25,000
(20,779)	**(44,156)**	Repaid during the year	**(17,000)**	(8,000)
44,156	**-**	**Total**	**-**	17,000

16. Share capital

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2018 – 2,000,000,000 of RO 0.100 each). At 31 December 2019, 1,625,946,355 shares of RO 0.100 each (2018 – 1,625,946,355 shares of RO 0.100 each) have been issued and fully paid.

As of 31 December 2019, the following shareholders held 10% or more of the Bank's capital:

The percentage shareholding is calculated based on the total shares of the Bank outstanding at the reporting date.

	Number of shares '000	% Holding
The Commercial Bank of Qatar	**567,453**	34.90%
Suhail Bahwan Group (Holdings) L.L.C	**239,734**	14.74%
Civil Service Employee Pension Fund	**183,441**	11.28%

17. Share premium

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the Bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the Bank's shareholders at the Bank's Extraordinary General Meeting held in 2005 at which time the face value of the Bank's share was RO 1.

18. Legal reserve

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2019, the legal reserve of Oman has reached one third of the issued capital.

Notes to the Financial Statements
As at 31 December 2019

19. Other non-distributable reserves

	FVOCI	Revaluation reserve	Subordinated debt reserve	Impairment reserve	Total
At 1 January 2019	(4,844)	4,385	17,000	-	16,541
Net movement on FVOCI	(655)	-	-	-	(655)
Tax effect of net results on FVOCI	(326)	-	-	-	(326)
Transfer from retain earnings	-	-	-	5,061	5,061
Transfer to retain earnings	-	-	(17,000)	-	(17,000)
At 31 December 2019	**(5,825)**	**4,385**	**-**	**5,061**	**3,621**
At 31 December 2019 USD	**(15,130)**	**11,390**	**-**	**13,145**	**9,405**
At 31 December 2018	(4,844)	4,385	17,000	-	16,541
At 31 December 2018 USD	(12,582)	11,390	44,156	-	42,964

i. The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off.

ii. The subordinated debt reserve represents an annual transfer towards subordinated debt. During the current year, as the loan has been fully repaid, the reserve has been transferred to retained earnings (note 15).

iii. The Impairment reserve represents in accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

20. Tier I perpetual bond

The Bank, in 2015 issued Perpetual Tier I Capital Securities (the “Tier I Securities”), amounting to RO 115,500,000. (USD 300,000,000)

The Tier I 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 I Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on 18 November 2020 (the “First Call Date”) or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier I Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% which is the aggregate of margin and 5 year mid-swap rate that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest is payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank’s discretion.

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

21. Dividends paid and proposed

The Board of Directors have proposed a cash dividend of RO 0.017 per share totalling RO 27.3 million (USD 0.04 per share totalling USD 70.9 million) for the year ended 31 December 2019, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2020.

At the Annual General Meeting held in March 2019, a cash dividend of RO 0.016 per share totalling RO 26 million (USD 0.042 per share totalling USD 67.5 million) for the year ended 31 December 2018 was approved and subsequently paid.

Notes to the Financial Statements
As at 31 December 2019

22. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank’s customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers’ contingent upon the failure of the customer to perform under the terms of the contract.

22.1 Contingent liabilities and commitments

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2018	2019		2019	2018
USD’000	USD’000		RO’000	RO’000
958,090	**902,855**	Guarantees	**347,599**	368,865
261,913	**332,905**	Documentary letters of credit	**128,168**	100,836
1,220,003	**1,235,760**	**Total**	**475,767**	469,701

The table below analyses the concentration of contingent liabilities by economic sector

2018	2019		2019	2018
USD’000	USD’000		RO’000	RO’000
500,629	**436,737**	Construction	**168,144**	192,742
136,312	**359,396**	Financial Institutions	**138,367**	52,480
129,918	**149,309**	Manufacturing	**57,484**	50,018
159,494	**98,157**	Wholesale and Retail Trade	**37,790**	61,405
162,452	**94,472**	Others	**36,372**	62,544
78,159	**46,030**	Transport and Communication	**17,722**	30,091
42,531	**44,448**	Service	**17,112**	16,375
1,602	**4,716**	Electricity, Gas & Water	**1,816**	617
7,994	**1,442**	Mining & Quarring	**555**	3,078
649	**618**	Personal	**238**	250
263	**435**	Agriculture	**167**	101
1,220,003	**1,235,760**	**Total**	**475,767**	469,701

Guarantees include RO 6.95 million – USD 18 million (Dec 2018: RO 1.58 million – USD 4.1 million) relating to non-performing loans.

Notes to the Financial Statements
As at 31 December 2019

22.2 Commitments

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
310,699	**784,290**	Undrawn commitment	**301,952**	119,619
2,894	**3,821**	Capital expenditure	**1,471**	1,114

22.3 Branches

The Bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
88,584	**106,282**	UAE branch	**40,918**	34,105
50,000	**50,000**	Egypt branches	**19,250**	19,250
138,584	**156,282**	**Total**	**60,168**	53,355

22.4 Legal claims

By nature of the banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/material litigation pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by or against customers in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on the Bank's financial statements.

22.5 Fiduciary assets

The fair value of securities as of 31 December 2019 held on trust for customers amounts to RO 52.9 million – USD 137.4 million (2018 – RO 46.8 million – USD 121.6 million).

23. Interest income

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
363,569	**381,023**	Interest from customers	**146,694**	139,974
13,034	**13,423**	Interest from banks	**5,168**	5,018
19,903	**30,811**	Investments	**11,862**	7,663
396,506	**425,257**	**Total**	**163,724**	152,655

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 5.40 % for the year ended 31 December 2019 (31 December 2018 – 5.29 %).

Notes to the Financial Statements
As at 31 December 2019

24. Interest expense

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
115,270	**128,239**	Interest to customers	**49,372**	44,379
20,480	**24,829**	Interest to banks	**9,559**	7,885
28,060	**36,997**	Euro medium term notes	**14,244**	10,803
163,810	**190,065**	**Total**	**73,175**	63,067

For the year ended 31 December 2019, the average overall effective annual cost of bank's funds was 2.59% (2018 – 2.32 %).

25. Other operating income

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
58,127	**50,870**	Fees and commission income	**19,585**	22,379
(18)	**(18)**	Fees and commission expense	**(7)**	(7)
58,109	**50,852**	Net fees and commissions	**19,578**	22,372
14,316	**13,670**	Service charges	**5,263**	5,512
306	**(309)**	(Loss)/Income on trading investments	**(119)**	118
16,185	**17,494**	Net gains from foreign exchange dealings	**6,735**	6,231
3,268	**3,584**	Dividend income	**1,380**	1,258
2,974	**3,841**	Miscellaneous income	**1,479**	1,145
95,158	**89,132**	**Total**	**34,316**	36,636

26. Other operating expenses

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
13,901	**12,138**	Establishment costs	**4,673**	5,352
34,213	**35,790**	Operating and administration costs	**13,779**	13,172
792	**750**	Directors' remuneration and sitting fees	**289**	305
48,906	**48,678**	**Total**	**18,741**	18,829

Notes to the Financial Statements
As at 31 December 2019

27. Related party transactions

In the ordinary course of business, the Bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2019			2018		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	139,556	139,556	-	115,139	115,139
Customers' deposits	55,522	61,529	117,051	32,263	52,757	85,020
Due from banks	258	9,625	9,883	84	9,625	9,709
Due to banks	358	-	358	28,955	-	28,955
Subordinated debt	-	-	-	14,500	-	14,500
Letter of credit, guarantees and acceptance	854	37,113	37,967	523	45,152	45,675
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Investment	2,124	-	2,124	2,031	-	2,031

The statement of comprehensive income includes the following amounts in relation to transactions with related parties:

	2019			2018		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	45	7,051	7,096	33	7,177	7,210
Commission income	5	1,309	1,314	76	228	304
Interest expense	1,799	1,464	3,263	2,050	1,190	3,240
Other expenses	-	382	382	-	600	600

	2019			2018		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loans and advances	-	362,483	362,483	-	299,062	299,062
Customers' deposits	144,213	159,816	304,029	83,800	137,031	220,831
Due from banks	670	25,000	25,670	218	25,000	25,218
Due to banks	930	-	930	75,208	-	75,208
Subordinated debt	-	-	-	37,662	-	37,662
Letter of credit, guarantees and acceptance	2,218	96,397	98,615	1,358	117,278	118,636
Standby revolving credit facility	200,000	-	200,000	200,000	-	200,000
Investment	5,517	-	5,517	5,275	-	5,275

The statement of comprehensive income includes following amounts as relation to the transaction with related parties.

Notes to the Financial Statements
As at 31 December 2019

27. Related party transactions (continued)

	2019			2018		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	117	18,314	18,431	86	18,642	18,728
Commission income	13	3,400	3,413	197	592	789
Interest expense	4,673	3,803	8,476	5,325	3,091	8,416
Other expenses	-	992	992	-	1,558	1,558

Details regarding senior management compensation are set out below:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
		Salaries and other benefits		
7,322	7,143	Fixed	2,750	2,819
4,008	4,080	Discretionary	1,571	1,543
11,330	11,223	**Total**	4,321	4,362

28. Basic and diluted earnings per share

	2019	2018
	RO'000	RO'000
Net Profit after tax (RO'000s)	51,431	50,608
Less: Interest on Tier I perpetual bond	(9,096)	(9,096)
Less: Withholding tax provision on Tier I perpetual bond	2,021	(2,021)
Profit attributable to shareholders	44,356	39,491
Weighted average number of shares outstanding during the year (in '000s)	1,625,946	1,625,946
Earnings per share (RO)	0.027	0.024

	2019	2018
	USD'000	USD'000
Net Profit after tax (USD'000s)	133,586	131,448
Less: Interest on Tier I perpetual bond	(23,626)	(23,626)
Less: Withholding tax provision on Tier I perpetual bond	5,249	(5,249)
Profit attributable to shareholders	115,209	102,573
Weighted average number of shares outstanding during the year (in '000s)	1,625,946	1,625,946
Earnings per share (USD)	0.07	0.06

No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

Notes to the Financial Statements
As at 31 December 2019

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
		Capital base		
1,010,312	**1,037,236**	Common equity Tier I - shareholders' funds	**399,336**	388,970
300,000	**300,000**	Additional Tier I - capital	**115,500**	115,500
94,127	**75,512**	Tier II - subordinated debt and collective impairment provisions	**29,072**	36,239
1,404,439	**1,412,748**	**Total capital base**	**543,908**	540,709
		Risk weighted assets		
7,820,239	**7,762,169**	Credit risk	**2,988,435**	3,010,792
644,896	**632,288**	Operational risk	**243,431**	248,285
169,130	**123,891**	Market risk	**47,698**	65,115
8,634,265	**8,518,348**	**Total risk weighted assets**	**3,279,564**	3,324,192
11.7%	**12.2%**	**Common Equity Tier I Ratio**	**12.2%**	11.7%
15.2%	**15.7%**	**Tier I Ratio**	**15.7%**	15.2%
16.3%	**16.6%**	**Risk asset ratio (Basel II norms)**	**16.6%**	16.3%

Notes to the Financial Statements
As at 31 December 2019

30. Risk management

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The Bank's key risks are credit risk, market risk, operational risk and strategic risk. The Bank operates on the guiding principles of three lines of defense i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

30.1 Credit risk

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the Bank. Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The Bank is contemplating an early warning trigger system based on predefined credit parameters and account behaviour. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's Risk Analyst model for risk rating corporate borrowers.

The Bank maintains an accurate and consistent corporate credit rating for all its customers.

The Bank has introduced facility risk rating apart from customer credit rating so as to measure the appropriate loss given default associated with each credit.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The Bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary. The Bank undertook sector review of its exposure to Real estate, Construction, Steel, Healthcare and lending against shares.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded / negatively migrated
- Weighted average credit grade profile
- Portfolio concentration / performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The Bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes.
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The Bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The Bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and / or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

Maximum exposure to credit risk

Gross maximum exposure	Gross maximum exposure		Gross maximum exposure	Gross maximum exposure
2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
684,877	**753,010**	Balances with Central Banks	**289,909**	258,016
255,696	**285,317**	Due from banks and other money market placements	**109,847**	98,443
7,636,584	**7,584,016**	Loans, advances and financing activities for customers	**2,919,846**	2,940,085
600,387	**759,868**	Financial investments	**255,267**	202,473
140,614	**98,966**	Other assets	**38,102**	54,137
1,169	**6,868**	Derivatives	**2,644**	450
9,319,327	**9,488,045**	**Total on balance sheet exposure**	**3,615,615**	3,553,604
958,088	**902,855**	Guarantees	**347,599**	368,864
261,912	**332,904**	Documentary letters of credit	**128,168**	100,836
310,699	**784,291**	Undrawn commitment	**301,952**	119,619
1,530,699	**2,020,050**	**Total off-balance sheet exposure**	**777,719**	589,319

The above table represents the maximum credit risk exposure to the Bank at 31 December 2019 and 2018 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

An ageing analysis of the Bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers at				
31 December 2019	**34,288**	**19,938**	**21,939**	**76,165**
31 December 2019 – USD'000s	**89,060**	**51,787**	**56,984**	**197,831**
31 December 2018	60,692	31,600	23,810	116,102
31 December 2018 – USD'000s	157,642	82,078	61,844	301,564

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	12-Month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RO'000	RO'000	RO'000	RO'000
Collateral available	1,555,098	45,027	44,941	1,645,066
Government soft loans*	39,285		1,253	40,538
Balance as at 31 December 2019	**1,594,383**	**45,027**	**46,194**	**1,685,604**
Balance as at 31 December 2019 – USD'000s	**4,141,255**	**116,953**	**119,984**	**4,378,192**
Balance as at 31 December 2018	1,259,534	153,367	55,970	1,468,871
Balance as at 31 December 2018 – USD'000s	3,271,517	398,356	145,377	3,815,250

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

The amount of total secured loans and advances is less than the total value of collateral as stated above.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2019:

	12-Month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	2019	2019	2019	2019
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers - corporate banking				
Performing loans (Grades 1-5)	930,879	289,819	-	1,220,698
Performing loans (Grades 6)	80,524	78,667	-	159,191
Performing loans (Grades 7)	-	71,035	-	71,035
Non-performing loans (Grades 8-10)	-	-	106,088	106,088
Gross loans and advances to customers - corporate banking	**1,011,403**	**439,521**	**106,088**	**1,557,012**
Loans and advances to customers – retail banking				
Performing loans (Grades 1-7)	1,276,077	49,234	-	1,325,311
Non-performing loans (Grades 8-10)	-	-	37,521	37,521
Gross loans and advances to customers - retail banking	**1,276,077**	**49,234**	**37,521**	**1,362,832**
Total gross loans and advances to customers	**2,287,480**	**488,755**	**143,609**	**2,919,845**
Loss allowance-carrying amount	**12,395**	**17,445**	**88,449**	**118,289**
Credit related contingent items				
Performing loans (Grades 1-5)	162,395	100,378	-	262,773
Performing loans (Grades 6)	26,869	52,994	-	79,863
Performing loans (Grades 7)	-	5,032	-	5,032
Non-performing loans (Grades 8-10)	-	-	6,947	6,947
Total gross credit related contingent items	**189,264**	**158,404**	**6,947**	**354,615**
Loss allowance-carrying amount	**1,114**	**4,913**	**-**	**6,027**
Performing Banks (Aa1 to Baa3)	51,901	-	-	**51,901**
Performing Banks (B1 to Ba2)	31,996	-	-	**31,996**
Performing Banks (Unrated)	25,950	-	-	**25,950**
Due from banks and money market placements	**109,847**	**-**	**-**	**109,847**
Loss allowance-carrying amount	**471**	**-**	**-**	**471**
Investment securities	**252,172**	**-**	**-**	**252,172**
Loss allowance-carrying amount	**506**	**-**	**-**	**506**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

	12-Month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	2019	2019	2019	2019
	USD'000	USD'000	USD'000	USD'000
Loans and advances to customers - corporate banking				
Performing loans (Grades 1-5)	2,417,868	752,777	-	3,170,645
Performing loans (Grades 6)	209,153	204,330	-	413,483
Performing loans (Grades 7)	-	184,508	-	184,508
Non-performing loans (Grades 8-10)	-	-	275,553	275,553
Gross loans and advances to customers - corporate banking	**2,627,021**	**1,141,615**	**275,553**	**4,044,189**
Loans and advances to customers – retail banking				
Performing loans (Grades 1-7)	3,314,487	127,880	-	3,442,367
Non-performing loans (Grades 8-10)	-	-	97,458	97,458
Gross loans and advances to customers - retail banking	**3,314,487**	**127,880**	**97,458**	**3,539,825**
Total gross loans and advances to customers	**5,941,508**	**1,269,495**	**373,011**	**7,584,014**
Loss allowance-carrying amount	**32,194**	**45,313**	**229,738**	**307,245**
Credit related contingent items				
Performing loans (Grades 1-5)	421,805	260,723	-	682,528
Performing loans (Grades 6)	69,789	137,646	-	207,435
Performing loans (Grades 7)	-	13,070	-	13,070
Non-performing loans (Grades 8-10)	-	-	18,043	18,043
Total gross credit related contingent items	**491,594**	**411,439**	**18,043**	**921,076**
Loss allowance-carrying amount	**2,892**	**12,761**	**-**	**15,653**
Performing Banks (Aa1 to Baa3)	134,809	-	-	134,809
Performing Banks (B1 to Ba2)	83,106	-	-	83,106
Performing Banks (Unrated)	67,402	-	-	67,402
Due from banks and money market placements	**285,317**	**-**	**-**	**285,317**
Loss allowance-carrying amount	**1,223**	**-**	**-**	**1,223**
Investment securities	**654,992**	**-**	**-**	**654,992**
Loss allowance-carrying amount	**1,314**	**-**	**-**	**1,314**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2018:

	12-Month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	2018	2018	2018	2018
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers - corporate banking				
Performing loans (Grades 1-5)	764,860	309,420	-	1,074,280
Performing loans (Grades 6)	204,274	41,172	-	245,446
Performing loans (Grades 7)	-	111,110	-	111,110
Non-performing loans (Grades 8-10)	-	-	107,359	107,359
Gross loans and advances to customers - corporate banking	**969,134**	**461,702**	**107,359**	**1,538,195**
Loss allowance-carrying amount	4,830	17,724	74,707	97,261
Loans and advances to customers – retail banking				
Performing loans (Grades 1-7)	1,305,993	62,737	-	1,368,730
Non-performing loans (Grades 8-10)	-	-	33,160	33,160
Gross loans and advances to customers - retail banking	1,305,993	62,737	33,160	1,401,890
Loss allowance-carrying amount	9,712	8,132	15,272	33,116
Total gross loans and advances to customers	**2,275,127**	**524,439**	**140,519**	**2,940,085**
Credit related contingent items				
Performing loans (Grades 1-5)	245,325	95,839	-	341,164
Performing loans (Grades 6)	22,336	40,971	-	63,307
Performing loans (Grades 7)	-	22,581	-	22,581
Non-performing loans (Grades 8-10)	-	-	1,572	1,572
Total gross loans and advances to customers	**267,661**	**159,391**	**1,572**	**428,624**
Loss allowance-carrying amount	1,433	7,791	-	9,224
Performing banks (Aa1 to Baa3)	71,158	-	-	71,158
Performing banks (B1 to Ba2)	13,288	-	-	13,288
Performing banks (Unrated)	13,996	-	-	13,996
Due from banks and money market placements	**98,442**	**-**	**-**	**98,442**
Loss allowance-carrying amount	379	-	-	379
Investment securities	198,765	-	-	198,765
Loss allowance-carrying amount	591	-	-	591

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

	12-Month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	2018	2018	2018	2018
	USD'000	USD'000	USD'000	USD'000
Loans and advances to customers - corporate banking				
Performing loans (Grades 1-5)	1,986,649	803,688	-	2,790,337
Performing loans (Grades 6)	530,582	106,940	-	637,522
Performing loans (Grades 7)	-	288,597	-	288,597
Non-performing loans (Grades 8-10)	-	-	278,855	278,855
Gross loans and advances to customers - corporate banking	**2,517,231**	**1,199,225**	**278,855**	**3,995,311**
Loss allowance-carrying amount	12,545	46,036	194,044	252,625
Loans and advances to customers – retail banking				
Performing loans (Grades 1-7)	3,392,189	162,953	-	3,555,142
Non-performing loans (Grades 8-10)	-	-	86,129	86,129
Gross loans and advances to customers - retail banking	3,392,189	162,953	86,129	3,641,271
Loss allowance-carrying amount	25,226	21,122	39,668	86,016
Total gross loans and advances to customers	**5,909,420**	**1,362,178**	**364,984**	**7,636,582**
Credit related contingent items				
Performing loans (Grades 1-5)	637,208	248,932	-	886,140
Performing loans (Grades 6)	58,016	106,418	-	164,434
Performing loans (Grades 7)	-	58,652	-	58,652
Non-performing loans (Grades 8-10)	-	-	4,083	4,083
Total gross loans and advances to customers	**695,224**	**414,002**	**4,083**	**1,113,309**
Loss allowance-carrying amount	3,722	20,236	-	23,958
Performing banks (Aa1 to Baa3)	184,828	-	-	184,828
Performing banks (B1 to Ba2)	34,515	-	-	34,515
Performing banks (Unrated)	36,353	-	-	36,353
Due from banks and money market placements	**255,696**	**-**	**-**	**255,696**
Loss allowance-carrying amount	984	-	-	984
Investment securities	516,273	-	-	516,273
Loss allowance-carrying amount	1,535	-	-	1,535

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

Impairment assessment

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection • Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

- historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
- size of the detachment equal to plus / minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
- the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Key drivers	ECL scenario and assigned weightage	2020	2021	2022
Real Interest Rate	Base scenario	7.6%	7.6%	7.6%
	Upside scenario	5.5%	6.3%	6.8%
	Downside scenario	11.8%	10.4%	9.4%
GDP	Base scenario	4.3%	4.3%	4.3%
	Upside scenario	7.2%	6.7%	6.7%
	Downside scenario	1.4%	1.7%	1.7%
GDP per capita	Base scenario	-0.3%	0.2%	0.7%
	Upside scenario	3.2%	3.2%	3.7%
	Downside scenario	-3.7%	-2.9%	-2.3%

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2019 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates	ECL	Impact on ECL
	In RO '000	In RO '000
ECL on non-impaired loans under IFRS9	36,844	
Upside scenario	32,090	4,755
Base scenario	37,155	(311)
Downside scenario	41,288	(4,444)

For computation of ECL, the Bank considers three scenario viz. base case, upside case and downside case with weightage of 33.33% each.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data and assigns the internal rating.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income / salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income / salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.1 Credit risk (continued)

The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.

a. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
b. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
c. Frequent changes in key senior management personnel without acceptable successors or professional management.
d. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
e. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
f. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
g. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
h. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
i. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
j. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Model risk management:

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Bank has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Bank in terms of usage of models.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective January 2019, with a minimum ratio of 100% as per the regulatory guidance.

The residual maturity behavioral of the assets, liabilities and equity at 31 December 2019 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	265,478	28,361	293,839	22,556	17,377	39,933	333,772
Due from banks and other money market placements (net)	75,149	13,437	88,586	11,165	9,625	20,790	109,376
Loans, advances and financing activities for customers (net)	357,890	249,638	607,528	706,750	1,487,279	2,194,029	2,801,557
Financial investments	64,382	22,068	86,450	62,134	143,965	206,099	292,549
Premises and equipment	-	-	-	-	66,694	66,694	66,694
Other assets	32,597	**8,149**	**40,746**	-	-	-	**40,746**
Total assets	**795,496**	**321,653**	**1,117,149**	**802,605**	**1,724,940**	**2,527,545**	**3,644,694**
Due to banks and other money market deposits	150,961	17,325	168,286	115,500	-	115,500	283,786
Customers' deposits and unrestricted investment accounts	547,429	819,736	1,367,165	668,344	496,009	1,164,353	2,531,518
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	66,082	1,033	67,115	2,704	-	2,704	69,819
Taxation	13,221	-	13,221	-	-	-	13,221
Subordinated debt	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	438,350	438,350	438,350
Tier I perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	**777,693**	**838,094**	**1,615,787**	**979,048**	**1,049,859**	**2,028,907**	**3,644,694**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.2 Liquidity risk (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	689,553	73,665	763,218	58,587	45,135	103,722	866,940
Due from banks and other money market placements (net)	195,193	34,901	230,094	29,000	25,000	54,000	284,094
Loans, advances and financing activities for customers (net)	929,584	648,410	1,577,994	1,835,714	3,863,063	5,698,777	7,276,771
Financial investments	167,227	57,319	224,546	161,387	373,935	535,322	759,868
Premises and equipment	-	-	-	-	173,231	173,231	173,231
Other assets	84,668	**21,166**	**105,834**	**-**	**-**	**-**	**105,834**
Total assets	**2,066,225**	**835,461**	**2,901,686**	**2,084,688**	**4,480,364**	**6,565,052**	**9,466,738**
Due to banks and other money market deposits	392,106	45,000	437,106	300,000	-	300,000	737,106
Customers' deposits and unrestricted investment accounts	1,421,894	2,129,184	3,551,078	1,735,958	1,288,335	3,024,293	6,575,371
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	171,643	2,683	174,326	7,023	-	7,023	181,349
Taxation	34,340	-	34,340	-	-	-	34,340
Subordinated debt	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	1,138,572	1,138,572	1,138,572
Tier I perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	**2,019,983**	**2,176,867**	**4,196,850**	**2,542,981**	**2,726,907**	**5,269,888**	**9,466,738**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.2 Liquidity risk (continued)

The maturity profile of the assets, liabilities and equity at 31 December 2018 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	250,988	29,343	280,331	17,879	16,845	34,724	315,055
Due from banks and other money market placements (net)	78,237	10,202	88,439	-	9,625	9,625	98,064
Loans, advances and financing activities for customers (net)	439,718	234,739	674,457	639,487	1,495,763	2,135,250	2,809,707
Financial investments	112,470	2,030	114,500	33,569	83,080	116,649	231,149
Premises and equipment	-	-	-	-	64,360	64,360	64,360
Other assets	47,308	**6,909**	**54,217**	**370**	-	**370**	**54,587**
Total assets	**928,721**	**283,223**	**1,211,944**	**691,305**	**1,669,673**	**2,360,978**	**3,572,922**
Due to banks and other money market deposits	132,849	15,400	148,249	7,700	-	7,700	155,949
Customers' deposits and unrestricted investment accounts	596,509	839,117	1,435,626	546,048	470,708	1,016,756	2,452,382
Euro medium term notes	-	114,648	114,648	192,500	-	192,500	307,148
Other liabilities	85,841	5,069	90,910	2,622	2	2,624	93,534
Taxation	10,419	-	10,419	-	-	-	10,419
Subordinated debt	17,000	-	17,000	-	-	-	17,000
Shareholders' equity	-	-	-	-	420,990	420,990	420,990
Tier I perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	**842,618**	**974,234**	**1,816,852**	**748,870**	**1,007,200**	**1,756,070**	**3,572,922**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.2 Liquidity risk (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	651,917	76,216	728,133	46,439	43,753	90,192	818,325
Due from banks and other money market placements (net)	203,213	26,499	229,712	-	25,000	25,000	254,712
Loans, advances and financing activities for customers (net)	1,142,125	609,712	1,751,837	1,661,005	3,885,098	5,546,103	7,297,940
Financial investments	292,130	5,273	297,403	87,192	215,792	302,984	600,387
Premises and equipment	-	-	-	-	167,169	167,169	167,169
Other assets	122,877	**17,945**	**140,822**	**961**	**-**	**961**	**141,783**
Total assets	**2,412,262**	**735,645**	**3,147,907**	**1,795,597**	**4,336,812**	**6,132,409**	**9,280,316**
Due to banks and other money market deposits	345,062	40,000	385,062	20,000	-	20,000	405,062
Customers' deposits and unrestricted investment accounts	1,549,374	2,179,525	3,728,899	1,418,306	1,222,618	2,640,924	6,369,823
Euro medium term notes	-	297,787	297,787	500,000	-	500,000	797,787
Other liabilities	222,964	13,166	236,130	6,810	5	6,815	242,945
Taxation	27,062	-	27,062	-	-	-	27,062
Subordinated debt	44,156	-	44,156	-	-	-	44,156
Shareholders' equity	-	-	-	-	1,093,481	1,093,481	1,093,481
Tier I perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	**2,188,618**	**2,530,478**	**4,719,096**	**1,945,116**	**2,616,104**	**4,561,220**	**9,280,316**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.2 Liquidity risk (continued)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2019.

Total Weighted Value (average)	Total Unweighted Value (average)		Total Weighted Value (average)	Total Unweighted Value (average)
2019	2019		2019	2019
USD'000	USD'000		RO'000	RO'000
		High quality liquid assets		
1,303,909	-	Total High Quality Liquid Assets (HQLA)	-	**502,005**
		Cash outflows		
108,502	**1,879,169**	Retail deposits and deposits from small business customers of which:	**723,480**	**41,774**
79,415	**1,588,298**	Stable deposits	**611,495**	**30,575**
29,087	**290,871**	Less stable deposits	**111,985**	**11,199**
841,578	**2,339,013**	Unsecured wholesale funding, of which: operational deposits (all counterparties) and deposits in networks of cooperative banks	**900,520**	**324,007**
14,891	**148,914**	Additional requirements, of which credit and liquidity facilities	**57,332**	**5,733**
74,792	**1,260,855**	Other contingent funding obligations	**485,429**	**28,795**
1,039,763		**Total cash outflows**		**400,309**
		Cash inflows		
554,944	**776,500**	Inflows from fully performing exposures	**298,953**	**213,653**
34,086	**34,086**	Other cash inflows	**13,123**	**13,123**
589,030	**810,586**	Total cash inflows	**312,076**	**226,776**
1,303,909	-	**Total high quality liquid assets**	-	**502,005**
450,734	-	**Total net cash outflows**	-	**173,533**
289	-	**Liquidity coverage ratio (%)**	-	**289**

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

- **Equity risk**

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- **Interest rate risk**

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2019	200 bps increase	200 bps decrease
Earnings impact - RO'000s	6,786	(6,786)
Earnings impact - USD'000s	17,626	(17,626)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2019 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	2.27%	7,240	-	-	-	326,532	333,772
Due from banks and other money market placements (net)	3.06%	88,919	20,405	-	-	52	109,376
Loans, advances and financing activities for customers (net)	5.59%	933,730	633,030	669,011	565,786	-	2,801,557
Financial investments	5.13%	28,186	3,813	84,553	121,740	54,257	292,549
Premises and equipment	N/A	-	-	-	-	66,694	66,694
Other assets	N/A	-	-	-	-	40,746	40,746
Total assets		**1,058,075**	**657,248**	**753,564**	**687,526**	**488,281**	**3,644,694**
Due to banks and other money market deposits	2.95%	274,161	9,625	-	-	-	283,786
Customers' deposits and unrestricted investment accounts	2.09%	153,812	1,539,882	394,370	-	443,454	2,531,518
Euro medium term notes	5.09%	-	-	192,500	-	-	192,500
Other liabilities	N/A	341	-	-	-	69,478	69,819
Taxation	N/A	-	-	-	-	13,221	13,221
Tier I Perpetual Bond	7.88%	-	-	115,500	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	438,350	438,350
Total liabilities and shareholders' equity		**428,314**	**1,549,507**	**702,370**	**-**	**964,503**	**3,644,694**
Total interest rate sensitivity gap		**622,521**	**(892,259)**	**51,194**	**687,526**	**(468,982)**	**-**
Cumulative interest rate sensitivity gap		**622,521**	**(269,738)**	**(218,544)**	**468,982**	**-**	

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2019 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	2.27%	18,805	-	-	-	848,135	866,940
Due from banks and other money market placements (net)	3.06%	230,959	53,000	-	-	135	284,094
Loans, advances and financing activities for customers (net)	5.59%	2,425,272	1,644,234	1,737,691	1,469,574	-	7,276,771
Financial investments	5.13%	73,210	9,904	219,618	316,208	140,928	759,868
Premises and equipment	N/A	-	-	-	-	173,231	173,231
Other assets	N/A	-	-	-	-	105,834	105,834
Total assets		**2,748,246**	**1,707,138**	**1,957,309**	**1,785,782**	**1,268,263**	**9,466,738**
Due to banks and other money market deposits		712,106	25,000	-	-	-	737,106
Customers' deposits and unrestricted investment accounts	2.95%	399,512	3,999,694	1,024,338	-	1,151,827	6,575,371
Euro medium term notes	2.09%	-	-	500,000	-	-	500,000
Other liabilities	5.09%	886	-	-	-	180,463	181,349
Taxation	N/A	-	-	-	-	34,340	34,340
Tier I Perpetual Bond	N/A	-	-	300,000	-	-	300,000
Shareholders' equity	N/A	-	-	-	-	1,138,572	1,138,572
Total liabilities and shareholders' equity	**N/A**	**1,112,504**	**4,024,694**	**1,824,338**	**-**	**2,505,202**	**9,466,738**
Total interest rate sensitivity gap		**1,616,937**	**(2,317,556)**	**132,971**	**1,785,782**	**(1,218,134)**	**-**
Cumulative interest rate sensitivity gap		**1,616,937**	**(700,619)**	**(567,648)**	**1,218,134**	**-**	

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2018 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	2.41%	-	-	-	-	315,055	315,055
Due from banks and other money market placements (net)	2.93%	51,732	18,287	-	-	28,045	98,064
Loans, advances and financing activities for customers (net)	5.50%	913,367	634,858	644,981	614,141	2,360	2,809,707
Financial investments	4.55%	25,961	-	71,727	105,173	28,288	231,149
Premises and equipment	N/A	-	-	-	-	64,360	64,360
Other assets	N/A	-	-	-	-	54,587	54,587
Total assets		**991,060**	**653,145**	**716,708**	**719,314**	**492,695**	**3,572,922**
Due to banks and other money market deposits	4.20%	146,536	3,850	-	-	5,563	155,949
Customers' deposits and unrestricted investment accounts	1.84%	206,036	1,185,145	277,510	4,000	779,691	2,452,382
Euro medium term notes	4.30%	-	-	307,148	-	-	307,148
Other liabilities	N/A	1,109	-	-	-	92,425	93,534
Taxation	N/A	-	-	-	-	10,419	10,419
Tier I Perpetual Bond	7.88%	-	-	115,500	-	-	115,500
Subordinated debt	4.94%	-	17,000	-	-	-	17,000
Shareholders' equity	N/A	-	-	-	-	420,990	420,990
Total liabilities and shareholders' equity		**353,681**	**1,205,995**	**700,158**	**4,000**	**1,309,088**	**3,572,922**
Total interest rate sensitivity gap		**637,379**	**(552,850)**	**16,550**	**715,314**	**(816,393)**	**-**
Cumulative interest rate sensitivity gap		**637,379**	**84,529**	**101,079**	**816,393**	**-**	

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2018 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	2.41%	-	-	-	-	818,325	818,325
Due from banks and other money market placements (net)	2.93%	134,369	47,499	-	-	72,844	254,712
Loans, advances and financing activities for customers (net)	5.50%	2,372,382	1,648,982	1,675,275	1,595,171	6,130	7,297,940
Financial investments	4.55%	67,431	-	186,304	273,177	73,475	600,387
Premises and equipment	N/A	-	-	-	-	167,169	167,169
Other assets	N/A	-	-	-	-	141,783	141,783
Total assets		**2,574,182**	**1,696,481**	**1,861,579**	**1,868,348**	**1,279,726**	**9,280,316**
Due to banks and other money market deposits	4.20%	380,613	10,000	-	-	14,449	405,062
Customers' deposits and unrestricted investment accounts	1.84%	535,158	3,078,299	720,805	10,390	2,025,171	6,369,823
Euro medium term notes	4.30%	-	-	797,787	-	-	797,787
Other liabilities	N/A	2,881	-	-	-	240,064	242,945
Taxation	N/A	-	-	-	-	27,062	27,062
Tier I Perpetual Bond	7.88%	-	-	300,000	-	-	300,000
Subordinated debt	4.94%	-	44,156	-	-	-	44,156
Shareholders' equity	N/A	-	-	-	-	1,093,481	1,093,481
Total liabilities and shareholders' equity		**918,652**	**3,132,455**	**1,818,592**	**10,390**	**3,400,227**	**9,280,316**
Total interest rate sensitivity gap		**1,655,530**	**(1,435,974)**	**42,987**	**1,857,958**	**(2,120,502)**	**-**
Cumulative interest rate sensitivity gap		**1,655,530**	**219,556**	**262,543**	**2,120,501**	**-**	

Notes to the Financial Statements
As at 31 December 2019

30. Risk management (continued)

30.3 Market risk (continued)

- **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

The Bank had the following significant net exposures denominated in foreign currencies:

2018	2019		2019	2018
USD'000	USD'000		RO'000	RO'000
169,366	**50,203**	US Dollar	**19,328**	65,206
82,436	**97,418**	UAE Dirham	**37,506**	31,738
3,387	**4,904**	Others	**1,888**	1,304

30.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus softwares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

30.4.1 Fraud Risk

The Bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

30.5 Strategic risks

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank is currently augmenting its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. In the course of 2017 the Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and it will be rolled out in 2020 and progressively completed for the next 2-3 years.

Notes to the Financial Statements
As at 31 December 2019

31. Concentrations

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2019 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	829,519	36,696	725	-	866,940
Due from banks and other money market placements (net)	78,361	6,512	5,265	193,956	284,094
Loans, advances and financing activities for customers (net)	7,085,659	162,868	-	28,244	7,276,771
Financial investments	695,008	37,787	-	27,073	759,868
Premises and equipment	170,924	1,904	403	-	173,231
Other assets	94,579	10,465	790	-	105,834
Total assets	**8,954,050**	**256,232**	**7,183**	**249,273**	**9,466,738**
Due to banks and other money market deposits	14,943	183,275	54,000	484,888	737,106
Customers' deposits and unrestricted investment accounts	6,455,498	118,486	1,387	-	6,575,371
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	194,840	(14,610)	1,119	-	181,349
Taxation	33,662	449	229	-	34,340
Subordinated debt	-	-	-	-	-
Tier I perpetual bond	300,000	-	-	-	300,000
Shareholders' equity	1,169,423	(36,603)	5,751	-	1,138,571
Liabilities and shareholders' equity	**8,668,366**	**250,997**	**62,486**	**484,888**	**9,466,737**
Contingent liabilities	**896,840**	**154,644**	**11,992**	**172,282**	**1,235,758**

Notes to the Financial Statements
As at 31 December 2019

31. Concentrations (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2018 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	300,087	12,463	2,505	-	315,055
Due from banks and other money market placements (net)	9,042	6,959	2,024	80,039	98,064
Loans, advances and financing activities for customers (net)	2,732,615	68,192	1	8,899	2,809,707
Financial investments	220,703	8,013	-	2,433	231,149
Premises and equipment	63,510	709	141	-	64,360
Other assets	43,554	10,553	480	-	54,587
Total assets	**3,369,511**	**106,889**	**5,151**	**91,371**	**3,572,922**
Due to banks and other money market deposits	6,470	16,430	19,250	113,799	155,949
Customers' deposits and unrestricted investment accounts	2,403,477	47,707	1,198	-	2,452,382
Euro medium term notes	307,148	-	-	-	307,148
Other liabilities	89,456	3,708	370	-	93,534
Taxation	9,776	591	52	-	10,419
Subordinated debt	17,000	-	-	-	17,000
Shareholders' equity	427,462	(8,530)	2,058	-	420,990
Tier I perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	**3,376,289**	**59,906**	**22,928**	**113,799**	**3,572,922**
Contingent liabilities	**388,605**	**43,256**	**6,935**	**30,905**	**469,701**

Notes to the Financial Statements
As at 31 December 2019

31. Concentrations (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2018 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	779,448	32,371	6,506	-	818,325
Due from banks and other money market placements (net)	23,486	18,075	5,257	207,894	254,712
Loans, advances and financing activities for customers (net)	7,097,701	177,122	3	23,114	7,297,940
Financial investments	573,255	20,813	-	6,319	600,387
Premises and equipment	164,961	1,842	366	-	167,169
Other assets	113,126	27,410	1,247	-	141,783
Total assets	**8,751,977**	**277,633**	**13,379**	**237,327**	**9,280,316**
Due to banks and other money market deposits	16,805	42,675	50,000	295,582	405,062
Customers' deposits and unrestricted investment accounts	6,242,797	123,914	3,112	-	6,369,823
Euro medium term notes	797,787	-	-	-	797,787
Other liabilities	232,353	9,631	961	-	242,945
Taxation	25,392	1,535	135	-	27,062
Subordinated debt	44,156	-	-	-	44,156
Shareholders' equity	1,110,292	(22,156)	5,345	-	1,093,481
Tier I perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	**8,769,582**	**155,599**	**59,553**	**295,582**	**9,280,316**
Contingent liabilities	**1,009,363**	**112,354**	**18,013**	**80,273**	**1,220,003**

32. Segmental information

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE and Egypt and Islamic banking which offers products as per Sharia principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset / liability management and cash instruments.

Notes to the Financial Statements
As at 31 December 2019

32. Segmental information (continued)

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

Year ended 31 December 2019	Retail banking	Wholesale banking	Commercial banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	48,619	40,783	11,214	(6,585)	94,031
Other income	12,440	17,438	4,438	-	34,316
Operating income	**61,059**	**58,221**	**15,652**	**(6,585)**	**128,347**
Operating expenditure	(22,507)	(5,927)	(7,361)	(27,851)	(63,646)
Operating profit / (loss)	**23,643**	**45,387**	**2,255**	**(6,584)**	**64,701**
Loan impairment (losses) / reversal	2,118	(3,332)	(6,618)	85	(7,747)
Net profit / (loss) before tax	25,761	42,055	(4,363)	(6,499)	56,954
Taxation	(2,165)	(3,533)	(371)	546	(5,523)
Net profit / (loss) after tax	**23,596**	**38,522**	**(4,734)**	**(5,953)**	**51,431**
Total assets	**1,282,842**	**1,533,639**	**378,737**	**449,476**	**3,644,694**
Total liabilities and equity	**845,295**	**1,415,739**	**390,209**	**993,451**	**3,644,694**

Year ended 31 December 2019	Retail banking	Wholesale banking	Commercial banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	126,283	105,930	29,127	(17,104)	244,236
Other income	32,311	45,294	11,527	-	89,132
Operating income	**158,594**	**151,224**	**40,654**	**(17,104)**	**333,368**
Operating expenditure	(58,460)	(15,395)	(19,119)	(72,340)	(165,314)
Operating profit / (loss)	**61,410**	**117,888**	**5,857**	**(17,101)**	**168,054**
Loan impairment (losses) / reversal	5,501	(8,655)	(17,190)	221	(20,123)
Net profit / (loss) before tax	66,911	109,233	(11,333)	(16,880)	147,931
Taxation	(5,622)	(9,177)	(964)	1,418	(14,345)
Net profit after tax	**61,289**	**100,056**	**(12,297)**	**(15,462)**	**133,586**
Total assets	**3,332,058**	**3,983,478**	**983,732**	**1,167,470**	**9,466,738**
Total liabilities and equity	**2,195,572**	**3,677,244**	**1,013,530**	**2,580,392**	**9,466,738**

Notes to the Financial Statements
As at 31 December 2019

32. Segmental information (continued)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i. Oman

ii. United Arab Emirates (UAE)

iii. Egypt

Transactions between the above segments are conducted at estimated market rates.
Segment information by geography is as follows:

For the year ended 31 December 2019	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	91,412	2,111	508	94,031
Other operating income	32,911	1,213	192	34,316
Operating income	**124,323**	**3,324**	**700**	**128,347**
Operating expenses	(59,664)	(3,497)	(485)	(63,646)
Operating profit	**64,659**	**(173)**	**215**	**64,701**
Total impairment losses (net) and taxation	(7,368)	(5,844)	(58)	(13,270)
Segment profit for the year	**57,291**	**(6,017)**	**157**	**51,431**
Other information	-	-		
Segment assets	**3,524,332**	**101,262**	**19,101**	**3,644,695**
Segment capital expenses	**3,527**	**131**	**2**	**3,660**

Segment information by geography is as follows:

For the year ended 31 December 2019	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	237,434	5,483	1,319	244,236
Other operating income	85,482	3,151	499	89,132
Operating income	**322,916**	**8,634**	**1,818**	**333,368**
Operating expenses	(154,971)	(9,083)	(1,260)	(165,314)
Operating profit	**167,945**	**(449)**	**558**	**168,054**
Total impairment losses (net) and taxation	(19,138)	(15,179)	(151)	(34,468)
Segment profit for the year	**148,807**	**(15,628)**	**407**	**133,586**
Other information	-	-		
Segment assets	**9,154,109**	**263,018**	**49,613**	**9,466,740**
Segment capital expenses	**9,161**	**340**	**4**	**9,505**

Notes to the Financial Statements
As at 31 December 2019

32. Segmental information (continued)

Segment information by business line is as follows:

Year ended 31 December 2018	Retail banking	Wholesale banking	Commercial banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	42,959	33,177	12,183	4,060	92,379
Other income	14,289	18,643	3,758	(54)	36,636
Operating income	**57,248**	**51,820**	**15,941**	**4,006**	**129,015**
Operating expenditure	20,854	5,503	7,641	27,744	61,742
Operating profit	**21,790**	**39,371**	**2,107**	**4,005**	**67,273**
Loan impairment (losses) / reversal	(802)	929	(7,718)	194	(7,397)
Net profit / (loss) before tax	20,988	40,300	(5,611)	4,199	59,876
Taxation	(3,212)	(6,170)	757	(643)	(9,268)
Net profit after tax	**17,776**	**34,130**	**(4,854)**	**3,556**	**50,608**
Total assets	**1,311,461**	**1,456,015**	**402,491**	**402,955**	**3,572,922**
Total liabilities and equity	**816,272**	**1,381,208**	**387,227**	**988,215**	**3,572,922**

Segment information by business line is as follows:

Year ended 31 December 2018	Retail banking	Wholesale banking	Commercial banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	111,582	86,174	31,644	10,545	239,945
Other income	37,114	48,423	9,761	(140)	95,158
Operating income	**148,696**	**134,597**	**41,405**	**10,405**	**335,103**
Operating expenditure	(54,166)	(14,294)	(19,847)	(72,062)	(160,369)
Operating profit	**56,596**	**102,262**	**5,473**	**10,403**	**174,734**
Loan impairment (losses) / reversal	(2,083)	2,413	(20,047)	504	(19,213)
Net profit / (loss) before tax	54,513	104,675	(14,574)	10,907	155,521
Taxation	(8,122)	(15,595)	1,268	(1,624)	(24,073)
Net profit after tax	**46,391**	**89,080**	**(13,306)**	**9,283**	**131,448**
Total assets	**3,406,391**	**3,345,586**	**1,045,430**	**1,482,909**	**9,280,316**
Total liabilities and equity	**2,120,186**	**3,587,552**	**1,005,783**	**2,566,795**	**9,280,316**

Notes to the Financial Statements
As at 31 December 2019

32. Segmental information (continued)

Segment information by geography is as follows:

For the year ended 31 December 2018	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Net Interest income and Income from Islamic financing and Investment activities	89,140	2,744	495	92,379
Other operating income	35,628	1,006	2	36,636
Operating income	**124,768**	**3,750**	**497**	**129,015**
Operating expenses	(57,553)	(3,764)	(425)	(61,742)
Operating profit	**67,215**	**(14)**	**72**	**67,273**
Total impairment losses (net) and taxation	(9,572)	(7,086)	(7)	(16,665)
Segment profit for the year	**57,643**	**(7,100)**	**65**	**50,608**
Other information				
Segment assets	**3,446,407**	**106,459**	**20,056**	**3,572,922**
Segment capital expenses	**2,768**	**275**	**-**	**3,043**

For the year ended 31 December 2018	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	231,532	7,127	1,286	239,945
Other operating income	92,540	2,613	5	95,158
Operating income	**324,072**	**9,740**	**1,291**	**335,103**
Operating expenses	(149,488)	(9,777)	(1,104)	(160,369)
Operating profit	**174,584**	**(37)**	**187**	**174,734**
Total impairment losses (net) and taxation	(24,863)	(18,405)	(18)	(43,286)
Segment profit for the year	**149,721**	**(18,442)**	**169**	**131,448**
Other information				
Segment assets	**8,951,705**	**276,517**	**52,094**	**9,280,316**
Segment capital expenses	**7,190**	**714**	**-**	**7,904**

Notes to the Financial Statements
As at 31 December 2019

33. Fair value of financial instruments

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2019 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

1. Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

2. Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

3. Current account balances due to and due from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short term nature.

4. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

5. Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Notes to the Financial Statements
As at 31 December 2019

33. Fair value of financial instruments (continued)

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2019	RO'000	RO'000	RO'000
			Investment measured at FVTPL			
13,123	-	13,123	Quoted equities	5,052	-	5,052
6,550	6,550	-	Unquoted equities	-	2,522	2,522
19,673	**6,550**	**13,123**	**Total**	**5,052**	**2,522**	**7,574**
			Investment measured at FVOCI			
95,977	-	95,977	Quoted equities	36,951	-	36,951
859	859	-	Unquoted equities	-	331	331
96,836	**859**	**95,977**	**Total**	**36,951**	**331**	**37,282**
116,509	**7,409**	**109,100**	**Total financial assets**	**42,003**	**2,853**	**44,856**

Notes to the Financial Statements
As at 31 December 2019

33. Fair value of financial instruments (continued)

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2018	RO'000	RO'000	RO'000
			Investment measured at FVTPL			
13,704	-	13,704	Quoted equities	5,276	-	5,276
6,273	6,273	-	Unquoted equities	-	2,415	2,415
19,977	**6,273**	**13,704**	**Total**	**5,276**	**2,415**	**7,691**
			Investment measured at FVOCI			
73,623	-	73,623	Quoted equities	28,345	-	28,345
860	860	-	Unquoted equities	-	331	331
74,483	**860**	**73,623**	**Total**	**28,345**	**331**	**28,676**
94,460	**7,133**	**87,327**	**Total financial assets**	**33,621**	**2,746**	**36,367**

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

34. Derivatives

In the ordinary course of business the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

Notes to the Financial Statements
As at 31 December 2019

34. Derivatives (continued)

The Bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes.

The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged was recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. During the current year, the hedge has been terminated.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2019 — Notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1 - 5 years
	RO'000 (note 9)	RO'000 (note 13)	RO'000	RO'000	RO'000	RO'000
Interest rate swaps	1,179	(1,179)	131,301	13,132	55,181	62,988
Forward foreign exchange purchase contracts	372	(3)	242,030	57,789	53,092	131,149
Forward foreign exchange sales contracts	1,093	(212)	242,030	57,531	52,124	132,375
Currency options	-	-	-	-	-	-
Total	**2,644**	**(1,394)**	**615,361**	**128,452**	**160,397**	**326,512**
Total – USD'000	**6,868**	**(3,621)**	**1,598,341**	**333,642**	**416,616**	**848,083**

31 December 2018 — Notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1 - 5 years
	RO'000 (note 9)	RO'000 (note 13)	RO'000	RO'000	RO'000	RO'000
Fair value hedge	-	(852)	115,500	-	115,500	-
Interest rate swaps	126	(126)	39,138	6,998	12,280	19,860
Forward foreign exchange purchase contracts	101	(224)	180,987	144,358	36,408	221
Forward foreign exchange sales contracts	219	(65)	180,987	144,249	36,375	363
Currency options	4	(4)	533	206	-	327
Total	450	(1,271)	517,145	295,811	200,563	20,771
Total – USD'000	1,169	(3,301)	1,343,234	768,340	520,943	53,951

35. Comparative amounts

Certain of the corresponding figures for 2019 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and made within the same notes to the financial statements and do not affect previously reported profit or equity.

6

Muzn Islamic Banking

EY
Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF OMAN SAOG (THE "BANK") IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES OF MUZN ISLAMIC BANKING WINDOW

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework and Central Bank of Oman's (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III Disclosures (the disclosures) of Muzn Islamic Banking Window (the Islamic Window) of the Bank as at and for the year ended 31 December 2019. The disclosures were prepared by the Islamic Window's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Islamic Window's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2019 and does not extend to any financial statements of the Bank or its Islamic Window, taken as a whole or to any other reports of the Bank or its Islamic Window.

Ernst & Young LLC

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Muscat
9 March 2020

مزن للصيرفة الإسلامية
Muzn Islamic Banking

December 31, 2019
Report of Shari'a Supervisory Board
Muzn Islamic Banking Services
National Bank of Oman,
Oman.

In the name of Allah, the Beneficent, The Merciful

To the Shareholders of Muzn Islamic Banking Services

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the Letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Muzn Islamic Banking Services during the period ended. We have also conducted our review to form an opinion as to whether the Muzn Islamic Banking Services complied with Shari principles and also with the specific Fatawa, rulings and guidelines issued by us.

We conducted our review which included examining, on a test basis, of each type of transactions, the relevant documentation and procedures adopted by the Muzn Islamic Banking Services.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Muzn Islamic Banking Services has not violated Shari'a principles. In our opinion:

a) The Contracts, transactions, and dealings entered into by the Muzn Islamic Banking Services during the year ended 31st December 2019 that we have reviewed are in compliance with Shari'a principles.

b) The allocation of profit & charging of losses relating to investment account conform to the basis that had been approved by us in accordance with Shari'a principles.

c) No earnings have been realized from sources or means prohibited by Shari'a principle. Only late payment charges have been identified and recovered for disposal to charity.

d) Calculation and payment of Zakah is the individual responsibility of Shareholders and Depositors.

We beg Allah the Almighty to grant us all the success and straight forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Mohamed Bin Ali Elgari
Chairman Shari'a Supervisory Board

Sheikh Dr. Mohammed Daud Bakar
Muzn Shari'a Supervisory Board Member

Sheikh Saleh Bin Nasser Al Kharusi
Muzn Shari'a Supervisory Board Member

HH Dr. Adham Bin Turki Al Said
Muzn Non-Voting SSB Member

مزن للصيرفة الإسلامية
Muzn Islamic Banking

As per requirement of IBRF Title2, Clause No. 2.2.2.14

Fatwa No. 02/2019

Tijarah Account

Muzn Shari'a Supervisory Board in its meeting no 03 of 2019 on 20th October 2019 held in Muscat-Oman reviewed the structure and terms and conditions of Tijarah account and its view as following:

Shari'a Concept:

Tijarah account is based on the concept of "Wakala Bil Istithmar" or "Investment Agency". Under this concept the customer become the Principal (Muwakkil) and Muzn becomes the Wakeel (Agent) of funds. These funds are invested in Shari'a compliant businesses. The profit earned from the businesses is distributed to the customers on a monthly basis as per the terms of the Wakalah agreement. The concept of Investment Agency is already approved by AAOIFI Shari'a Standard no 46.

Shari'a Contract:

The details of the investment agency shall be stated in the terms and conditions of the Tijarah account, which shall be reviewed and signed by the Client upon opening the Savings Account and the customer's signed shall be deemed as acceptance for Investment.

Shari'a Supervisory Board Pronouncement:

Muzn SSB reviewed the features, terms and conditions as mentioned in the Tijarah account product program, and found all in order from Shari'a point of view.

Allah Grants Success

Sheikh Dr. Mohamed bin Ali Elgari
Chairman Shari'a Supervisory Board

Sheikh Dr. Mohammed Daud Bakar
SSB Member

Sheikh Saleh Bin Nasser Al Kharusi
SSB Member

Basel II and III – Pillar III Report 2019

Introduction

Muzn Islamic Banking– window of national bank of Oman SAOG, was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Sharia rules and regulations.

Muzn operates under an Islamic Banking license granted by the Central Bank of Oman on 17 January 2013. Muzn's Sharia Supervisory Board is entrusted to ensure adherence to Sharia rules and principles in its transactions and activities. A complete set of financial statements of Muzn is included in the consolidated financial statements of the Bank. This document presents Basel II, Pillar III disclosure pertaining to Muzn on a standalone basis.

There is no restriction on the transfer of the funds from the Bank towards Muzn. However, under the Islamic Banking regulatory framework (IBRF), Muzn cannot place funds with the Bank. Muzn does not hold controlling interest in any other entity.

Capital structure

The assigned capital of the MUZN ISLAMIC BANKING as at 31 December 2019 is RO 20,000,000 Muzn's capital structure as at close of 31 December 2019, based on Central Bank of Oman's (CBO) guidelines is as follows:

(RO'000)

Elements of capital	Amount
Tier I capital	
Local Banks	
Paid-up capital	20,000
Share premium	-
Legal reserve	-
General reserve	-
Subordinated debt reserve	-
Stock dividend (proposed)	-
Retained earnings / loss*	(775)
Common equity Tier I before regulatory adjustments	**19,225**
Deduction	
Deferred tax asset	-
Common equity Tier I	**19,225**
Tier I capital after all deductions	**19,225**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	-
General loan loss provision / General loan loss reserve	674
Subordinated debt (After amortization)	-
Total Tier II capital	674
Total regulatory capital	**19,899**
Amount of investment account holders funds	5,849
Profit equalization reserve	381
Investment risk reserve	148
Total Investment account holders	**6,378**

Basel II – Pillar III and Basel III Report 2019

Capital adequacy

Qualitative disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Islamic window by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily).
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for Muzn is based on the regulatory risk capital framework of Basel II and uses the standardized approach for calculating the credit as well market risk, and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy is aligned to the policy of the Bank, and aims to ensure that on a risk adjusted return on capital basis (RAROC) Muzn is allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on profit rates, which are followed.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement for capital on an ongoing basis both for the Muzn window and its divisions that require capital to be assigned separately. Risk weights are assigned to assets as per regulatory requirements from CBO. Assets funded by investment accounts are also assigned same risk weights as assets funded by own equity.

Qualitative disclosures:

A set of triggers is followed as part of the capital management so as to provide the Bank with an early warning system in terms of its level of capital, and to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits. For this purpose it has been decided by ALCO that the triggers set for the Bank will become applicable for Muzn as well.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP comprehensively for the whole bank is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The Bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment. Currently, a separate ICAAP is not prepared for Muzn.

Quantitative disclosures:

Position as at 31.12.2019 (RO'000)

Details	Amount
Tier I capital (after supervisory deductions)	**19,225**
Tier II capital (after supervisory deductions & up to eligible limits)	**674**
Risk weighted assets (RWAs) – banking book	**114,758**
Risk weighted assets (RWAs) – operational risk	**5,626**
Total risk weighted assets (RWAs) – banking book + operational risk	**120,384**
Minimum required capital to support rwas of banking book and operational risk	13,242
Minimum required capital comprises of;	
i. Tier I capital	12,568
ii. Tier II capital	674
Balance Tier I capital available for supporting trading book	6,656
Balance Tier II capital available for supporting trading book	-
Risk weighted assets (RWAs) – trading book	**5**
Total capital required to support trading book	0.5
Minimum Tier I capital required for supporting trading book	0.1
Total regulatory capital	**19,899**
Total risk weighted assets – islamic window	**120,389**
Bis capital adequacy ratio	**16.53**

Basel II – Pillar III and Basel III Report 2019

Capital adequacy (continued)

Basel III disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in this report. Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.2019 (RO'000)

Details	Gross balance (book value)	Net balance (book value)	Risk weighted assets
On balance sheet items	166,008	165,325	107,158
Off balance sheet items	7,917	7,917	7,600
Derivatives	-	-	-
Operational risk	-	-	5,626
Market risk	-	-	5
Total	**173,925**	**173,242**	**120,389**
Common equity Tier I capital	-	-	19,225
Tier II capital	-	-	674
Tier III capital	-	-	-
Total regulatory capital	**-**	**-**	**20,457**
Total required capital	-	-	13,242
Capital requirement for credit risk	-	-	12,623
Capital requirement for market risk	-	-	-
Capital requirement for operational risk	-	-	619
Common equity Tier I ratio	**-**	**-**	**0**
Tier I ratio	**-**	**-**	**15.97**
Total capital ratio	**-**	**-**	**16.53**

Disclosures for Investment Account Holders (IAH)

Muzn accepts funds from investment account holders (IAH) under Sharia compliant Mudaraba contracts and Wakala agreements. These funds are unrestricted in nature i.e. it is at the discretion of Muzn to invest in any Sharia compliant assets. There are no limits on the investment of IAH fund in any particular type of asset.

Currently, Muzn offers three types of Investment accounts:

- Savings accounts,
- Term deposits of various maturities from 1 month to five years and
- Flex Wakala

Investment from investment account holders (IAH) is pooled with Muzn's funds. Mudarib (Manager of assets) expenses are charged to a pool which includes all direct expenses incurred, including impairment provisions. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, and after charging Mudarib expenses, allocation is made between shareholder funds and funds of IAH.

Under Wakala arrangement for Islamic Wakala Investment, the customer becomes the Principal (Muwakkil), and Muzn becomes the Investment Agent (Wakeel) for the funds invested by the customer. Muzn will accept deposits from Wakala Investment holders under a Wakala agreement and allocate these funds to an investment pool. While accepting the deposit from the customers, Bank informs the "Expected Targeted Profit Rate" on the deposit. Funds from this investment pool will be utilized to provide financing to customers under Islamic modes and to invest in other Shari"a compliant investments opportunities. The profit earned from the investment and financing activities from the investment pool, shall be paid to the investors (as the Muwakkil) based on their pre-assigned weightages less performance fee and the fixed fees payable to the Bank (as a Wakeel). Investor's share of profit shall be returned to the investors together with the principal on maturity date.

Muzn appropriates an amount in excess of the profit to be distributed to investment account holders before taking into consideration the Mudarib (Manager of assets) share of income. This reserve is called Profit Equalization Reserve (PER).

Further, Investment Risk Reserve (IRR) is also maintained out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

Basel II – Pillar III and Basel III Report 2019

Capital adequacy (continued)

Ratios and returns

Profit Equalization Reserve (PER) to Profit Sharing

Particulars (RO'000)	2019	2018
Amount of Total PER	381	310
Amount of PSIA by IAH	5,849	4,772
PER to PSIA Ratio	6.51%	6.50%

Investment Risk Reserves Reserve (PER) to Profit Sharing Investment Account (PSIA)

Particulars (RO'000)	2019	2018
Amount of Total IRR	148	118
Amount of PSIA by IAH	5,849	4,772
IRR to PSIA Ratio	2.53%	2.47%

Return on Assets (ROA)

Particulars (RO'000)	2019	2018
Amount of total net income (before distribution of profit to unrestricted IAH)	7,235	6,111
Amount of assets	164,426	141,131
Return on assets (ROA)	4.40%	4.33%

Return on Equity (ROE)

Particulars (RO'000)	2019	2018
Amount of total net income (after distribution of profit to unrestricted IAH)	2,959	2,547
Amount of equity	19,783	11,769
Return on equity (ROE)	14.96%	21.64%

Rate of profit distributed to PSIA by type of IAH & Wakala Accounts

As at reporting date, Muzn has unrestricted IAH and Wakala Accounts and has distributed profit amounting RO 3,898,000 during the year.

Latest Profit rates paid to investment account holders for quarter ended 31 December 2019

Jointly Funded Assets and Return to IAH

	Weightages	Declared Profit Rate
Savings Account (Mudarabah)	12	0.46%
Flexi Wakala	40	0.10%
Flexi Wakala - Elite	50	2.25%
Flexi Wakala - Premium	25	1.75%
Wakala- Upto 6 months	30	0.10% - 0.40%
Wakala -> 6months to 1 Year	50	0.40% - 1.75%
Wakala -> 1 Year to 3 Years	80	1.75% - 2.50%
Wakala -> 3 Years	100	2.50% - 3.50%
Government Flexi Wakala	50	0.75%

	31 December 2019	31 December 2018
Assets		
Deferred sale receivable under Murabaha	2,215	1,569
Ijara Muntahia Bittamleek	77,946	84,163
Diminishing Musharaka	56,208	26,125
Forward Ijara	4,080	4,697
Service Ijarah	27	11
Total amount invested	**140,476**	116,565
Share of profit of IAH before PER and IRR for the year	4,000	3,433
Transfers to:		
PER	(71)	(56)
IRR	(31)	(25)
Share of profit of IAH after PER and IRR for the year	3,898	3,352

Basel II – Pillar III and Basel III Report 2019

Risk exposure and assessment:

Risk management

The primary objective of risk management is to appropriately safeguard the Bank's resources from the various risks which the Bank faces. Muzn's risk management incorporates the same essential principles and practices that govern the Bank's risk management which are detailed in the Bank's Basel II disclosures.

Bank's risk management processes have proven effective for Muzn throughout the current year. The Bank's Board of Directors has remained closely involved with key risk management initiatives, and ensured that Muzn's risks are effectively managed and adequate capital is held in line with the requirements. Detailed risk governance structure of the Bank, which is also applicable to Muzn is disclosed in the main Pillar III document of the Bank. In addition, a dedicated Sharia Supervisory Board (SSB) has been established which reports to the Board of Directors of the Bank and ensures Sharia compliance in the operations of Muzn.

Specifically, Muzn has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

Credit risk

Credit risk is the risk of financial loss to Muzn if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Muzn's financings and advances to customers and other banks.

Corporate Credit:

Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Muzn has a conservative provisioning policy for its financings and provisions are made taking into account both the Central Bank's norms and international financial standards.

For risk management reporting purposes for the corporate portfolio, Muzn considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Retail Credit:

Retail Credit Division manages the credit risk in the Muzn retail portfolio. The small retail credit portfolio is focused on Ijara, Murabaha and Diminishing Musharaka product programs approved by the Board Risk Committee. Both corporate and retail credit portfolios are monitored by the management through periodic performance reports which are presented to the Board Risk Committee.

Impairment Loss on Finances:

Muzn reviews its individually significant Finances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. Judgment by management is required in the estimation of the amount and timing of future cashflows when determining the impairment loss. In estimating these cashflows, Muzn makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes to the allowance.

Finances that have been assessed individually and found not to be impaired and all individually insignificant finances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as credit quality, levels of arrears, credit utilization, finance to collateral ratios etc.) and concentration risks.

A) Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

Basel II – Pillar III and Basel III Report 2019

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Window
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decreases in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral
- A material decreases in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Window
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection • Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

B) Incorporation of forward-looking information

The Window incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Window formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

C) Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:
    - historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    - size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,
    - the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

D) Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

Basel II – Pillar III and Basel III Report 2019

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

E) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Window determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Window's models.

F) Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Window estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Basel II – Pillar III and Basel III Report 2019

G) Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Window assesses whether there has been a significant increase in credit risk since initial recognition.

The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

- Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
- Delay in documentation execution over 35 days from limit set up due to disputes with customers.
- Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in key senior management personnel without acceptable successors or professional management.
- Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.
- Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
- Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
- A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
- A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
- Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
- Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

H) Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk.

The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

Basel II – Pillar III and Basel III Report 2019

i. Total gross credit exposures over the period broken down by major types of credit exposure:

S. No	Type of Credit Exposure	Total Gross Exposure as at	
		31-December-19	31-December-18
1	Deferred sales under Murabaha	2,225	1,577
2	Ijara Muntahia Bittamleek	79,015	85,291
3	Diminishing Musharaka	56,641	26,235
4	Forward Ijara	4,095	4,721
5	Service Ijarah	27	11
	Total	**142,002**	117,835

ii. **Geographic distribution of exposures by major types of credit exposure as at 31 December 2019:**
As at 31 December 2019, all the credit exposures are within Oman only (2018: all exposures within Oman).

iii. Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2019:

RO'000

S. No	Economic Sector	Deferred sales under Murabaha	Ijara Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijara	Service Ijarah	Total	Percentage composition	Off Balance sheet exposure**
1	Personal	1,660	58,803	3,918	3,352	27	67,760	48%	1,020
2	Construction	5	13,994	20,553	728	-	35,280	25%	34,494
3	Manufacturing	115	486	12,805	-	-	13,406	10%	-
4	Trade	303	26.00	659	-	-	988	1%	-
5	Services	133	4,637	18,272	-	-	23,042	16%	-
6	Others	-	-	-	-	-	-	0%	508
	Total	**2,216**	**77,946**	**56,207**	**4,080**	**27**	**140,476**	**100%**	**36,022**

** Off balance sheet exposure relates to commitments under standard business norms, letter of credits & guarantees.

As at 31 December 2019, the assets were funded by IAH & Wakala Account and shareholders in the following ratio:

IAH & Wakala Accounts	78%
Shareholders	22%

iv. Residual contractual maturity as at 31 December 2019 of the whole financing portfolio, broken down by major types of credit exposure:

RO'000

S. No	Time Band	Deferred sales under Murabaha	Ijara Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijara	Service Ijara	Total
1	Up to 1 month	89	1,537	469	47	-	2,142
2	1-6 months	1,031	10,466	15,170	121	11	26,799
3	6-12 months	428	9,725	14,172	608	7	24,940
4	1-5 years	237	1,516	4,280	3,304	3	9,340
5	Over 5 years	431	54,702	22,116	-	6	77,255
	Total	**2,216**	**77,946**	**56,207**	**4,080**	**27**	**140,476**

Basel II – Pillar III and Basel III Report 2019

v. Movement of gross finance

RO'000

S. No	Details	Stage1	Stage 2	Stage 3	Total
1	Opening balance	63,333	52,250	2,251	117,835
2	Migration / changes (+ / -)	49,545	(49,448)	(97)	-
3	New Finances	15,641	33,160	62	48,863
4	Recovery of Financing	(24,695)	-	-	(24,695)
5	**Closing balance**	**103,824**	**35,962**	**2,216**	**142,002**
	Total ECL	**282**	**561**	**683**	**1,527**

vi. Movement of Provisions and Reserve Profit

RO'000

Particulars	2019	2018
Provision at beginning of the period	1,269	1,333
Charge / (Released) for the period	206	(168)
Reserve Profit for the period	52	104
Provision at end of the period	1,527	1,269

Credit Risk – Disclosures for portfolios subject to the standardized approach

Qualitative Disclosures:

- The Bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the Bank uses the discretion to treat Finances as unrated at risk weight of 100%, except housing finances which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the Bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2019, subject to the standardized approach is as below:

RO'000

S. No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	20,052	-	-	-	-	-	20,052
2	Banks	-	52	391	-	-	-	443
	Unrated							
1	Corporate	-	-	-	-	-	-	-
2	Retail	-	-	-	-	2,252	-	2,252
3	Claims secured by residential property	-	210	56,760	298	9,498	-	66,766
4	Claims secured by commercial property	-	-	-	-	78,685	-	78,685
5	Past due Financing	-	-	-	-	2,216	-	2,216
6	Other assets	1,178	-	-	-	2,332	-	3,510
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	-	-	-	-	-	-	-
	Total Banking Book	**21,230**	**262**	**57,151**	**298**	**94,983**	**-**	**173,924**

Basel II – Pillar III and Basel III Report 2019

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Muzn is exposed to. Credit risk mitigates reduce the credit risk by allowing Muzn to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Qualitative Disclosure

The Bank only considers Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by the customer must meet the following criteria to be acceptable as collateral:

- Assets must be maintaining their value at the level prevalent at inception, until maturity of the facility approved;
- Such assets should be easily convertible into cash, if required;
- There should be a reasonable market for the assets; and
- Muzn should be able to enforce its right over the assets if necessary.

Currently Muzn undertakes ownership / joint ownership of assets provided by customers.

Collateral Management:

Muzn employs a range of policies and procedures to mitigate credit risk. The credit risk mitigates include collaterals like:

- Real estate
- Joint ownership

Collateral management is exercised for Muzn at the centralized level. A robust collateral management system is in place to mitigate any credit risk. The Bank has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals.

Securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a Muzn's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a Muzn's potential inability to meet its liabilities when they become due.

Besides its funding sources, Muzn has the support of its Parent Bank in meeting some of its liquidity needs.

The liquidity risk in Muzn is monitored through a regular reporting mechanism to the ALCO. In order to ensure that Muzn meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Sufficient liquidity is required to be maintained by Banks not only for ensuring the continuation of operations, but also for the generation of earning assets and repayment of existing liabilities.

Liquidity ratios of Muzn (i.e. Liquid assets to total assets) are regularly monitored. The average ratio of liquid assets to total assets during the year for Muzn was 14.07% (as shown below). In addition, the cumulative gaps vis-à-vis cumulative liabilities prescribed by the Regulators / Internal Policies are monitored.

Muzn monitors its liquidity risk of funding related to current accounts and other equity with investment account holders on an individual basis as well as on an aggregate basis through cash flow and stock approach.

Treasury department of the Muzn window and the Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.

Average ratio of liquid assets to total assets during the year for Muzn was

14.07%

Basel II – Pillar III and Basel III Report 2019

Indicators of exposure to liquidity risk – short-term assets to short-term liabilities

Particulars	RO'000
Short-term assets	67,618
Short-term liabilities	101,636
Short-term assets to liabilities	**66.53%**

Indicators of exposure to liquidity risk - liquid assets ratio

Particulars	RO'000
Liquid assets	23,131
Total assets	164,426
Short-term liabilities	101,636
Total liabilities	144,643
Liquid assets to total assets	**14.07%**
Liquid assets to short-term liabilities	**22.76%**
Liquid assets to total liabilities	**15.99%**

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2019 was as follows:

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	7,208	1,409	675	635	827	10,754
Financial institutions	443	-	-	-	-	443
Financial assets at amortized cost	3,512	-	-	963	7,459	11,934
Deferred sales under Murabaha	89	1,031	428	237	431	2,216
Ijarah Muntahiah Bittamleek – net	1,537	10,466	9,725	1,516	54,702	77,946
Diminishing Musharaka	469	15,170	14,172	4,280	22,116	56,207
Forward Ijarah	47	121	608	3,304	-	4,080
Service Ijarah	-	11	7	3	6	27
Property and equipment – net	-	-	-	-	329	329
Other assets	490	-	-	-	-	490
Total assets	**13,795**	**28,208**	**25,615**	**10,938**	**85,870**	**164,426**
Current accounts	1,471	2,575	1,472	-	1,839	7,357
Wakala accounts	14,718	46,957	21,732	13,154	24,561	121,122
Due to banks and financial institutions	5,786	-	-	-	-	5,786
Other liabilities	4,000	-	-	-	-	4,000
Unrestricted investment account holders	585	1,170	1,170	1,754	1,699	6,378
Owner's equity	-	-	-	-	19,783	19,783
Total liabilities and unrestricted investment account holders and owners' equity	**26,560**	**50,702**	**24,374**	**14,908**	**47,882**	**164,426**

Basel II – Pillar III and Basel III Report 2019

Market Risk

Qualitative Disclosures:

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price and Foreign Exchange rates. The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As at 31 December 2019, Muzn has minimal exposure to market risk as:

- Muzn does not have material exposure in currencies other than Omani Riyal;
- Muzn does not hold trading positions in equity;
- Muzn has no position in commodities.

Market Risk arises from fluctuations in profit rates. There are no trading positions in equities or derivatives. Market Risk is managed based on Central Bank of Oman guidelines. The Muzn ALCO regularly monitors the portfolio of assets and liabilities in the banking book for any interest rate risks. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committee.

Liquidity Risk

Liquidity Risk is defined as the ability to suitably sell the assets and meet obligations as they come due, is crucial to the ongoing viability of a banking organization. For this reason, the analysis of liquidity requires the Bank management to not only measure the liquidity position of the Bank on an on-going basis but also examine how funding requirements are likely to evolve under various scenarios.

Muzn manages its liquidity on a daily basis through its Treasury. In managing liquidity, Muzn takes into account the various regulatory requirements.

Muzn Treasury division ensures compliance with the liquidity ratios and the maturity gaps vis-à-vis the regulatory/in house caps/limits.

Market Risk and Muzn Treasury divisions will evaluate on an on-going basis the liquidity profile of the Bank, depending on the changing market conditions. Liquidity will be estimated under Bank specific crisis scenarios and Market crisis scenarios; with suitable assumptions built into each scenario

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. Muzn cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Muzn is able to manage risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The Bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net profit income (+) other income (+) Provisions for unpaid profit (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO (000s) 450.

The Risk weighted assets for operational risk as per Basel II is RO (000s) 5,626.

Insurance is another tool used by the Bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc. as obtained by the Bank aim at protecting the Bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the Bank has set in place a special operational risk framework against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigates are put in place.

Basel II – Pillar III and Basel III Report 2019

Rate of return risk

Qualitative Disclosures:

Rate of return risk refers to the possible impact on the net income of Muzn arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Muzn.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Muzn is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Muzn' s results do not allow distribution of profits in line with market rates. To cater against DCR, Muzn creates a Profit Equalization Reserve.

Rate of return risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the profit sensitivity of earnings and profit rate sensitivity of capital.

As at December 2019	200 bps increase	200 bps decrease
Earnings impact - RO'000s	220	(220)

Basel II – Pillar III and Basel III Report 2019

Rate of return risk (continued)

Muzn's profit sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2019 was as follows:

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2019	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	10,754	10,754
Due from banks and financial Institutions	0.0%	-	-	-	-	443	443
Financial assets at amortized cost	5.1%	-	2,962	5,314	3,658	-	11,934
Deferred sales under Murabaha	5.4%	1,120	428	237	431	-	2,216
Ijarah Muntahia Bittamleek – net	5.3%	12,003	9,725	1,516	54,702	-	77,946
Diminishing Musharaka	5.8%	15,639	14,172	4,280	22,116	-	56,207
Forward Ijarah	N/A	-	-	-	-	4,080	4,080
Service Ijarah	6.0%	11	7	3	6	-	27
Property and equipment – net	N/A	-	-	-	-	329	329
Other assets	N/A	-	-	-	-	490	490
Total assets		**28,773**	**27,294**	**11,350**	**80,913**	**16,096**	**164,426**
Current accounts	N/A	-	-	-	-	7,357	7,357
Wakala accounts	3.8%	61,675	21,732	13,154	24,561	-	121,122
Due to banks and financial institutions	2.1%	5,786	-	-	-	-	5,786
Other liabilities	N/A	-	-	-	-	4,000	4,000
Unrestricted investment accountholders	0.7%	1,755	1,170	1,754	1,699	-	6,378
Owners' equity	N/A	-	-	-	-	19,783	19,783
Total liabilities and owners' equity		**69,216**	**22,902**	**14,908**	**26,260**	**31,140**	**164,426**
On-balance sheet gap		**(40,443)**	**4,392**	**(3,558)**	**54,653**	**(15,044)**	
Cumulative profit sensitivity gap		**(40,443)**	**(36,051)**	**(39,609)**	**15,044**	**-**	

Basel II – Pillar III and Basel III Report 2019

Displaced commercial risk

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Muzn in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed to in Mudaraba funding contracts. Muzn creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of IAH.

Qualitative Disclosure:

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- **Profit Equalization Reserve (PER)**
  PER comprises amount appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- **Investment Risk Reserve (IRR)**
  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

An analysis of distribution during the year to IAH by Muzn is as follows:

Particulars	Amount RO'000
Total profits available for distribution	6,617
Profit sharing	
• Muzn 's share as fund provider	2,341
• IAH	4,000
Profits for IAH before smoothening	4,000
Smoothening:	
• PER	(71)
• IRR	(31)
Profits paid out to IAH after smoothening	3,898

- During the period the Bank utilized OMR Nil (FY 2018: Nil) from PER for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Historical Rate of Return of IAH:

Historical Rate of Return of unrestricted Investment Accountholder:	2019	2018	2017	2016	2015
	RO '000	RO '000	RO '000	RO '000	RO '000
Profits available for distribution	**6,617**	5,634	4,512	3,674	1,349
Profit Distributed	**3,898**	3,352	3,061	1,536	591
Funds Invested	**140,476**	116,565	102,781	105,099	96,787
Rate as %age of fund invested	**2.77%**	2.88%	2.98%	1.46%	0.61%

Basel II – Pillar III and Basel III Report 2019

Five years comparison of historical profit rates for unrestricted IAH.

	2019	2018	2017	2016	2015
	RO '000	RO '000	RO '000	RO '000	RO '000
Savings Account (Mudarabah)	**0.46%**	0.77%	0.70%	0.73%	0.79%
Flexi Wakala	**0.10%**	0.10%	0.10%	0.10%	0.10%
Flexi Wakala - Elite	**2.25%**	2.25%	2.25%	2.25%	2.25%
Flexi Wakala - Premium	**1.75%**	1.75%	1.75%	-	-
Wakala- Upto 6 months	**0.10% - 0.40%**	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.25%
Wakala - > 6months to 1 Year	**0.40% - 1.75%**	0.40% - 0.75%	0.40% - 0.75%	0.40% - 0.75%	0.40% - 0.55%
Wakala - > 1 Year to 3 Years	**1.75% - 2.50%**	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%	0.75% - 1.75%
Wakala - > 3 Years	**2.50% - 3.50%**	3.00% - 3.50%	3.00% - 3.50%	3.00% - 3.50%	2.00% - 2.25%
Government Flexi Wakala	**0.75%**	1.00%	1.00%	0.50%	0.50%

Contract Specific Risks

The Credit Risk Appetite document of Muzn has provided limits for the purpose of financing, it is defined within the purpose of financing are the various Shari'a compliant financing contracts that can be used. The risk weighting requirement for each of the Sharia compliant financing contracts, based on the risk profile of the customer as provided in the IBRF is taken into account for the purposes of computing the Capital Adequacy Ratio of Muzn.

Quantitative Disclosures:

Credit risk weighted assets by type of financing contracts is as follows:

General Governance Disclosures

RO'000

Financing Contracts	Risk Weighted Assets
Deferred sales receivable under Murabaha	**2,225**
Ijarah Muntahia Bittamleek	**46,094**
Diminishing Musharaka	**54,145**
Forward Ijarah	**1,934**
Service Ijarah	**27**
Letter of Guarantee	**149**
Letter of Credit	**42**
Total RWA of Financing Contracts	**104,616**

The CMA code of Corporate Governance for Public Listed Companies and the CBO guidelines as per IBRF Corporate Governance and Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Muzn complies with all their provisions.

The following disclosure summarizes the disclosures of related party:

RO'000

Deposits and other accounts	2019	2018
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**543**	8,548
Financings		
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**89**	104

Remuneration paid to Directors & Sharia Supervisors	2019	2018
Chairman		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	3
• other expenses paid	**2**	3
Other Directors		
• remuneration proposed	**15**	17
• sitting fees paid	**8**	11
• other expenses paid	**9**	6
Management fee payable to conventional banking	**85**	60

Basel II – Pillar III and Basel III Report 2019

Muzn maintains a formal procedure on handling of customer complaints. Complaints related to Muzn are dealt with by the conventional banking call center equipped with the required resources to respond to customer calls in a professional manner. The complaint management team of the Conventional Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint.

Sharia Governance Disclosures

Sharia Supervisory Board (SSB)

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

In case SSB rules any earnings Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organization. Income generated from late payment charges (whereby client undertakes to donate to charity a certain amount in case of delay in installment payments) and whenever a transaction which is treated as Shari'a non-Compliant by Sharia Audit Unit and endorsed by SSB, the income from such Shari'a non-compliant account becomes part of charity Account.

The Internal Sharia reviewer performs functions based on the Shari'a guidelines provided by CBO in the IBRF, Sharia rulings and resolutions issued by SSB. Sharia audit includes continuous audit for transactions of all departments. Its observations and findings are reported in the Sharia audit report to SSB which is also conveyed and discussed with management, with documentation of management responses in addition to recommending action plan for each observation.

As per IBRF, Islamic banks are required to apply Accounting standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines.

Muzn's Sharia Supervisory Board consists of following members namely:

Sheikh Dr. Mohamed Bin Ali Elgari, is a Professor of Islamic Economics at King Abdulaziz University, Saudi Arabia. He is an Expert at the Islamic Jurisprudence Academy of the Organization of Islamic Cooperation (OIC) and the Islamic Jurisprudence Academy of the Islamic World League. Sheikh Elgari is also a member of the Sharia Council of Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI), Chairman Sharia Supervisory Board of Muzn Islamic Banking Services and Sharia Board Member of several reputable Islamic Banks and Takaful Companies across the globe.

Sheikh Datuk Dr. Mohamed Daud Bakar, is a Malaysian Sharia Scholar and Chairman of the Central Sharia Advisory Council of the Central Bank of Malaysia and Securities Commission of Malaysia. Sheikh Bakar's area of specialization includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Datuk Dr. Bakar has published more than 30 articles in academic journals while also being a member of several Sharia Boards for Banks and Islamic financial institutions worldwide.

Sheikh Saleh Al Kharusi, is a Director of the Notary Public Office Ministry of Justice and a part-time lecturer of Sharia sciences. Sheikh Saleh has bachelor's degree in Shari'a from the Institute of Shari'a Sciences in the Sultanate of Oman and Master's Degree in Financial Transaction from Sultan Qaboos University.

H.H Sayyid Dr. Adham Turki Al Said, is an Assistant Professor of Economics at Sultan Qaboos University in Oman. H.H Dr. Adham is Chairman of the Board of Directors of the Competition Protection and Monopoly Prevention Center, and a Chairman of Board of Trustees, Scientific College of Design. He is also a member in several government and private organizations such as Partner, The Firm for Business and Economic Consulting and he provided a proposal on SME to Shura Council in 2014. Dr. Adham has a Ph.D. in Economics from University of Western Australia, Australia — 2011.

Basel II – Pillar III and Basel III Report 2019

There was a total of four SSB meetings held in 2019. Date of the meetings and attendance of each SSB Member is follows:

Name of the Board Member	Date of Meeting and attendance			
	15/04/2019	01/07/2019	20/10/2019	11/12/2019
Sheikh Dr. Mohamed Bin Ali Elgari Chairman	-	√	√	√
Sheikh Datuk Dr. Mohammed Daud Bakar	√	√	√	√
Sheikh Saleh Al Kharusi	√	-	√	√
H.H Sayyid Dr. Adham Al Said Non-Voting Member	-	√	√	√

Remuneration for Sharia Supervisory Board Members in 2019:
Total Remuneration paid to the Four Scholars for the year 2019 was OMR 33,110. The breakup is as follows:-

Name of the Board Member	Total Fees RO
Sheikh Dr. Mohamed Bin Ali Elgari	10,010
Sheikh Datuk Dr. Mohammed Daud Bakar	8,855
Sheikh Saleh Al Kharusi	8,085
H.H Sayyid Dr. Adham Al Said Non-Voting Member	6,160

Sharia compliance key controls

Sharia compliance is ensured in day to day business of Muzn through the following key controls:

- All the products being offered by Muzn are approved by the SSB;
- All investments made by Muzn are approved by SSB;
- The Fatawa approving such products are available on the website of Muzn;
- The responsibility of payment of zakat is on individual shareholders and investment account holders;
- There has been no non-compliance with Sharia rules and regulations during the year;
- Muzn has in place a Sharia Compliance Unit (SCU) which facilitates the management in ensuring compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), etc;
- Templates of agreements used by Muzn are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Muzn functions; staff has been provided training throughout the year on Sharia matters;

Disclosure of the nature, size and number of violations of Sharia compliance during the year:

There is no violation to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the Bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

Basel II – Pillar III and Basel III Report 2019

Social service and customer education

To promote the cause of Islamic Banking, Muzn Islamic Banking actively takes part in educating the public and customers about various aspects of Islamic Finance. During the year Muzn Islamic banking conducted more than 150 road shows across the country show casing various product and services offered by Muzn Islamic Banking. The Muzn team also took active part in various Islamic banking conferences and forums, engaging in healthy discussions regarding issues, developments and opportunities of Islamic banking and the ways in which the industry is helping the country in promoting financial inclusion, SME sector, trade and economic growth.

Muzn Islamic Banking as part of National Bank of Oman distributed food hampers to the poor and needy people in the holy month of Ramadan. A team of volunteers including the senior management team delivered several food hampers to low income families across the Muscat Governorate to inaugurate this initiative.

Basel III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2019.

Basel III common disclosure template to be used during the transition of regulatory (RO '000)

	Amounts subject to pre-Basel III treatment
Common Equity Tier I capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,000
Retained earnings	(775)
Accumulated other comprehensive income (and other reserves)	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier I capital before regulatory adjustments	19,225
Common Equity Tier I capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
National specific regulatory adjustments of which: Shortfall in MCR of Islamic Banking window and foreign branches of the Bank	-
Total regulatory adjustments to Common equity Tier I	19,225
Common Equity Tier I capital (CET1)	
Additional Tier I capital: instruments - NIL	
Additional Tier I capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier I capital	-
Additional Tier I capital (AT1)	-
Tier I capital (T1 = CET1 + AT1)	19,225

Basel II – Pillar III and Basel III Report 2019

Basel III common disclosure template to be used during the transition of regulatory (RO '000)

	Amounts subject to pre-Basel III treatment
Tier II capital: instruments and provisions	
Directly issued qualifying Tier II instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier II	-
Tier II instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-
of which: instruments issued by subsidiaries subject to phase out	-
General Provisions	**674**
Tier II capital before regulatory adjustments	**674**
Tier II capital: regulatory adjustments	
National specific regulatory adjustments	-
Regulatory adjustments applied to Tier II in respect of amounts subject to Pre-Basel III treatment.	-
Of which: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier II capital	-
Tier II capital (T2)	**674**
Total capital (TC = T1 + T2)	**19,899**
Total risk weighted assets	**120,388**
Of which: Credit risk weighted assets	114,758
Of which: Market risk weighted assets	5
Of which: Operational risk weighted assets	5,626
Capital Ratios	
Common Equity Tier I (as a percentage of risk weighted assets)	16.0
Tier I (as a percentage of risk weighted assets)	16.0
Total capital (as a percentage of risk weighted assets)	16.5
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB / D-SIB buffer requirement expressed as a percentage of risk weighted assets)	-
Of which: capital conservation buffer requirement	-
Of which: bank specific countercyclical buffer requirement	-
Of which: D-SIB / G-SIB buffer requirement	-
Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	-
National minima (if different from Basel III)	
National Common Equity Tier I minimum ratio (if different from Basel III minimum)	7.0
National Tier I minimum ratio (if different from Basel III minimum)	9.0
National total capital minimum ratio (if different from Basel III minimum)	11.0
Total investment account holders	
Amount of investment account holders funds	5,849
Profit equalization reserve	381
Investment risk reserve	148
Total Investment account holders	**6,378**

Basel II – Pillar III and Basel III Report 2019

Prepared under the Guidelines on composition of capital disclosure requirements

Balance sheet as in published financial statements (RO '000)

	Balance sheet as in published financial statements
Assets	31-December-19
Cash and balances with Central Bank of Oman	10,754
Certificates of deposit	-
Due from banks	443
Financing to banks	-
Financing to Customers	140,476
Investments	11,934
Property and equipment	329
Deferred tax assets	-
Other assets	490
Total assets	**164,426**
Liabilities	
Due to banks	5,786
Customer deposits	134,857
Euro medium term notes	-
Other liabilities	4,000
Subordinated bonds	-
Total liabilities	**144,643**
Shareholders' Equity	
Paid-upshare capital	20,000
Share premium	-
Legal reserve	-
General reserve	-
Retained earnings	(775)
Other reserves	558
Cumulative changes in fair value of investments	-
Subordinated debt reserve	-
Tier I perpetual bond	-
Total shareholders' equity	**19,783**
Total liability and shareholders' funds	**164,426**

Basel II – Pillar III and Basel III Report 2019

Balance sheet as in published financial statements expanded

(RO '000)

	Balance sheet as in published financial statements	Reference
Assets	31-December-19	
Cash and balances with Central Bank of Oman	10,754	
Certificates of deposit	-	
Balance with banks and money at call and short notice	443	
Investments	11,934	
Financing of which:		
Financing to banks - gross	-	
General provisions considered for Tier II	-	
Net financing to banks	-	
Financing to customers - gross		
ECL stage 1	(282)	
ECL stage 2	(561)	A1
ECL stage 3	(683)	
Net financing to customers	**140,476**	
Fixed assets	329	
Other assets of which:	490	
Deferred tax assets	-	
Amount considered for CET1	-	
Current year allocation - not eligible	-	
Total assets	**164,426**	
Capital & liabilities		
Paid-up capital	-	
Of which:		
Amount eligible for CET1	20,000	C1
Amount eligible for AT1	-	
Reverses and surplus	(775)	
Of which: amount eligible for CET1	-	
Retained earnings carried forward	(775)	C2
Profit for current year not eligible	-	
Legal reserve	-	
General reserve	-	
Subordinated debt reserve	-	
Proposed stock dividend	-	
Total amount eligible for CET1	-	
Tier I perpetual bond	-	
Proposed cash dividend	-	
Cumulative changes in fair value of investments	-	
Amount eligible for Tier II	-	
Other reserve	558	
Total capital	**19,783**	
Deposits of which:		
Deposits from banks	5,786	
Customer deposits	134,857	
Euro medium term notes	-	
Other deposits (sub-debt)	-	
Other liabilities & provisions of which:	4,000	
Total	**164,426**	

Muzn Islamic Banking actively takes part in educating the public and customers about various aspects of Islamic Finance. More than 150 road shows were conducted show casing various product and services offered.

Basel II – Pillar III and Basel III Report 2019

Basel III common disclosure template to be used during the transition of regulatory adjustments (RO '000)

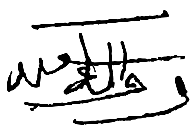
	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier I capital: instruments and reserves		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,000	C1
Retained earnings	(775)	C2
Accumulated other comprehensive income (and other reserves)	-	
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
Common Equity Tier I capital before regulatory adjustments	**19,225**	
Common Equity Tier I capital: regulatory adjustments		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Total regulatory adjustments to Common equity Tier I	-	
Common Equity Tier I capital (CET1)	**19,225**	
Additional Tier I capital: instruments (Tier I perpetual bond)	-	
Additional Tier I capital: regulatory adjustments - Nil		
Tier I capital (T1 = CET1 + AT1)	**19,225**	
Tier II capital: instruments and provisions		
Directly issued qualifying Tier II instruments plus related stock surplus	-	
Directly issued capital instruments subject to phase out from Tier II	-	
Tier II instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-	
Of which: instruments issued by subsidiaries subject to phase out	-	

Basel II – Pillar III and Basel III Report 2019

	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
General provisions	674	A1
Cumulative fair value gains or losses on available for sale instruments	-	
Tier II capital before regulatory adjustments	**674**	
Tier II capital: regulatory adjustments	-	
National specific regulatory adjustments	-	
Regulatory adjustments applied to Tier II in respect of amounts subject to pre-Basel III treatment	-	
Of which: cumulative fair value gains or losses on available for sale instruments	-	
Total regulatory adjustments to Tier II capital	-	
Tier II capital (T2)	674	
Total capital (TC = T1 + T2)	**19,899**	

Disclosure template for main features of all regulatory capital instruments

1. **Common Equity.**
   Common equity comprises of assigned capital amounting to RO 20,000,000 transferred from National Bank of Oman SAOG.
2. **All other regulatory capital instruments - Nil**
   This report on Basel II & III disclosures set out from pages no 1 to 29 was authorized for issue on 27th January 2020.



Rawan bint Ahmed Al Said
Chairperson

Financial Statement

EY Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (the "Bank")

Report on the financial statements

We have audited the accompanying statement of financial position of Muzn Islamic banking - Window of National Bank of Oman (the "Islamic Window) as of 31 December 2019, and the related statements of income, changes in owners' equity, cash flows and sources and uses of charity fund for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2019, the results of its operations, changes in owners' equity, cash flows and sources and uses of charity fund for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

Muscat
9 March 2020

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س ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Statement of Financial Position
As at 31 December 2019

		2019	2018
Assets	**Notes**	RO'000	RO'000
Cash and balances with Central Bank of Oman	5	**10,754**	10,220
Due from banks and financial institutions	6	**443**	5,335
Financial assets at amortized cost	7	**11,934**	8,248
Deferred sales under Murabaha	8	**2,215**	1,569
Ijarah Muntahia Bittamleek - net	9	**77,946**	84,163
Diminishing Musharaka	10	**56,208**	26,125
Forward Ijarah	11	**4,080**	4,697
Service Ijarah	12	**27**	11
Property and equipment - net	13	**329**	421
Other assets	14	**490**	342
Total assets		**164,426**	141,131
Liabilities, unrestricted investment account holders and owners' equity			
Liabilities			
Current accounts		**7,357**	5,945
Wakala accounts	15	**121,122**	103,516
Due to banks and financial institutions	16	**5,786**	10,060
Other liabilities	17	**4,000**	4,641
Total liabilities		**138,265**	124,162
Equity of unrestricted investment accountholders	**19**	**6,378**	5,200
Owners' equity			
Assigned capital	20	**20,000**	13,500
Impairment reserve	18	**558**	-
Accumulated losses		**(775)**	(1,731)
Total owners' equity		**19,783**	11,769
Total liabilities, unrestricted investment account holders and owners' equity		**164,426**	141,131

The financial statements were approved by the Board of Directors on 27 January 2020

Chairperson

Acting Chief Executive Officer

Statement of Comprehensive Income
For the year ended 31 December 2019

		2019	2018
Income	**Notes**	RO'000	RO'000
Deferred sales under Murabaha	21	**102**	82
Ijarah Muntahia Bittamleek	22	**4,163**	4,521
Diminishing Musharaka	23	**2,454**	793
Inter-Bank Wakala		**111**	342
Investment income		**405**	373
Income from jointly financed assets		**7,235**	6,111
Less:			
Return on unrestricted investment account holders	24	**(35)**	(33)
Return on Wakala account holders	25	**(3,863)**	(3,319)
Return on Inter-bank Wakala Acceptence		**(277)**	(131)
Profit equalisation reserve		**(71)**	(56)
Investment risk reserve		**(31)**	(25)
		(4,277)	(3,564)
Muzn's share in income from investment as Mudarib and Rabul Maal		**2,959**	2,547
Revenue from banking services		**741**	285
Foreign exchange gains – net		**102**	47
Total operating revenue		**3,802**	2,879
General and administrative expenses	26	**(1,918)**	(2,085)
Provisions for credit loss	18	**(206)**	(236)
Recoveries and release from provions of credit loss	18	**-**	15
Depreciation	13	**(164)**	(191)
Total operating expenses		**(2,288)**	(2,497)
Profit for the year		**1,514**	382

Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital	Impairment reserve	Accumulated losses	Total
	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2019	13,500	-	(1,731)	**11,769**
Net Profit for the year	-	-	1,514	**1,514**
Additional Capital	6,500	-	-	**6,500**
Transfer to impairment reserve	-	558	(558)	**-**
Balance at 31 December 2019	**20,000**	**558**	**(775)**	**19,783**
Balance at 1 January 2018	13,500	-	(2,409)	11,091
Impact of adopting IFRS	-	-	296	296
Restated opening balance under IFRS 9	13,500	-	(2,113)	11,387
Profit for the year	-	-	382	382
Balance at 31 December 2018	13,500	-	(1,731)	11,769

* The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under IFRS 9, has not transferred to a financing loss impairment reserve from accumulated losses as of 1 January 2018 and 31 December 2018, as the Window is not a separate legal entity and the requirement is assessed at the overall Bank level.

Statement of Cash Flows
For the year ended 31 December 2019

	2019	2018
Operating activities	RO'000	RO'000
Net profit for the year	**1,514**	382
Adjustments for:		
Depreciation	**164**	191
Provisions for credit loss	**206**	236
Recoveries and release from provisions of credit loss	**-**	(15)
Profit equalisation reserve	**71**	56
Investment risk reserve	**31**	25
Operating cash flow before changes in operating assets and liabilities	**1,986**	875
Changes in operating assets and liabilities:		
Deferred sales under Murabaha	**(649)**	95
Ijarah Muntahia Bittamleek assets	**6,328**	1,288
Diminishing Musharaka assets	**(30,407)**	(15,118)
Forward Ijarah assets	**626**	(42)
Service Ijarah assets	**(15)**	(12)
Other assets	**(148)**	(96)
Customer 's current accounts	**1,412**	669
Customer 's Wakala accounts	**17,606**	(5,993)
Other liabilities	**(641)**	1,160
Net cash used in operating activities	**(3,903)**	(17,174)
Investing activities		
Purchase of property and equipment	**(72)**	(13)
Investment in Financial assets at amortized cost	**(3,686)**	(2,772)
Net cash used in investing activities	**(3,758)**	(2,785)
Financing activities		
Movement in unrestricted investment account holders	**1,077**	253
Assigned capital	**6,500**	-
Net cash from financing activities	**7,577**	253
Decrease in cash and cash equivalents	**(84)**	(19,706)
Cash and cash equivalents at the beginning of the year	**5,495**	25,201
Cash and cash equivalents at the end of the year	**5,411**	5,495
Representing:		
Cash and balances with Central Banks	**10,754**	10,220
Due from banks and financial institutions	**443**	5,335
Due to banks and financial institutions	**(5,786)**	(10,060)
	5,411	5,495

Statement of Sources and Uses of Charity Fund
For the year ended 31 December 2019

	2019	2018
	RO'000	RO'000
Balance as at 1 January	**-**	
Non-Islamic income for the year	**4,146**	2,225
Total source	**4,146**	2,225
Use of charity fund:		
Oman Association for disabled	**-**	(742)
Oman Society for the hearing impaired	**-**	(742)
Omani Association for Elderly Friends	**-**	(742)
Association for Welfare of Children Disabilities	**(2,073)**	-
Omani Association for Down syndrome	**(2,073)**	-
Undistributed charity fund	**-**	-

Notes to the Financial Position
For the year ended 31 December 2019

1. Legal status and principal activities

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman.

Muzn's operations commenced on 17 January 2013 and it currently operates through six branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

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

Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Sharia Supervisory Board ('SSB') comprising of five members.

Muzn's address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 59 employees as at 31 December 2019 (2018: 62).

2. Basis of preparation

2.1 Statement of compliance

The financial statements of Muzn Islamic Banking have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia rules and principles as determined by the Sharia Supervisory Board of Muzn and the applicable laws and regulations issued by the CBO. In accordance with the requirements of IBRF, for accounting matters which are not covered by the AAOIFI standards, Muzn uses the relevant International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (IASB). The significant accounting policies are set out in note 3 to the financial statements.

These financial statements relate to the Islamic Window operation only and do not include the financial results of the Bank. The complete set of Bank's financial statements are presented separately. The window is not a separate legal entity, the separate financial statements of National Bank of Oman SAOG has been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by Central Bank of Oman

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable/relevant to Muzn's operations.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis except for the measurement at fair value of certain instrument(s) carried at fair value.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2.4 Use of estimates and judgements

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

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

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

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies

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

3.1 Foreign currency translations

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

3.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from other banks.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Sharia principles and guidelines.

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

3.4 Deferred sales under Murabaha

Deferred sales under Murabaha are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory.

The Bank has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019.

This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements except for additional disclosure that has been added in the relevant section (note 8).

3.5 Ijarah Muntahia Bittamleek assets and Forward Ijarah

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

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life.

Forward Ijarah assets are recognised as assets at cost during the period of construction.

3.6 Diminishing Musharaka

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.7 Service Ijarah

Deferred Contracts under Service Ijarah are stated net of deferred profits and provisions for impairment. Muzn considers the payments to be made under Deferred Service Ijarah Contracts as obligatory.

3.8 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

Nature of assets	Useful life in years
Furniture and fixtures	10
Equipment	5-20
Motor vehicles	4
Leasehold improvements	3-10

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

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

3.9 Unrestricted investment accountholders

All unrestricted investment accounts will be carried at cost plus profit attributable to unrestricted investment account holders and related reserves, less amounts settled.

Unrestricted investment account holders' share of income will be calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses will be charged to shareholders' funds and not included in the calculation.

The basis applied by Muzn in arriving at the unrestricted investment account holders' share of income will be (total income from jointly financed Islamic finances less shareholders' income). Pre agreed profit share generated from unrestricted investment account holders will be deducted as Mudarib share and the remaining will be distributed to the unrestricted investment account holders.

3.10 Investments

Investments comprise of debt type instruments carried at amortized cost, equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investments carried at fair value through statement of income.

Debt instruments at FVTE (IFRS 9: FVOCI)

The Window applies the new category under IFRS 9 of debt instruments measured at FVTE when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

For debt securities measured at FVTE, gains and losses are recognised in equity and upon sale realized through Profit and Loss.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in fair value reserve is reclassified from equity to profit or loss.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.10 Investments (continued)

Equity instruments at FVTE (IFRS 9:FVOCI)

Upon initial recognition, the Window occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTE when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Window benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in equity. Equity instruments at FVOCI are not subject to an impairment assessment.

3.11 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib share, in order to cater against future losses for unrestricted investment account holders.

3.12 Profit equalisation reserve

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

3.13 Provisions

Provisions are recognised when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have portfolio credit loss provisions, at least equivalent to 1% of the total financing and interbank 0.5% categorized as Standard and Special Mention. However, for personal finance a minimum portfolio loss provision of 2% of the Standard and Special Mention is required to address the heightened inherent risk. This is required for comparison purpose against the IFRS 9 expected credit loss which shown under note 18.2.

3.14 Dividends

Dividends are recognised as a liability in the year in which they are declared.

3.15 Earnings prohibited by shari'a

Muzn is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

3.16 Zakah

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

3.17 Joint and self-financed

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly-financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed".

3.18 Funds for Muzn

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking business.

3.19 Revenue recognition

3.19.1 Deferred sales under Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.19 Revenue recognition (continued)

3.19.2 Diminishing Musharaka

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually Income from Musharaka is recognised when the right to receive payment is established or when distribution is made.

3.19.3 Ijarah Muntahia Bittamleek

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

3.19.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the income statement.

3.19.5 Dividends

Dividends will be recognised when the right to receive payment is established.

3.19.6 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.19.7 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.20 Taxation

Muzn is not a separate legal entity and therefore is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.21 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Muzn's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue

to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date.

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

3.22 Segment reporting

An operating segment is a component of Muzn that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Muzn's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses its performance and for which discrete financial information is available. Muzn's primary format for reporting segmental information is business segment, based upon management internal reporting structure. Muzn's main business segments comprise of retail, corporate and treasury operations.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.23 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets four times a year and consists of three prominent Sharia scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sh. Dr. Mohamed Bin Ali Elgari – Chairman
- Dr. Mohammed Daud Bakar – Member
- H.H. Dr. Adham Al Said – Member
- Sh. Saleh Al Kharusi – Member

3.24 IFRS 9 - Financial Instruments

3.24.1 Classification of financial assets

The Window has applied IFRS 9 and classifies its financial assets in the following measurement categories:

a. Fair value through equity (FVTE) which is IFRS 9: FVOCI; or
b. Amortized cost.
c. Fair value through profit or loss (FVTPL);

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

a. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

A debt instrument is measured at FVTE only if it meets both of the following conditions and is not designated as at FVTPL:

a. The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

On initial recognition of an equity investment that is not held for trading, the Window may irrevocably elect to present subsequent changes in fair value in equity. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Window may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTE as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.24.2 Business model assessment

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

a. The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
b. how the performance of the portfolio is evaluated and reported to the Window's management;
c. the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
d. how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
e. The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Window's stated objective for managing the financial assets is achieved and how cash flows are realised.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.24 IFRS 9 - Financial Instruments (continued)

3.24.2 Business model assessment (continued)

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

3.24.3 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')

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

a. contingent events that would change the amount and timing of cash flows;

b. leverage features;

c. prepayment and extension terms;

d. terms that limit the Window's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

e. features that modify the profit rates based on the given circumstances.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The 'investments' caption in the statement of financial position includes:

a. debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective profit method;

b. debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

c. debt securities measured at FVTE; and

d. equity investment securities designated as at FVTE.

For debt securities measured at FVTE, gains and losses are recognised in equity, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

a. Profits from the financial assets

b. ECL and reversals; and

c. Foreign exchange gains and losses.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in equity is reclassified from equity to profit or loss.

The Window elects to present in equity changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

3.24.4 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Window changes its business model for managing financial assets.

3.24.5 Impairment

The Window recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

a. financial assets that are debt instruments;

b. financial guarantee contracts issued; and

c. financing commitments issued.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.24 IFRS 9 - Financial Instruments (continued)

3.24.5 Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Window assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTE are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

a. significant financial difficulty of the borrower or issuer;

b. a breach of contract such as a default or past due event;

c. the restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;

d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e. the disappearance of an active market for a security because of financial difficulties.

A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Window considers the following factors.

a. The market's assessment of creditworthiness as reflected in the Sukuk yields.

b. The rating agencies' assessments of creditworthiness.

c. The country's ability to access the capital markets for new debt issuance.

d. The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

e. The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Calculation of expected credit loss (ECL)

Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Window while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Window compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Window's existing risk management processes.

The Window's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

The Window will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.24 IFRS 9 - Financial Instruments (continued)

3.24.5 Impairment (continued)

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

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

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

The windows base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the window best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Window considers any exposure greater than 90 days past due as a default account.

Expected life

When measuring ECL, the Window must consider the maximum contractual period over which the Window is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Window is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.24 IFRS 9 - Financial Instruments (continued)

3.24.5 Impairment (continued)

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Window's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL).

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Window has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Window groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing are first recognised, the Window recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Window records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The Window records an allowance for the LTECLs.

At initial recognition of a financial asset, the Window recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses.

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset.

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Window has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.24 IFRS 9 - Financial Instruments (continued)

3.24.5 Impairment (continued)

The calculation of ECLs

The Window calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortized cost.

3.25 New standards, amendments and interpretations

3.25.1 New standards, amendments and interpretations effective from 1 January 2020

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

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

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Bank has assessed the standard and based on the assessment of the standard, there is no impact of applying FAS 31 on the financial statements in terms of revenue, expenses and carrying amount of existing Wakala Bi Al- Istithmar as the Bank opted to use Wakala venture approach instead of pass-through approach given the difficulties for the principal to identify in which assets the funds are invested in, and hence, the investment shall be accounted for applying the equity method of accounting.

FAS 33 Investment in Sukuk, Shares and Similar Instruments

AAOIFI has issued FAS 33 "Investment in Sukuk, Shares and Similar Instruments" in 2018. This standard supersedes the earlier FAS 25 "Investment in Sukuk, Shares and Similar Instruments".

The objective of this standard is to establish the principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments made by the Bank. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

FAS 34 Financial Reporting for Sukuk -holders

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

The Window is currently evaluating the impact of this standard.

Notes to the Financial Position
For the year ended 31 December 2019

3. Significant accounting policies (continued)

3.25 New standards, amendments and interpretations (continued)

3.25.1 New standards, amendments and interpretations effective from 1 January 2020 (continued)

FAS 30 – Impairment, credit losses and onerous commitments

This standard aims at setting out the accounting rules and principles for impairment and credit losses, covering current and expected losses, in line with global best practices, taking into account the ever-changing requirements and the genuine requirements of Islamic finance industry across the globe. It aslo sets out classification of assets and exposures in view of the credit risk and other risks involved. The idea is to apply the forward looking approach in line with other standards setters for the assets and instruments that are financial instruments from shari'ah prespective and to define globally acceptable impairment and write down and provisioning approaches for other assets and exposures, without compromising on shari'ah. It further covers the situations where onerous commitments exist which mandate a provision for anticipated losses on the same.

This standard shall be effective for financial periods beginning on or after 1 January 2020 early adoption is permitted. The Bank is currently assessing the impact of the initial application of this standard.

Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

FAS 35 Risk Reserves

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

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

The Bank is currently evaluating the impact of this standard.

4. Critical accounting judgment and key sources of estimation uncertainty

4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Notes to the Financial Position
For the year ended 31 December 2019

4. Critical accounting judgment and key sources of estimation uncertainty (continued)

4.1 Financial Instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

The Window's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Window's internal credit grading model
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

4.2 Useful life of property and equipment

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

5. Cash and balances with Central bank of Oman ("CBO")

All the above exposures are classified as Stage 1 as at 31 December 2019.

	2019	2018
	RO'000	RO'000
Cash in hand	**1,178**	1,172
Balances with Central Bank of Oman ("CBO")	**9,576**	9,048
Cash and balances with Central bank of Oman ("CBO")	**10,754**	10,220

ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

Notes to the Financial Position
For the year ended 31 December 2019

6. Due from banks and financial institutions

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Due from foreign banks (note a)	**21**	**31**	**52**
Due from local banks (note b)	**-**	**-**	**-**
Due from banks and financial institutions	**156**	**235**	**391**
Less: Allowance for credit losses	**-**	**-**	**-**
Due from banks and financial institutions	**177**	**266**	**443**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Due from foreign banks	134	201	335
Due from local banks	2,000	3,000	5,000
Due from banks and financial institutions	2,134	3,201	5,335
Less: Allowance for credit losses	-	-	-
Due from banks and financial institutions after adopting IFRS9	2,134	3,201	5,335

a. Due from foreign banks is from a international bank with AA rating with a current maturity, due to which the computed ECL is insignificant amount.

b. Due from local banks is from a local bank with BB rating with current maturity, due to which the computed ECL is insignificant amount.

7. Financial assets

7.1 Financial assets at amortized cost

	Self-Financed	Total 2019
	RO'000	RO'000
Government Sukuk	**10,476**	**10,476**
Manufacturing Sector Sukuk	**963**	**963**
Banking Sector Sukuk	**550**	**550**
Financial assets at amortized cost	**11,989**	**11,989**
Less: Allowance for credit losses (refer 7.2)	**(55)**	**(55)**
Financial assets at amortized cost	**11,934**	**11,934**
	Self-Financed	**Total 2018**
	RO'000	RO'000
Government Sukuk	6,790	6,790
Manufacturing sector Sukuk	963	963
Banking sector Sukuk	550	550
Financial assets at amortized cost	8,303	8,303
Less: Allowance for credit losses	(55)	(55)
Financial assets at amortized cost after adopting IFRS9	8,248	8,248

Notes to the Financial Position
For the year ended 31 December 2019

7. Financial assets (continued)

7.2 Movement in allowances for the credit losses is set out below:

	2019	2018
	RO'000	RO'000
Balance at beginning of year	**55**	N/A
Impact of adopting IFRS 9 (refer note 3.25)	-	69
Impairment losses as at 1 January 2018	-	69
Released / provided during the year	-	(14)
Total	**55**	55

8. Deferred sales under Murabaha

	Self- Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Gross deferred sales under Murabaha	992	1,487	**2,479**
Less: Unearned income	(102)	(152)	**(254)**
	890	1,335	**2,225**
Less: Allowances for credit losses	(4)	(6)	**(10)**
Deferred sales under Murabaha	886	1,329	**2,215**
	Self- Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Gross deferred sales under Murabaha	689	1,033	1,722
Less: Unearned income	(58)	(87)	(145)
	631	946	1,577
Less: Allowances for credit losses	(3)	(5)	(8)
Deferred sales under Murabaha	628	941	1,569

The deferred sales under Murabaha pertain to finance provided to retail customers. The credit quality of the deferred sales under Murabaha that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Deferred sales under Murabaha past due but not impaired

	2019	2018
	RO'000	RO'000
Past due up to 30 days	57	80
Past due 31 – 60 days	8	-
Past due 61 – 89 days	-	-
Total	**65**	80

Notes to the Financial Position
For the year ended 31 December 2019

8. Deferred sales under Murabaha (continued)

FAS 28 - Murabaha and other deferred payment sales disclosure

	2019	2018
	RO'000	RO'000
Deferred profit at the beginning of the period	**145**	127
Murabaha sales revenue during the period	**1,537**	8,640
Murabaha cost of sales	**(1,428)**	(8,622)
Deferred profit written off during the period	-	-
Deferred profit waived during the period	-	-
Deferred profit at the end of the period	**254**	145

9. Ijarah Muntahia Bittamleek – net

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Cost			
At 1 January 2019	48,427	72,640	**121,067**
Additions - net	1,063	1,594	**2,657**
At 31 December 2019	49,490	74,234	**123,724**
Depreciation			
At 1 January 2019	(14,310)	(21,465)	**(35,775)**
Charge for the year	(3,574)	(5,360)	**(8,934)**
At 31 December 2019	(17,884)	(26,825)	**(44,709)**
Net book value at 31 December 2019	**31,606**	**47,409**	**79,015**
Less: Allowances for credit losses	**(428)**	**(641)**	**(1,069)**
Ijarah Muntahiah Bittamleek – net	**31,179**	**46,768**	**77,946**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Cost			
At 1 January 2018	45,322	67,982	113,304
Additions – net	3,105	4,657	7,762
At 31 December 2018	48,427	72,639	121,066
Depreciation			
At 1 January 2018	(10,683)	(16,025)	(26,708)
Charge for the year	(3,627)	(5,440)	(9,067)
At 31 December 2018	(14,310)	(21,465)	(35,775)
Net book value at 31 December 2018	34,117	51,174	85,291
Less: provision for doubtful debts	(451)	(677)	(1,128)
Ijarah Muntahiah Bittamleek – net	33,666	50,497	84,163

Notes to the Financial Position
For the year ended 31 December 2019

9. Ijarah Muntahia Bittamleek – net (continued)

The Ijarah Muntahia Bittamleek pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah Muntahia Bittamleek that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

	2019	2018
	RO'000	RO'000
Past due up to 30 days	4,383	7,250
Past due 31 – 60 days	2,637	1,999
Past due 61 – 89 days	2,084	669
Total	**9,104**	9,918

10. Diminishing Musharaka

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Diminishing Musharaka receivables	22,657	**33,985**	**56,641**
Less: Allowances for credit losses	(174)	**(260)**	**(434)**
Total	**22,483**	**33,725**	**56,208**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Diminishing Musharaka receivables	10,494	15,741	26,235
Less: Allowances for credit losses	(44)	(66)	(110)
Total	10,450	15,675	26,125

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Diminishing Musharaka past due but not impaired

	2019	2018
	RO'000	RO'000
Past due up to 30 days	3,334	10,233
Past due 31 – 60 days	70	224
Past due 61 – 89 days	198	657
Total	**3,602**	11,114

Notes to the Financial Position
For the year ended 31 December 2019

11. Forward Ijarah

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Forward Ijarah receivables	**1,637**	**2,457**	**4,094**
Less: Allowances for credit losses	**(6)**	**(9)**	**(15)**
Total	**1,632**	**2,448**	**4,080**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Forward Ijarah receivables	1,888	2,833	4,721
Less: Allowances for credit losses	(10)	(14)	(24)
Total	1,878	2,819	4,697

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

	2019	2018
	RO'000	RO'000
Past due up to 30 days	69	268
Past due 31 – 60 days	28	-
Past due 61 – 89 days	351	400
Total	**448**	668

12. Service Ijarah

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Gross deferred Service Ijarah	11	16	**27**
Less: Unearned income	-	-	**-**
	11	16	**27**
Less: Allowances for credit losses	-	-	**-**
Service Ijarah	11	16	**27**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Gross deferred Service Ijarah	6	8	14
Less: Unearned income	(1)	(2)	(3)
	5	6	11
Less: Allowances for credit losses	-	-	-
Service Ijarah	5	6	11

Notes to the Financial Position
For the year ended 31 December 2019

12. Service Ijarah (continued)

	2019	2018
	RO'000	RO'000
Past due up to 30 days	5	-
Past due 31 – 60 days	-	-
Past due 61 – 89 days	-	-
Total	**5**	-

13. Property and equipment – net

	Motor vehicles, furniture and equipment	Leasehold improvements	Total 2019
	RO'000	RO'000	RO'000
Cost			
1 January 2019	**1,339**	**701**	**2,040**
Additions	**72**	**-**	**72**
Disposals	**(287)**	**(41)**	**(328)**
31 December 2019	**1,124**	**660**	**1,784**
Depreciation			
1 January 2019	**935**	**684**	**1,619**
Charge for the year	**(140)**	**(24)**	**(164)**
31 December 2019	**795**	**660**	**1455**
Net book value at 31 December 2019	**329**	**-**	**329**

	Motor vehicles, furniture and equipment	Leasehold improvements	Total 2018
	RO'000	RO'000	RO'000
Cost			
1 January 2018	1,326	701	2,027
Additions	13	-	13
31 December 2018	1,339	701	2,040
Depreciation			
1 January 2018	775	653	1,428
Charge for the year	160	31	191
31 December 2018	935	684	1619
Net book value at 31 December 2018	404	17	421

14. Other assets

	2019	2018
	RO'000	RO'000
Profit receivable	**206**	130
Advanced rent	**108**	87
Miscellaneous assets	**176**	125
Total	**490**	342

Notes to the Financial Position
For the year ended 31 December 2019

15. Wakala accounts

	2019	2018
	RO'000	RO'000
Wakala deposit	**49,715**	52,479
Flex Wakala	**71,407**	51,037
Total	**121,122**	103,516

16. Due to banks and financial institutions

	2019	2018
	RO'000	RO'000
Due to Head Office	**1,934**	10,060
Due to Foreign Banks	**3,852**	-
Due to banks and financial institutions	**5,786**	10,060

17. Other liabilities

	2019	2018
	RO'000	RO'000
Sundry creditors	**294**	227
Short term payable	**242**	18
Profits payable	**1,828**	2,079
Forward Ijarah advances	**1,383**	2,174
Deferred profit under Murabaha	**253**	143
	4,000	4,641

18. Provisions for credit loss finances and recoveries and release from provisions of credit loss finances

18.1 Portfolio provision

	2019	2018
	RO'000	RO'000
At 1 January	**1,324**	1,261
Impact of adopting IFRS9	**-**	(296)
Restated opening balance under IFRS9	**1,324**	965
Provided during the year	**258**	374
Released during the year	**-**	(15)
At 31 December	**1,582**	1,324

Provided during the period includes contractual profit reserved for RO 52 thousands.

Notes to the Financial Position
For the year ended 31 December 2019

18. Provisions for credit loss finances and recoveries and release from provisions of credit loss finances (continued)

18.2 Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Reserve Profit as per CBO norms
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)-(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	103,824	1,082	282	800	102,742	103,542	-	-
	Stage 2	23,856	241	257	(16)	23,615	23,599	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**127,680**	**1,324**	**539**	**784**	**126,356**	**127,141**	**-**	**-**
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	12,106	121	304	(183)	11,985	11,802		
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**12,106**	**121**	**304**	**(183)**	**11,985**	**11,802**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,331	315	215	164	952	1,116	-	64
Subtotal		**1,331**	**315**	**215**	**164**	**952**	**1,116**	**-**	**64**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	885	190	468	(152)	569	417	-	126
Subtotal		**885**	**190**	**468**	**(152)**	**569**	**417**	**-**	**126**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	12,432	-	55	(55)	12,432	12,377	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**12,432**	**-**	**55**	**(55)**	**12,042**	**12,377**	**-**	**-**
Total	**Stage 1**	**116,256**	**1,082**	**337**	**745**	**115,174**	**115,919**	**-**	**-**
	Stage 2	**35,962**	**363**	**561**	**(198)**	**35,600**	**35,401**	**-**	**-**
	Stage 3	**2,216**	**506**	**684**	**12**	**1,520**	**1,532**	**-**	**190**
	Total	**154,434**	**1,951**	**1,582**	**558**	**152,294**	**152,852**	**-**	**190**

Notes to the Financial Position
For the year ended 31 December 2019

18. Provisions for credit loss finances and recoveries and release from provisions of credit loss finances (continued)

18.3 Movement in Expected credit losses (ECL)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL				
• Financing contracts with customers	103,824	35,962	2,216	**142,002**
• Investment securities at amortized cost	11,989	-	-	**11,989**
• Unutilized portion of financing contracts and financial guarantees	3,973	-	-	**3,973**
• Due from banks, Central Bank and other financial assets	391	-	-	**391**
Opening Balance as at 1 January 2019				
• Financing contracts with customers	294	306	669	**1,269**
• Investment securities at amortized cost	55	-	-	**55**
• Financing Commitments and Financial Guarantees	-	-	-	**-**
• Due from banks, Central Bank and other financial assets	-	-	-	**-**
	349	306	669	**1,324**
Net transfer between stages				
• Financing contracts with customers	62	(66)	5	**-**
• Investment securities at amortized cost	-	-	-	**-**
• Unutilized portion of financing contracts and financial guarantees	-	-	-	**-**
• Due from banks, Central Bank and other financial assets	-	-	-	**-**
Charge for the Period (net)				
• Financing contracts with customers (including contractual profit reserved of RO 190k)	(73)	321	10	**258**
• Investment securities at amortized cost	-	-	-	**-**
• Unutilized portion of financing contracts and financial guarantees	-	-	-	**-**
• Due from banks, Central Bank and other financial assets	-	-	-	**-**
	(73)	321	10	**258**
Closing Balance - as at 31 December 2019				
• Financing contracts with customers	**282**	**561**	**683**	**1,526**
• Financial assets at amortized cost	55	-	-	**55**
• Unutilized portion of financing contracts and financial guarantees	-	-	-	**-**
• Due from banks, Central Bank and other financial assets	-	-	-	**-**
	337	**561**	**683**	**1,582**

Notes to the Financial Position
For the year ended 31 December 2019

18. Provisions for credit loss finances and recoveries and release from provisions of credit loss finances (continued)

18.3 Movement in Expected credit losses (ECL) (continued)

Impairment charge and provisions held

(RO '000)

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	206	206	-
Provisions required as per CBO norms/held as per IFRS 9*	1,951	1,582	**(369)**
Gross NPF ratio	1.31	1.31	-
Net NPF ratio	1.00	1.00	-

*Excludes contractual profit reserve amounting RO 190 thousands.

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under IFRS 9, has been transferred to a financing loss impairment reserve from accumulated losses.

19. Equity of unrestricted investment account holders

	2019	2018
	RO'000	RO'000
Mudaraba savings account	5,849	4,772
Profit equalisation reserve	381	310
Investment risk reserve	148	118
Total unrestricted investment account holders	**6,378**	5,200

There are no restricted investment as at 31 December 2019 (2018: Nil).

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

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

The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

	2019	2018
	Percentage	Percentage
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

Notes to the Financial Position
For the year ended 31 December 2019

20. Assigned capital
The assigned capital consists of RO 20,000,000 transferred from National Bank of Oman SAOG (31 December 2018: RO 13,500,000).

21. Deferred sales under Murabaha

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Deferred sales under Murabaha profit	41	61	**102**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Deferred sales under Murabaha profit	33	49	82

22. Ijarah Muntahiah Bittamleek

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Income from Ijarah Muntahiah Bittamleek	5,239	7,858	**13,097**
Less: depreciation	(3,574)	(5,360)	**(8,934)**
Total	**1,665**	**2,498**	**4,163**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Income from Ijarah Muntahiah Bittamleek	5,435	8,153	13,588
Less: depreciation	(3,627)	(5,440)	(9,067)
Total	1,808	2,713	4,521

23. Diminishing Musharaka

	Self-Financed	Jointly Financed	Total 2019
	RO'000	RO'000	RO'000
Income from Diminishing Musharaka	982	1472	**2454**
	Self-Financed	**Jointly Financed**	**Total 2018**
	RO'000	RO'000	RO'000
Income from Diminishing Musharaka	317	476	793

Notes to the Financial Position
For the year ended 31 December 2019

24. Return on unrestricted investment accountholders

	2019	2018
	RO'000	RO'000
Mudarabha savings account	**35**	33

25. Return on Wakala accountholders

	2019	2018
	RO'000	RO'000
Wakala	**1,939**	1,597
Flex Wakala	**1,924**	1,722
Total	**3,863**	3,319

26. General and administrative expenses

	2019	2018
	RO'000	RO'000
Salaries and allowances	1,216	1,331
Rent, rates and taxes	197	208
Publicity	30	20
Management fee to Head Office	85	60
Repair and maintenance	14	88
Legal and professional fees	28	5
Stationery	15	12
Directors' fees	44	48
Travel expenses	4	10
Miscellaneous expenses	285	303
Total	**1,918**	2,085

Notes to the Financial Position
For the year ended 31 December 2019

27. Related party transactions

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

	2019	2018
Deposits and other accounts	RO'000	RO'000
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**543**	8,548

	2019	2018
Financing	RO'000	RO'000
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	89	104

The statement of income includes the following amounts in relation to transactions with related parties:

	2019	2018
Remuneration paid to Directors & Sharia Supervisors Board	RO'000	RO'000
Chairman		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	3
• other expenses paid	**2**	3
Other Directors		
• remuneration proposed	**15**	17
• sitting fees paid	**8**	11
• other expenses paid	**9**	6
Management fee payable to conventional banking	**85**	60

28. Contingent liabilities and commitments

28.1 Credit related contingent items

The Window is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others.

The Window's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

Notes to the Financial Position
For the year ended 31 December 2019

28. Contingent liabilities and commitments (continued)

28.1 Credit related contingent items (continued)

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2019	2018
	RO'000	RO'000
Letters of credit	**210**	-
Letters of guarantee	**298**	176
Total	**508**	176

The table below analyses the concentration of contingent liabilities by economic sector:

	2019	2018	
	RO'000	RO'000	
Construction	-	-	0%
Utilities	-	-	0%
Export trade	-	-	0%
Government	-	-	0%
Import trade	-	-	0%
Transportation	-	-	0%
Wholesale and retail trade	-	-	0%
Services	**508**	176	100%
Manufacturing	-	-	0%
Mining & Quarrying	-	-	0%
Total	**508**	176	100%

28.2 Capital and investment commitments

	2019	2018
	RO'000	RO'000
Contractual commitments for Forward Ijarah	**575**	1,879
Contractual commitments for Diminishing Musharaka	**34,939**	490
	35,514	2,369
Operating lease commitments	**530**	202
Future minimum lease payments:		
Not later than one year	**197**	64
Later than one year and not later than five years	**333**	138
Total	**530**	202

Notes to the Financial Position
For the year ended 31 December 2019

29. Financial risk management

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that Muzn will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Credit risk management

To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board is the final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies

Muzn manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. Muzn structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

To facilitate risk mitigation Moody's, S&P and Fitch ratings have also been set up and are also being used as guidelines to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

The analysis of financing portfolio is provided below. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

With the recent adoption of IFRS 9 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information.

a. Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

> **Muzn manages credit risk by setting internal limits on the amount of risk it is willing to accept in line with the guidelines of Central Bank of Oman**

Notes to the Financial Position
For the year ended 31 December 2019

29. Financial risk management (continued)

b. Customer concentrations Customer concentrations

On Assets	Due from Banks and financial institutions	Financial assets at amortized cost	Deferred sales under Murabaha	Ijarah Muntahia Bittamleek
31 December 2019	RO'000	RO'000	RO'000	RO'000
Retail	-	-	1,660	58,804
Corporate	443	11,935	556	19,142
Total	**443**	**11,935**	**2,216**	**77,946**

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 December 2019	RO'000	RO'000	RO'000
Retail	3,918	3,352	27
Corporate	52,289	728	-
Total	**56,207**	**4,080**	**27**

On Liabilities	Current accounts	Wakala accounts	Due to banks and financial institutions	Unrestricted Investment Accountholders
31 December 2019	RO'000	RO'000	RO'000	RO'000
Retail	1,470	19,338	-	6,378
Corporate	5,886	101,784	5,786	-
Total	**7,356**	**121,122**	**5,786**	**6,378**

On Assets	Due from Banks and financial institutions	Financial assets at amortized cost	Deferred sales under Murabaha	Ijarah Muntahia Bittamleek
31 December 2018	RO'000	RO'000	RO'000	RO'000
Retail	-	-	1,254	61,709
Corporate	5,335	8,248	315	22,454
Total	5,335	8,248	1,569	84,163

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 December 2018	RO'000	RO'000	RO'000
Retail	1,770	3,813	11
Corporate	24,355	884	-
Total	26,125	4,697	11

On Liabilities	Current accounts	Wakala accounts	Due to banks and financial institutions	Unrestricted Investment Accountholders
31 December 2018	RO'000	RO'000	RO'000	RO'000
Retail	1,306	15,745	-	5,200
Corporate	4,639	87,771	10,060	-
Total	5,945	103,516	10,060	5,200

Notes to the Financial Position
For the year ended 31 December 2019

29. Financial risk management (continued)

c. Economic sector concentrations

Assets					
On Assets	Deferred sales under Murabaha	Ijarah Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	**1,660**	**58,803**	**3,918**	**3,352**	**27**
Construction	**5**	**13,994**	**20,553**	**728**	**-**
Manufacturing	**115**	**486**	**12,805**	**-**	**-**
Trade	**303**	**26**	**659**	**-**	**-**
Services	**133**	**4,637**	**18,272**	**-**	**-**
Total	**2,216**	**77,946**	**56,207**	**4,080**	**27**

Liabilities			
	Current accounts	Wakala accounts	Savings accounts
31 December 2019	RO'000	RO'000	RO'000
Personal	**7,357**	**121,122**	**6,378**
Construction	**-**	**-**	**-**
Manufacturing	**-**	**-**	**-**
Trade	**-**	**-**	**-**
Services	**-**	**-**	**-**
Total	**7,357**	**121,122**	**6,378**

Assets					
On Assets	Deferred sales under Murabaha	Ijarah Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 December 2018	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	1,254	61,708	1,770	3,813	11
Construction	21	15,319	11,631	884	-
Manufacturing	78	1,313	10,029	-	-
Trade	81	38	342	-	-
Services	135	5,785	2,353	-	-
Total	1,569	84,163	26,125	4,697	11

Liabilities			
	Current accounts	Wakala accounts	Savings accounts
31 December 2018	RO'000	RO'000	RO'000
Personal	5,945	103,516	5,200
Construction	-	-	-
Manufacturing	-	-	-
Trade	-	-	-
Services	-	-	-
Total	5,945	103,516	5,200

Notes to the Financial Position
For the year ended 31 December 2019

29. Financial risk management (continued)

Impairment assessment

Definition of default and cure

The Window considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Window considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Window also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Window
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Window
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection • Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Window's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Incorporation of forward-looking information

The Window incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Window formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Window's exposures and availability of historical statistically reliable information, the Window derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category.

Economic variable assumptions

The method applied for determination of macroeconomic scenarios and their probabilities is a hybrid approach that combines deterministic forecast / modelling with analysis of stochastic distribution to get the alternative economic conditions and their probabilities.

The major assumptions and methodological choices can be summarised in a following set of steps:

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman).
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 54 USD/barrel for Brent oil.
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

- historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
- size of the detachment equal to plus/minus 0,87 standard deviation from the base scenario as an approximate representation of 33,33% probability of alternative (adverse and favourable) scenarios,

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)

- the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).

4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

The following tables set out the key drivers of expected loss and the assumptions used for the Window's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2019.

Key drivers	ECL scenario and assigned weightage	2020	2021	2022
Real Finance Rate	Base scenario	7.6%	7.6%	7.6%
	Upside scenario	5.5%	6.3%	6.8%
	Downside scenario	11.8%	10.4%	9.4%
GDP	Base scenario	4.3%	4.3%	4.3%
	Upside scenario	7.2%	6.7%	6.7%
	Downside scenario	1.4%	1.7%	1.7%
GDP per capita	Base scenario	-0.3%	0.2%	0.7%
	Upside scenario	3.2%	3.2%	3.7%
	Downside scenario	-3.7%	-2.9%	-2.3%

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.
- The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)

Consumer lending and retail mortgages

Consumer lending comprises secured personal financing and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 financing, the Window assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 financing that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Windoe determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Window's models.

Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

The Window estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Window assesses whether there has been a significant increase in credit risk since initial recognition.

The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)

Significant Increase in Credit Risk (continued)

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.

b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.

c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.

d. Frequent changes in key senior management personnel without acceptable successors or professional management.

e. Intra Group transfer of funds without underlying transactions beyond 50% of Tangible Net Worth.

f. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.

g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.

h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.

i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.

j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.

k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Model risk management:

The Window has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS9 accounting standards.

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Window has a practice of doing independent model validation which provides recommendation to approve the use of the new risk quantification / valuation models. In addition to new model validation, it also evaluates the performance of existing models through an annual validation process. The independency of the team will serve as an effective second line of defense for the Window in terms of usage of models.

Liquidity risk

Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when Muzn is unable to generate cash to cope with a decline in deposits or increase in assets.

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach. The liquidity management does not only measure the liquidity position of the Bank on an going basis but also examine how funding requirement are likely to evolve under various scenarios.

Muzn monitors its liquidity risk through cash flow approach and stock approach. Under the cash flow approach, Muzn generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to over five years.

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)

Liquidity risk (continued)

The mismatches in various time buckets indicate liquidity gap and Muzn strictly adheres to the CBO set limit of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Muzn has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is required to maintain a minimum required level of 100% effective from January 1, 2019.

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is required to maintain a minimum ratio of 100% as per the regulatory guidance. The residual maturity profile of the assets, liabilities and equity at 31 December 2019 is as follows:

	Due on demand and up to 30 day	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2019						
Cash and balances with Central Bank of Oman	7,208	1,409	675	635	827	10,754
Due from banks and financial institutions	443	-	-	-	-	443
Financial assets at amortized cost	3,512	-	-	963	7,459	11,934
Deferred salesunder Murabaha	89	1,031	428	237	431	2,216
Ijarah Muntahiah Bittamleek – net	1,537	10,466	9,725	1,516	54,702	77,946
Diminishing Musharaka	469	15,170	14,172	4,280	22,116	56,207
Forward Ijarah	47	121	608	3,304	-	4,080
Service Ijarah	-	11	7	3	6	27
Property and equipment (net)	-	-	-	-	329	329
Other assets	490	-	-	-	-	490
Total assets	**13,795**	**28,208**	**25,615**	**10,938**	**85,870**	**164,426**

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)
Liquidity risk (continued)

	Due on demand and up to 30 day	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2019						
Current accounts	1,471	2,575	1,472	-	1,839	7,357
Wakala accounts	14,718	46,957	21,732	13,154	24,561	121,122
Due to banks and financial institutions	5,786	-	-	-	-	5,786
Other liabilities	4,000	-	-	-	-	4,000
Unrestricted investment account holders	585	1,170	1,170	1,754	1,699	6,378
Owner's equity	-	-	-	-	19,783	19,783
Total liabilities and unrestricted investment accountholders and owners' equity	**26,560**	**50,702**	**24,374**	**14,908**	**47,882**	**164,426**

The maturity profile of the assets, liabilities and equity at 31 December 2018 is as follows

	Due on demand and up to 30 day	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2018						
Cash and balances with Central Bank of Oman	7,136	1,553	548	365	618	10,220
Due from banks and financial institutions	5,335	-	-	-	-	5,335
Financial assets at amortized cost	3,550	-	-	963	3,735	8,248
Deferred sales receivables	155	394	227	607	186	1,569
Ijarah Muntahiah Bittamleek – net	724	5,118	5,135	16,437	56,749	84,163
Diminishing Musharaka	222	2,367	2,432	11,854	9,250	26,125
Forward Ijarah	601	287	546	3,263	-	4,697
Service Ijarah	-	1	1	4	5	11
Property and equipment (net)	-	-	-	-	421	421
Other assets	342	-	-	-	-	342
Total assets	18,065	9,720	8,889	33,493	70,964	141,131
Current accounts	1,189	2,081	1,190	-	1,485	5,945
Wakala accounts	11,452	51,819	17,634	4,607	18,004	103,516
Due to banks and financial institutions	10,060	-	-	-	-	10,060
Other liabilities	4,641	-	-	-	-	4,641
Unrestricted investment account holders	477	954	954	1,431	1,384	5,200
Owner's equity	-	-	-	-	11,769	11,769
Total liabilities and unrestricted investment accountholders and owners' equity	27,819	54,854	19,778	6,038	32,642	141,131

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Impairment assessment (continued)
Liquidity coverage ratio

	Total unweighted value (average)	Total weighted value (average)
	RO'000	RO'000
High quality liquid assets		
Total High Quality Liquid Assets (HQLA)	22,655	22,428
Cash outflows		
Retail deposits and deposits from small business customers of which:	19,883	1,679
Stable deposits	6,182	309
Less stable deposits	13,701	1,370
Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	76,460	33,478
Additional requirements, of which		
Credit and liquidity facilities	-	-
Other contingent funding obligations	424	145
Total cash outflows	**96,767**	**35,302**
Cash Inflows		
Inflows from fully performing exposures	23,688	22,856
Other cash inflows	1,279	1,279
Total cash inflows	**24,967**	**24,135**
Total high quality liquid assets		**22,428**
Total net cash outflows		**11,168**
Liquidity coverage ratio (%)		**200.83**

Net Stable Funding Ratio

	Total weighted value
	RO'000
Total available stable funding	130,783
Total required stable funding	119,097
Net stable funding ratio (%)	**109.8%**

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Market risk

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

a. Currency risk

Muzn is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Muzn is exposed is the US Dollar which is effectively pegged to Rial Omani. Muzn finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

b. Profit rate risk

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

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with Muzn's Asset and Liability Management Committee (ALCO).

Profit rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in profit rate is provided below:

As at December 2019	200 bps increase	200 bps decrease
Earnings impact - RO'000s	220	(220)

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Market risk (continued)

Profit rate sensitivity gap

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

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2019	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	10,754	10,754
Due from banks and financial Institutions	0.0%	-	-	-	-	443	443
Financial assets at amortized cost	5.1%	-	2,962	5,314	3,658	-	11,934
Deferred sales under Murabaha	5.4%	1,120	428	237	431	-	2,216
Ijarah Muntahia Bittamleek – net	5.3%	**12,003**	9,725	1,516	54,702	-	77,946
Diminishing Musharaka	5.8%	15,639	14,172	4,280	22,116	-	56,207
Forward Ijarah	N/A	-	-	-	-	4,080	4,080
Service Ijarah	6.0%	11	7	3	6	-	27
Property and equipment- net	N/A	-	-	-	-	329	329
Other assets	N/A	-	-	-	-	490	490
Total assets		**28,773**	**27,294**	**11,350**	**80,913**	**16,096**	**164,426**
Current accounts	N/A	-	-	-	-	7,357	7,357
Wakala accounts	3.8%	61,675	21,732	13,154	24,561	-	121,122
Due to banks and financial institutions	2.1%	5,786	-	-	-	-	5,786
Other liabilities	N/A	-	-	-	-	4,000	4,000
Unrestricted investment account holders	0.7%	**1,755**	1,170	1,754	1,699	-	6,378
Owners' equity	N/A	-	-	-	-	19,783	19,783
Total liabilities and owners' equity		**69,216**	**22,902**	**14,908**	**26,260**	**31,140**	**164,426**
On-balance sheet gap		**(40,443)**	**4,392**	**(3,558)**	**54,653**	**(15,044)**	
Cumulative profit sensitivity gap		**(40,443)**	**(36,051)**	**(39,609)**	**15,044**	**-**	

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Market risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2018	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	10,220	10,220
Due from banks and financial Institutions	2.4%	5,000	-	-	-	335	5,335
Financial assets at amortized cost	5.1%	-	-	4,513	3,735	-	8,248
Deferred sales under Murabaha	5.1%	549	227	607	186	-	1,569
Ijarah Muntahia Bittamleek – net	5.3%	5,842	5,135	16,437	56,749	-	84,163
Diminishing Musharaka	5.8%	2,589	2,432	11,854	9,250	-	26,125
Forward Ijarah	N/A	-	-	-	-	4,697	4,697
Service Ijarah	6.0%	1	1	4	5	-	11
Property and equipment – net	N/A	-	-	-	-	421	421
Other asset	N/A	-	-	-	-	342	342
Total assets		13,981	7,795	33,415	69,925	16,015	141,131
Current accounts	N/A	-	-	-	-	5,945	5,945
Wakala accounts	2.3%	63,271	17,634	4,607	18,004	-	103,516
Due to banks and financial institutions	2.3%	10,060	-	-	-	-	10,060
Other liabilities	N/A	-	-	-	-	4,641	4,641
Unrestricted investment account holders	0.7%	1,431	954	1,431	1,384	-	5,200
Owners' equity	N/A	-	-	-	-	11,769	11,769
Total liabilities and owners' equity		74,762	18,588	6,038	19,388	22,355	141,131
On-balance sheet gap		(60,781)	(10,793)	27,377	50,537	(6,340)	-
Cumulative profit sensitivity gap		(60,781)	(71,574)	(44,197)	6,340	-	-

Notes to the Financial Position
As at 31 December 2019

29. Financial risk management (continued)

Market risk (continued)

c. Equity risk

Currently, Muzn is not exposed to any Equity risk. The window applies the stress testing on a regular basis. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines.

The analysis is regularly reviewed by the Management and Board Risk Committee.

Operational risk

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

30. Capital risk management

Muzn 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. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2019	2018
	RO'000	RO'000
Assigned capital	20,000	13,500
Accumulated losses	(775)	(1,731)
Tier I capital	**19,225**	11,769
Excepted Credit Losses	674	601
Tier II capital	674	601
Total capital available	**19,899**	12,370
Risk weighted assets (RWA)		
Credit risk	114,758	92,479
Market risk	5	4
Operational risk	5,625	4,988
Total RWA	**120,388**	97,471
Capital ratios		
Total capital ratio	**16.5%**	12.7%
Total Tier I ratio	**16.0%**	12.1%

31. Segmental information

Muzn is organised into three main business segments:

1. Retail banking – incorporating private customer current accounts, savings, deposits, deferred sales under Murabaha, Ijarah Muntahia Bittamleek, Forward Ijarah and Diminishing Musharaka.
2. Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales under Murabaha, Diminishing Musharaka, Ijarah Muntahia Bittamleek and Forward Ijarah.
3. Treasury and investments

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

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 deposits.

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.

Notes to the Financial Position
As at 31 December 2019

31. Segmental information

	Retail banking	Corporate banking	Treasury and investments	Other	Total
31 December 2019	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	3,274	3,444	517	-	**7,235**
Other revenues	61	616	109	57	**843**
Segment operating revenues	3,335	4,060	626	57	**8,078**
Profit expenses	(525)	(3,373)	(277)	(101)	**(4,276)**
Net operating income	2,810	687	349	(44)	**3,802**
Segment cost					
Operating expenses including depreciation	(956)	(145)	(85)	(896)	**(2,082)**
Impairment for finances net of allowance for provision	217	(423)	-	-	**(206)**
Net Profit for the year	2,071	119	264	(940)	**1,514**
Gross segment assets	69,201	73,980	22,008	819	**166,008**
Less: Impairment allowance	(263)	(1,264)	(55)	-	**(1,582)**
Segment assets	68,938	72,716	21,953	819	**164,426**
Segment liabilities	26,658	107,670	25,569	4,529	**164,426**
31 December 2018	RO'000	RO'000	RO'000	RO'000	RO'000
Segment operating revenues	3,133	2,263	715	-	6,111
Other revenues	65	138	83	46	332
Segment operating revenues	3,198	2,401	798	46	6,443
Profit expenses	(369)	(2,983)	(131)	(81)	(3,564)
Net operating income	2,829	(582)	667	(35)	2,879
Segment cost					
Operating expenses including depreciation	(897)	(180)	(80)	(1,119)	(2,276)
Impairment for finances net of allowance for provision	(10)	(226)	15	-	(221)
Net profit for the year	1,922	(988)	602	(1,154)	382
Gross segment assets	70,175	48,832	22,686	763	142,456
Less: Impairment allowance	(475)	(795)	(55)	-	(1,325)
Segment assets	69,700	48,037	22,631	763	141,131
Segment liabilities	21,823	92,410	21,829	5,069	141,131

32. Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.

NBO's Branch Network

60 Branches in Oman

18 Sadara Centres

6 Muzn Islamic Banking Branches

2 Branches in UAE

Branch	Telephone No	
Azaiba - HO Branch	24778190	24778355
Muscat South Region Branches		
Hamriya	24831520	24833792
Corniche	24715103	24714245
Wattaya	24568244	24560585
Qurriat	24846100	24846415
MAF	24565561	24566860
Qurum	24560050	24562615
CBD	24778350	24778351
Amerat	24875766	24877379
Shati Qurum	24607161	24607687
Muscat North Region Branches		
Al Mawaleh	24511164	24511165
Bousher	24587291	24587294
Ministry Of Health	24692310	24692309
Al Khoudh	24537950	24537951
Seeb Town	24420441	24423511
Maabella	24453314	24455957
Ghoubra	24497229	24491062
Bukha	26828014	
Muscat Internationl Airport	24356922	24356923
Ministry of Education.	24521448	24510007
Khasab	26731442	26730467
Al Khuwair	24486441	24486481
Sultan qaboos university	24446768	24446556
Dakhliya & Dhahira Region Branches		
Nizwa	25413169	25410072
Buraimi	25653037	
Ibri	25691161	
Bahla	25363613	25363786
Sumail	25350355	
Fanja	25361190	
Al Hamra	25422008	
FIRQ	25432149	
Dhank	25676603	
Araqi	25694342	

Branch	Telephone No	
Batina Region Branches		
Afi	26780972	26781562
Rustaq	26878334	26878332
Sohar Al Hambar	26859105	26859104
Shinas	26748394	26747663
Barka	26882007	
Khabourah	26802380	26805155
Musna	26870182	26871118
Saham	26855299	26855146
Bidaya	26709340	26709240
Sohar Ind.	26755878	26755875
Al Suwaiq	26860518	
Sohar	26840234	26843780
Liwa	26762073	26762075
Sharqiya Region Branches		
Ibra	25570144	25570015
Sur	25545158	25540246
Al Kamil	25557524	25558254
Bani Bu Ali	25554015	25554138
Jalaan	25550020	25550110
Masirah	25504516	25504026
Al Mudhaibi	25578484	25578014
Sinaw	25524212	25524223
Duqum	25427101	25427130
Dhofar Region Branches		
Salalah	23291346	23291601
SQH	23211092	23211042
Mirbat	23268345	23268346
Saada	23225283	23226031
New Salalah	23298027	23298037

Branch	Telephone No	
Sadara Centre		
Azaiba HO	24778151	
Al Khoudh	24271367	
Al Mawaleh	24348118	
MOE	24510007	
Al Khuwair	22826073	
CBD	24774339	
Shatti	24607679	
MAF	24565163	
Sur	25545414	
Sohar Hambar	26859103	
Rustaq	26878334	
SIA	26755886	
Saham	26855299	
Barka	26882368	
Buraimi	25642989	
Nizwa	25431401	
Firq	25431122	
Salalah	23298092	
Muzn Islamic banking		
Azaiba	24617013	24617014
Sur	25540642	
Sohar	26846698	
Nizwa	25411241	25411681
Salalah	23289230	23291310
Maabella	24452387	24458304
UAE		
Abu Dhabi	97126974000	
Dubai	97143049400	

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