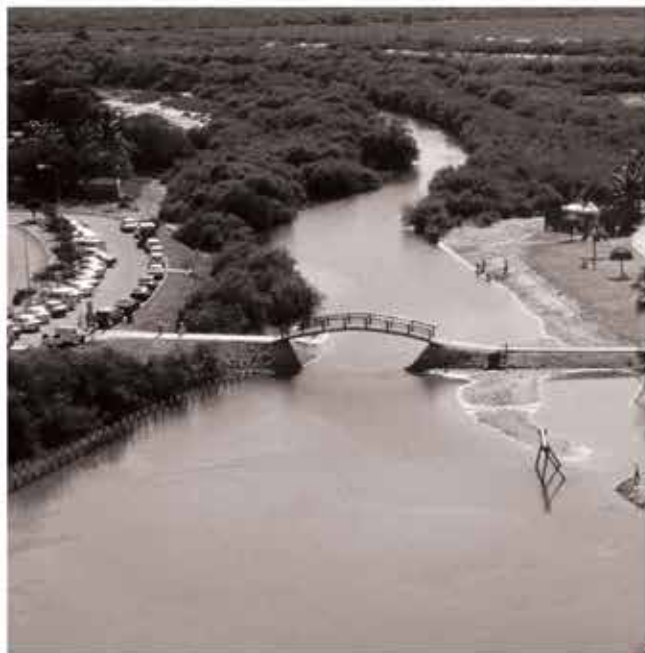


50 Years of Progress





“ The trust thrust on our shoulders and the resultant immense responsibilities require us all to work together for the sake of our country’s magnificence. ”

His Majesty Sultan Haitham bin Tarik
January 2020



“ While it is right we should draw confidence and strength from our achievements, it is to the future that we must turn our eyes and harden our resolve. ”

Late His Majesty Sultan Qaboos bin Said Al Said
November 1980



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Chairman's Report



Dear Shareholders,

I am pleased to share with you the results achieved by Bank Muscat during the financial year ended 31 December 2019. The Bank continued to maintain its leadership position in the financial services industry in Oman with a strong performance demonstrating the inherent strength of the business as well as the high potential of the new customer-centric strategy adopted by the Bank.

Oman's Economy

Oman's budget unveiled by the Ministry of Finance is a bridge to Oman's Vision 2040 with total public spending estimated to rise to RO 13.2 billion in 2020. The Government of Oman continues its emphasis on economic diversification focusing on promising sectors like logistics, manufacturing, tourism, fisheries and mining. With spending on investment projects, particularly on job creation projects, budgeted at RO 5.3 billion, Oman's economy looks all set for a good growth rate this year.

The Government has simultaneously been making rapid strides in improving the investment climate in the Sultanate to attract more investments by enacting new laws including the Foreign Capital Investment law, Privatization and Public-Private Partnership. These moves will support the Sultanate's economic growth in the future.

The Omani banking sector showed a healthy growth in credit of about 3% year-on-year, touching the RO 25.8 billion mark as at the end of November 2019. Total customer deposits registered a growth of 1.7% to RO 23.2 billion as at the end of November 2019. Private sector deposits of the Banking system registered a growth of 2.3% to RO 14.8 billion as at the end of November 2019.

Financial Overview

The Bank posted a net profit of RO 185.55 million for the year compared to RO 179.63 million reported during the same period in 2018, an increase of 3.3%.

Net Interest Income from Conventional Banking and Income from Islamic Financing stood at RO 316.97 million for the year ended 31 December 2019 compared to RO 304.29 million for the same period in 2018, an increase of 4.2%. Non-interest income was RO 155.2 million for the year ended 31 December 2019 as compared to RO 142.45 million for the same period in 2018, an increase of 9%.

Operating expenses for year ended 31 December 2019 were RO 195.93 million as compared to RO 190.34 million for the same period in 2018, an increase of 2.9%. Net Impairment for credit and other losses for the year 2019 was RO 56.13 million as against RO 43.24 million for the year 2018. Net Loans and advances including Islamic financing receivables decreased by 0.7% to RO 8,878 million as against RO 8,939 million as at 31 December 2018. The reduction in loan book is mainly attributable to prepayment of certain large corporate exposures in 2019. Customer deposits including Islamic Customer deposits decreased by 5% to RO 8,044 million as against RO 8,463 million as at 31 December 2018. The main reason for decrease in customer deposits in 2019 was due to a substantial increase in large short term deposits that was transit in nature in the last quarter of 2018.

The basic earnings per share was RO 0.060 in 2019 against RO 0.059 in 2018. The Bank's capital adequacy ratio stood at a very healthy level of 19.72% as on 31 December 2019 after appropriation for proposed dividend for the year 2019 against the minimum required level of 14.50% as per Basel III regulations issued by the Central Bank of Oman.

For 2019, the Board of Directors has proposed a dividend of 40%, 35% in the form of cash and 5% in the form of bonus shares. Thus, the shareholders would receive a cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 108.317 million on the Bank's existing share capital. In addition, they would receive bonus shares in the proportion of 1 share for every 20 ordinary shares aggregating to 154,739,168 shares of RO 0.100 each amounting to RO 15.474 million.

Strategic Initiatives & Key Developments

The Bank has continued its journey of contributing to economic and financial development and enhancing customer satisfaction, stemming of its core objectives of adding value to its stakeholders and fulfilling its social responsibilities.

In Project and Structured Finance, the Bank maintained its leadership position by playing an integral part in several large-scale and key infrastructure projects in core sectors which included: Oil and gas, petrochemicals, telecoms, water and power, large-scale industry, shipping and aviation. During the year, the Bank was mandated to arrange financing for integrated tourism projects, hospitality, and two power and water projects including the country's first large-scale solar power project.

In 2019, Bank Muscat collaborated with a number of government and corporate clients for integrating their Resource Planning systems with the Bank's online payment system, and enhanced digitalization of their operations.

Highlighting its strong commitment to the Micro, Small and Medium-sized Enterprises (MSME) sector, the Bank extended financing to more than three thousand MSME customers in 2019. The Bank also continued its strong support of SMEs with various events like the annual 'Al Wathbah' Ramadan Souq and Najahi Talks knowledge-sharing and networking forum. The 'Al Wathbah' Academy continued to enroll Omani entrepreneurs for internationally recognised certification programmes so as to equip them with excellent entrepreneurial skills.

Meethaq had a number of key achievements including the successful launch of the Meethaq Sukuk Series 2 programme amounting to RO 46 million bringing the total Meethaq Sukuk issuances by the Bank to RO 90 million. Meethaq also acted as Joint Lead Manager for the RO 300 million Omani Government Sukuk in 2019.

The Investment Banking division continued its track record and successfully completed a number of financial advisory and fundraising transactions with an aggregate value of more than \$2 billion (RO 769 million). Key transactions included financial advisory to Oman Aviation Group and the Electronic Initial Public Offering (e-IPO) of Musandam Power Company with an oversubscription of 3.6 times.

In association with the International Finance Corporation, the Bank launched Oman's first Green Finance scheme for environment-friendly homes to encourage rooftop solar panel installation, which is being facilitated through the Sahim renewable energy project of the Authority for Electricity Regulation. In 2019, the Bank also received regulatory approval to start a Fintech investment program of \$100 million (RO 38.5 million).

Sustainability and Corporate Social Responsibility (CSR)

Bank Muscat has always focused on delivering long-term benefits to the community and the nation as well as creating a positive impact on the society in a number of important areas such as financial inclusion, financial literacy, SME development, Education, Youth, Sports, Alternative Energy, and Health.

Giving top priority to financial inclusion, Bank Muscat along with Meethaq Islamic Banking has 164 branches and service centers, 741 Automated Teller Machines and Cash Deposit Machines (CDM), including 5 mobile machines across the Sultanate. The Bank has continued its investments to provide 19 Statement Printers, and 10 Business Cash Deposit Machines strategically positioned across Oman. The Bank celebrated Arab Financial Inclusion Day in April 2019 with a number of activities including organizing visits by school students to learn more about banking and financial products and the importance of financial inclusion in socio-economic progress.

The landmark Maliyat financial literacy programme launched by the Bank in August 2019 helps people across the country, especially the youth, become financially adept and prudent, thereby contributing to the socio-economic development and growth of the Sultanate in the long term. Aimed at developing a healthy savings habit as well as entrepreneurial skills from an early age, Meethaq successfully completed training of over 10,000 school students in financial literacy as part of its 'Little Investor' programme in collaboration with the Ministry of Education and Injaz Oman in 2019. A further 10,000 students will be trained in the current year. In 2019, the Bank also launched 'Irshad', a first-of-its-kind, free consultation programme to support SMEs, startup companies, entrepreneurs and individuals in managing their finances.

The Bank has partnered with the Royal Oman Police in a continuous anti-fraud awareness campaign on mainstream media and social media channels to educate people in Oman about digital best practices and prevention of cyber fraud.

The Bank's flagship CSR programme, Green Sports, supported the development of 15 Green Sports fields across the Sultanate in 2019, taking the total of beneficiary teams to 108 since the programme was launched in 2012.

The Bank's annual Tadamun programme continued for the sixth year in 2019 in partnership with the Ministry of Social Development and provided support to over 170 social welfare families across Oman. The Bank extended strong support to the Fak Kurba initiative by the Oman Lawyer's Association to help resolve 220 cases of insolvent citizens. Furthermore, the Bank also joined hands with Petroleum Development Oman (PDO) to provide scholarships for 50 Bachelor's degree holders to complete an Association of Chartered Certified Accountants (ACCA) programme. These graduates will be employed by Bank Muscat in various departments on successful completion of the course.

As part of its efforts to further support people with special needs, Bank Muscat became the first bank in the Sultanate to launch a special ATM for the blind and visually-impaired people. The Bank also extended support to the Oman Down Syndrome Association to acquire special educational and training tools for children at the Association. In December 2019, the Bank celebrated the International Day of Persons with Disabilities by handing over a fully-developed Green Sport field to Al Aman Centre for Rehabilitation in Al Khoudh. Also, the landmark Misfat al Abriyeen heritage tourism project has been completed and will be opened to the public in 2020.

Awards and Accolades

Keeping in line with its trailblazing performance as the flagship financial services provider, Bank Muscat won 26 prestigious global, regional and local awards in 2019. Some of the most notable ones included the Best Bank in Oman award by Global Finance, The Banker, EMEA Finance, Euromoney, and Oman Economic Review. The Bank also won the Forbes Middle East Award for Top 25 Listed Companies on the Muscat Securities Market (MSM) as well as similar awards from Oman Economic Review and Alam Al Iktisaad Wal Amaal magazines.

In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank all our stakeholders for their confidence in Bank Muscat. We also thank the Central Bank of Oman and the Capital Market Authority for extending their strong support to Oman's banking and financial sector.

We mourn the sad passing of the founder of Oman's Renaissance, the late His Majesty Sultan Qaboos bin Said (may Allah the Merciful bless his soul), and will endeavor to participate in fulfilling his vision of a strong, united and prosperous Oman. We pray to the Almighty Allah that we succeed in our efforts to serve our country in the best possible manner under the wise leadership of His Majesty Sultan Haitham bin Tarik as he carries forward the torch of Oman's Renaissance.



Khalid bin Mustahail Al Mashani

Members of the Board



**Sheikh Khalid bin Mustahail
Al Mashani**

Chairman



Sulaiman bin Mohamed Al Yahyai

Deputy Chairman



Nasser bin Mohamed Al Harthy

Director



Hamoud bin Ibrahim Al Zadjali

Director



**Sheikh Said bin Mohammed
Al Harthy**

Director



**Sheikh Saud bin Mustahail
Al Mashani**

Director



Khalid bin Nasser Al Shamsi

Director



Sunder George

Director

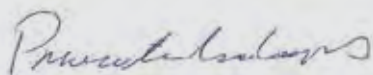


**Brig. General Saif
bin Salim Al Harthi**

Director

Report of factual findings to the shareholders of bank muscat SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of bank muscat SAOG ("the Bank") as at and for the year ended 31 December 2019 and 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').
2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in complying with the requirement of the Code issued by the CMA.
3. We have performed the following procedures:
 - a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by 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 the Annexure 3; and
 - b) We obtained the detailed list of areas of non-compliance identified by the Bank's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.
4. As a result of performing the above procedures, we have no exceptions to report.
5. 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 accompanying corporate governance report.
6. Had we performed additional procedures or had we performed an audit 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.
7. 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 Board of Directors' corporate governance report included in its annual report for the year ending 31 December 2019 and does not extend to any financial statements of bank muscat SAOG taken as a whole.



5 March 2020
Muscat, Sultanate of Oman

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Corporate Governance Statement

Bank Muscat is committed to the best practices in the area of Corporate Governance, both in letter and in spirit. The Bank believes that good Corporate Governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and optimize the value for all its stakeholders. Bank Muscat strongly believes in ethical values to achieve high standards of Corporate Governance. We continue to strive for excellence in business operations through transparency, and accountability to all our stakeholders. We conduct affairs with customers, regulators, employees, investors, vendors, the Government and society at large in an open and transparent fashion. Bank Muscat has been practicing the principles of good Corporate Governance consistently since its inception. Corporate Governance at Bank Muscat has evolved not only by ensuring compliance with regulatory requirements but also by being responsive to stakeholders' needs. The Bank strives for excellence through the objectives of enhancing satisfaction both to its customers and shareholders.

As, the flagship financial services provider in the Sultanate, Bank Muscat has achieved 100% Omanisation in branch operations, giving priority for Omanis to occupy all key positions. The Bank's total employee strength stood at 3,818 employees as on 31st December 2019 with 94.71% Omanisation. The Bank's human resources strategy is notable in maintaining gender diversity as 48.24% of employees are women holding various positions, including senior management positions. Bank Muscat reckons its competent people as its key strength and is focused on equipping them to make vital contributions to the Bank's growth and success. The Bank plays a prominent role in the development of Omani talent and is committed to investing in improving their skill and expertise.

Bank Muscat has adopted a nation-wide branding of branches to maintain its unique identity and service standards. The Bank's brand proposition is the result of understanding the consumer better and presenting the total brand mix right. In line with the Bank's vision 'To serve you better, everyday' the brand is synonymous with innovation, reliability and trustworthiness. As reflected in the brand, Bank Muscat is differentiated as an Omani bank closer to the needs and requirements of customers in the Sultanate. The brand has ensured to reflect a successful partnership to complement customer service excellence in line with the vision.

During the past 37 years, the Bank has been closely associated with the progressive march of the nation in all realms, participating in the country's development projects and complementing the government's endeavours to boost the national economy.

The Board of Directors of Bank Muscat SAOG is committed to the highest standards of Corporate Governance. The Bank's Board ensures that they meet regularly, provide effective leadership and insights in business and functional matters and monitors the Bank's performance. The Bank is also committed to establishing clearly documented and transparent management processes for policy development, implementation and review, decision making, monitoring, and reporting. The Bank is determined to raise the bar even further so as to set a leading example of the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO). This commitment has been reflected with the Bank being awarded Corporate Governance Excellence Awards in the Financial Sector by CMA and winning accolades a number of times from Hawkamah, the Institute for Corporate Governance.

Reiterating its leadership role, Bank Muscat took the lead in launching Islamic Banking services through Meethaq Islamic Banking. Within five years of operations, Meethaq Islamic Banking has consolidated its leadership position. Notably, Meethaq has crossed a milestone of over RO 1 billion in assets. Presently, Meethaq accounts for 30% market share in terms of assets and is the market leader in Islamic Banking in Oman.

The revised CMA Code of Corporate Governance for Public Listed Companies issued by circular no. 4.2015 in July 2015 (applicable from 2016) and the CBO circular BM 932 on Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Muscat fully complies with the provisions of the old and new code. The CMA Code of Corporate Governance can be found at the following website, www.cma.gov.om. In addition, due to its listing on the London Stock Exchange through its Global Depositary Receipts, the Bank is required to comply with section 7.2 of the FSA Handbook on Disclosure and Transparency Rules and has done so in this report.

Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society. That is why, in 2008, a department dedicated to Corporate Social Responsibility (CSR) was established with the vision of adopting a new approach of addressing society's needs through inspiring new forms of true partnership among all sectors of society to serve the community in the best way. As a forward looking financial institution, Bank Muscat is at the forefront in contributing to society and thereby setting a fine example for the corporate sector to develop social responsibility as a corporate culture. The CSR and Sustainability strategy pursued by Bank Muscat is focused on delivering long-term benefits to the community and the nation, creating a positive impact on society covering areas such as education, SMEs, youth, sports,

alternative energy and health. Bank Muscat is the pioneer of CSR initiatives in the Banking sector in Oman, committed to 'doing better' for the economy, community and environment. In 2007, the Bank was the first in the Middle East to sign the Equator Principles for responsible Banking, thereby ensuring that our projects conform to benchmark international environmental and social standards. The Bank allocates a percentage of profit for CSR initiatives and is also the first Bank to deliver skill-building support for SMEs. Bank Muscat publishes the annual sustainability report based on GRI sustainability reporting framework and guidelines, highlighting the impact of its activities on the economy, environment and society. The report demonstrates that the Bank has become more open to sustainability reporting as a powerful tool in its decision-making as well as corporate policy and strategy.

In a step with innovative customer-centric strategy, Bank Muscat is the first to launch a dedicated social media account in the Banking sector in Oman for customer services. Aimed at enhancing customer service via social media, the Twitter account is dedicated to responding to customers inquiries and receiving feedback. The Bank utilises the social media account to engage customers through surveys, questionnaires and awareness campaigns on the Bank's products, services and activities.

As part of the Sultanate's broad vision of enabling Financial Inclusion (FI), Bank Muscat spearheaded several programmes and initiatives to understand needs of different sections of the society and accordingly have provided products and services directed towards inclusive growth, sustainable development and catering to overall market harmony. Some of the key initiatives undertaken as part of this mission include: Najahi Centers for supporting Micro & Small businesses - Partnering and strengthening the role of micro and small businesses in diversifying the Sultanate's economy and creating job opportunities for Omani youth through exclusive Najahi centres across the Sultanate, thereby facilitating financial inclusion. Bank Muscat's Najahi products and services have created a benchmark, helping micro and small businesses to overcome hurdles and chart successful ventures with proper planning, financial discipline and prudent management; Promoting Financial Literacy - With a view to promote financial literacy, the Bank has launched Al Wathbah Academy programmes to benefit entrepreneurs across Oman which has contributed in a major way to the socio-economic development of Oman. Supplementing to this initiative, Bank Muscat as a commitment to corporate social responsibility and sustainability announced the launch of Maliyat financial literacy programme for the benefit of all people in the Sultanate. This major initiative by the Bank will help both Omani citizens and residents fulfil their social responsibilities towards their families and their community through increased financial literacy and awareness. The Maliyat personal finance certification module will particularly help the youth become financially prudent and independent, thereby contributing to the socio-economic development and growth of the Sultanate in the long term; Cybersecurity & Anti-Fraud Awareness Campaigns - The Bank joined hands with the Information Technology Authority (ITA) to improve cybersecurity measures and have participated in a number of cybersecurity drills to access cybersecurity readiness. The Bank's active participation in such drills is a continuation of its policy of using cutting-edge technology to further enhance Banking convenience and ease of use while at the same time, enhancing security for all its stakeholders, particularly customers. Bank Muscat has also been part of a number of anti-fraud awareness campaigns, whereby the Bank has sought to educate and sensitize the general public with information that will enable them to easily recognize fraudulent Banking practices. It will also educate people to always verify who it is they are dealing with before doing a transaction as well follow digital safety best practices.

Bank Muscat plays a systemically-important role in supporting the national economy through its various activities and contributions paving way for Financial Inclusion. The Bank also joins hands with different Ministries, Government agencies and non-profit institutions to help implement these programmes and initiatives that support different sectors as a responsible Corporate Citizen that contributes to the nation's progress and development.

The Bank is thankful to the supportive measures by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA) to strengthen the financial market in the Sultanate. The Bank's success and excellence are the results of concerted efforts combined with a strong ambition and the will to attain the leadership position.

Board of Directors

The roles of the Chairman of the Board of Directors (the Board) and Chief Executive Officer (CEO) are separated with a clear division of responsibilities at the head of the Bank between the running of the Board and the Executive Management responsibility for running Bank Muscat's business. The Board of Directors is responsible for overseeing how management serves the long-term interests of shareholders and other key stakeholders.

The Bank's Board of Directors principal responsibilities are as follows:

- Policy formulation, supervision of major initiatives, overseeing policy implementation, ensuring compliance with laws and regulations, nurturing proper and ethical behavior, transparency and integrity in stakeholders' reporting;
- Approval of commercial and financial policies and the budget, so as to achieve its objectives and preserve and enhance the interest of its shareholders and other stakeholders;
- Preparation, review and updating of the plans necessary for the accomplishment of the Bank's aims and the performance of its activities, in light of the objectives for which it was incorporated;
- Adoption of the Bank's disclosure procedures, and monitoring their application in accordance with the rules and conditions of the Capital Market Authority and the Central Bank of Oman;

- Supervision of the performance of the Executive Management, and ensuring that work is properly attended to, so as to achieve the Bank's aims, in the light of the objectives for which it was incorporated;
- Appointment of the CEO, appraisal of the performance of the Executive Management mentioned and appraisal of the work carried out by the committees affiliated to the Board; and
- Approval of the financial statements pertaining to the Bank's business and the results of its activities which are submitted to the Board by the Executive Management every three months, so as to disclose its true financial position and performance.

Process of nomination of the directors

The Board, with the Nomination and Compensation Committee reviews the required skills of directors to ensure they meet the "fit and proper" criteria prescribed by the CMA and the CBO. Approvals are obtained from the CMA before the director is approved by the shareholders at a general meeting. Directors approved by the general meeting must meet the CBO's requirements before they are confirmed as members on the Board. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or not.

Election process and functioning of the Board

The Board of Directors is elected by the shareholders of the Bank at an Annual/Ordinary General Meeting. The Board is elected for a three year term. The Board reports to the shareholders at the Annual General Meeting (AGM) or specially convened general meetings of the shareholders. The meetings of the shareholders are convened after giving adequate notice and with detailed agenda notes being sent to them. The AGMs are well attended by shareholders and there is healthy discussion and interaction between members of the Board, shareholders and functionaries of the Bank. All members of the Board of Directors attend the AGM. Any absence necessitated by urgent circumstances by any member of the Board, is conveyed to the Chairman and shareholders.

The Board is comprised of nine members, elected by the shareholders at the Bank's AGM on March 25, 2019, for a period of three years. All members of the Board attended the AGM. The current term of the Board of Directors will expire before March 31, 2022 where an election will take place at the AGM.

Changes in the Board structure, constitution and membership

The constitution of the Board, election process for Board members and shareholders' interests are areas of prime concern for the good governance commitment of the Bank.

No director is a member of the Board of more than four public joint stock companies or Banks whose principal place of business is in the Sultanate of Oman, or is a Chairperson of more than two such companies.

Details of Board members are outlined in "Table 1".

Independence of Board members

There are no executives of the Bank who are members of the Board. Six members of the Board are independent in terms of the parameters prescribed by the Code of Corporate Governance for Muscat Securities Market listed companies and its amendments. All Directors are non-executive and do not exercise substantial authority over the day-to-day functioning of the Bank. Furthermore, the Capital Market Authority has announced a revised Code of Corporate Governance for Publicly Listed Companies in July 2015. According to the revised CMA Code of Corporate Governance a director shall be deemed non-independent including but not limited to the following cases:

1. Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies;
2. Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies;
3. Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies;
4. Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies;
5. Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies;
6. Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership;

7. Being, during the two years preceding candidacy or nomination to the board, an employee of any of parties contractually engaged with the company (including external auditors, major suppliers or Civil Society Organisations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs);
8. Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies;
9. Holding about 20% of the shares of any of the above mentioned parties during the two years preceding candidacy or nomination to the board.

Remuneration to the Board and Top Management

The sitting fees paid to the directors in 2019 amounted to RO 77,800/- in addition to a total remuneration being paid to Directors amounting to RO 122,200/-. As all members of the Board are Non-Executive Directors; no fixed remuneration or performance linked incentives are applicable.

The total remuneration paid/accrued to the top seven executives of the Bank for the year 2019 was RO 3.953 million. This includes salary, allowances and performance related incentives. This remuneration was approved by the Board of Directors.

Committees of the Board and their functioning

During the year 2019, there were three committees of the Board which provided able and effective support to the full Board in carrying out its responsibilities. The three committees and their primary responsibilities were as follows:

1) Board Risk Committee

Risk management is the overall responsibility of the Board of Directors and is managed through the Board Risk Committee (BRC). The Board reviews and approves our risk management strategy and defines the risk appetite of the Bank which is cascaded down to the various business segments. The Board Risk Committee (BRC) supervises the risk management function and ensures that the Bank achieves its business plans in compliance with the risk appetite set by the Board of Directors. It provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite, risk policies, capital management and the framework for managing various risks.

Its key responsibilities are as follows:

- Formulates risk policy including credit, market and liquidity, operational risks, and protective services with a view to achieve the strategic objectives of the Bank;
- Ensures that the Bank maintains a portfolio of high quality assets;
- Oversees risk policy implementation to ensure these policies are in compliance with the relevant laws and regulations;
- Fosters transparency and integrity in stakeholder reporting;
- Embrace and spread awareness in improved risk management practices and risk governance in the Bank.

The following areas were discussed at the BRC meetings during 2019 and the appropriate recommendations were presented to the Board of Directors for their approval:

- 1) BRC received and reviewed the Risk Policy Compliance Report at quarterly intervals. These reports provide a status of compliance against the Board approved risk appetite thresholds. The key issues from the report were discussed in detail and appropriate feedback / guidance was provided by the members;
- 2) BRC received the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. This was followed by a review of capital, based on stress testing and forward looking business plan. It also discussed the Bank's stress test scenarios and considered the results of different stress assumptions;
- 3) BRC reviewed the compliance with the indicators designed under the Recovery & Resolution Planning (RRP) relating to D-SIB framework. It also reviewed the changes in the RRP document and the action points following the meeting with Central Bank;
- 4) BRC reviewed the regulatory framework on the Bank Resolution Framework in Oman;
- 5) BRC reviewed Bank's portfolio of Investments, Country and Bank exposures and the revised business strategy in light of the evolving economic scenario;
- 6) BRC discussed on the overall market risk in the Bank and reviewed the interest rate risk, FX risk, investment risk and commodity risk along with the market factors impacting the global economy;

- 7) BRC discussed the systemic liquidity position, liquidity risk management in the Bank given the tightening conditions due to low oil prices and compliance to the Basel III liquidity ratios;
- 8) BRC reviewed the corporate Banking portfolio of the Bank with in-depth focus on top corporate relationships. BRC reviewed select large corporate exposures;
- 9) A review of the performance of the retail credit portfolio was done by BRC focusing on asset quality, risk cost and yield along with new initiatives taken to grow the portfolio and improve portfolio quality;
- 10) BRC members reviewed the exposure to certain key sensitive sectors;
- 11) BRC members discussed Conduct risk;
- 12) BRC reviewed the Operational Risk Management framework including the results of Control and Risk Assessment, operational losses, KRI's the top loss events;
- 13) BRC performed a review of the progress of Business Continuity Management (BCM) process, physical security and Information Technology and Operations along with key initiatives planned;
- 14) BRC reviewed the Protective services framework and an update on Information security and physical security;
- 15) BRC members discussed emerging Basel and other regulatory guidelines and their impact in the near future;
- 16) BRC members reviewed the Business plan of risk management function for 2020.

In the joint meeting of Board Risk and Audit committee the following topics were covered:

- BRC reviewed the "The Three Lines of Defence" model, governance process within the Bank;
- BRC and BAC members reviewed the Top 5 risks facing the Bank and how they are managed followed by the current risk trends;
- BRC and BAC members discussed other emerging risks as well.

2) Board Audit Committee

The primary responsibilities and functions of the Audit Committee are to provide assistance to the Board of Directors in fulfilling its responsibilities of monitoring/overseeing the financial reporting process, the adequacy and effectiveness of the systems of internal control, the effectiveness of the audit process and the Bank's process of complying with the relevant laws and regulations. The Audit Committee meets frequently to review the work of the Internal Audit Department, challenge the Bank's management and to assess the overall control environment prevailing in the organization. It reviews the reports presented by Internal Audit and other bodies in its deliberations and offers guidance and direction in the area of risk management, including fraud and related controls. Mr. Nasser bin Mohamed Al Harthy was appointed Chairman of the Audit Committee on April 4, 2011.

The Audit Committee reviews on a biannual basis the Audit Committee Charter, Management Control Policy, Internal Audit Activity Charter and has approved a Code of Ethics policy for all internal auditors within the department. These are key to reinforce the organisational independence of internal audit and to establish their rules of engagement throughout the Bank. The Audit Committee has adopted a risk based approach and accordingly reviews and approves the Annual Audit Plan on that basis. The Audit Plan contains sufficient flexibility to adapt to new and emerging risks, changing circumstances, business strategy, products and services.

In 2015, the Chief Internal Audit Officer and the Audit Committee commissioned Protiviti, global risk services and assurance specialists, to perform an external quality review of the Internal Audit department as is required by International Standards for the Professional Practice of Internal Auditing. This review must be performed at least once every five years. In line with the International Professional Practices framework promulgated by the Institute of Internal Auditors, the Internal Audit activity was assessed as being compliant with these standards. Therefore, the Internal Audit function is permitted to use the words "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing" in its reports. The external quality review, once again, affirms that the internal audit activity conforms to the International Professional Practices Framework of IIA. The next quality review will be performed in 2020.

The Audit Committee places high importance on the professional development of all internal audit staff to ensure that they are able to perform their duties to the highest level possible. Adequate financial and other resources are made available to the function and, in particular, to support the attainment of relevant qualifications and certifications in areas such as Accounting, Internal Audit, Fraud, Risk Management, Information Security, Islamic Finance, Compliance and Anti-Money laundering.

Both the Board Risk Management Committee and the Audit Committee met as per schedule during the year 2019 and have performed the responsibilities delegated to them.

3) Board Nomination and Compensation Committee

The Board Nomination and Compensation Committee is responsible for:

- Leading the process for Board and Management appointments, through the identification and nomination of relevant candidates for Board approval; and
- Setting the principles, parameters and governance framework of the Bank's Compensation policy. In 2019, this involved:
 - A review and approval of a Revised Performance Management and Compensation Policy, Rewards and Incentive Review as per the Central Bank of Oman's guidelines titled "Staff Compensation in Banks". This has included identification of material risk takers (MRTs), deferral of compensation mechanism for MRTs to reflect time profile of risk within the Bank. A Review and amendment of performance management, rewards and incentive policy in line with the (28) rules issued by the Financial Stability Board as introduced by the CBO;
 - Reviewing the talent management framework and succession planning in the Bank;
 - An approval of a performance-based reward distribution criteria for Management Team members;

The shareholding structure of the Bank is as follows:

Investor Name	(%) Ownership Percentage
Royal Court Affairs	23.63
Dubai Financial Group LLC	11.77
Civil Service Employees Pension Fund	7.80
Ministry Of Defence Pension Fund	6.49
Jabreen International Development Co.	9.99
Public Authority for Social Insurance	5.13
Muscat Overseas LLC	3.63
Royal Oman Police Pension Fund	1.90
General State Reserve Fund	1.42
Others	28.24
Total	100.00

Source: Muscat Clearing & Depository Co. (S.A.O.C.)

The fully paid up 3,094,783,371 shares, are held by 7,204 (MDSRC) Muscat Depository and Securities Registration Company registered shareholders. There is no individual shareholder holding more than 15% (excluding Royal Court Affairs) of the paid up capital of the Bank.

Rights of shareholders

Rights of shareholders

All the Bank's shares shall carry equal rights which are inherent in the ownership thereof, namely the right to receive dividends declared and approved at the general meeting, the preferential right of subscription for new shares, the right to a share in the distribution of the Bank's assets upon liquidation, the right to transfer shares in accordance with the law, the right to inspect the Bank's statement of financial position, statement of comprehensive income and register of shareholders, the right to receive notice of and the right to participate and vote at general meetings in person or by proxy, the right to apply for annulment of any decision by the general meeting or the Board of Directors, which is contrary to the law or the Articles of the Bank or regulations, and the right to institute actions against the directors and auditors of the Bank on behalf of the shareholders or on behalf of the Bank pursuant to the provisions of Article (270) of the Commercial Companies Law No. (18/2019). Issuance of new shares for shareholders as bonus shares does not require the approval of the EGM, whereas private placement requires EGM. The regulatory framework in the Sultanate of Oman does not facilitate a buyback of its own shares by the Bank.

To this end, Bank Muscat gives minority shareholders prime importance in terms of safeguarding their interests and ensuring that their views are reflected in shareholders meetings. The "one share one vote" principle applies to all shareholders so that minority shareholders can nominate members of the Board and can take action against the Board or the management if the actions of the Board or management are in any way prejudicial to their interests.

Related party transactions, dealings and policy

There is a comprehensive policy on related party dealings, and processes and procedures laid down which are followed in the matter of all loans and advances given to directors and their related parties and also any transactions with companies in which directors have a significant / controlling interest.

Details of loans and advances, if any, given to any Director or his related parties are furnished with full details in the notes to the financial statements given in the annual report as public disclosures. Other transactions with Directors carried in the normal course of business and without any preferential treatment are disclosed to the shareholders along with the agenda notes for the AGM.

Affirmations

1. The Board of Directors and management affirm that the Bank is in strong financial health and is expected to meet current growth and expansion plans;
2. The Board conducts a review of the effectiveness of the Bank's system of internal controls at least once every year and finds the systems effective;
3. There is a well laid down procedure for write-off of loan dues and write-off is resorted to only after all other means of retrieval have exhausted;
4. All financial statements are prepared after proper scrutiny of the books of accounts and the Bank follows the International Financial Reporting Standards (IFRS) in the preparation and presentation of its accounts;
5. The Bank has implemented a robust internal check and control environment to ensure accurate and timely financial reporting and financial consolidation. The Bank's financial performance and business performance are reported to the Board of Directors regularly after a detailed review and analysis by the Finance Department. Financial statements are prepared using appropriate accounting policies which are consistently applied. The Bank has established necessary operational procedures and controls to ensure accurate and timely processing of transactions and accounting. The interim financials are reviewed by the Internal Audit Department before presenting to the Audit Committee and the Board of Directors for final approval, thereafter;
6. There are well designed policies and procedures in place for all bank operations as is expected of a large bank with an international presence;
7. For insurable matters, the Bank has taken adequate cover to ensure insurance protection for properties and insurable assets;
8. The Bank complies fully with the CMA Code of Corporate Governance for Public Listed Companies and amendments;
9. The Bank has completed all the necessary preparation for meeting Basel II - Pillar III standards;
10. The Bank meets the Capital Adequacy Standards (Capital Adequacy Ratio-CAR) prescribed by the Basel Committee and the CBO;
11. For 2019, the Board has proposed 40% dividend. Continuing the Bank's strong dividend payment track record, the Board of Directors have proposed 35% cash dividend for the year 2019. In addition, 5% dividend in the form of bonus shares has been proposed. The Bank's Capital Adequacy Ratio (CAR) post the cash dividend payout will be 19.72% which is well above the regulatory minimum. Shareholders would receive cash dividend of Rial Omani 0.035 per ordinary share of Rial Omani 0.100 each aggregating to Rial Omani 108.317 million on the Bank's existing share capital. In addition, they would receive bonus shares in the proportion of 1 share for every 20 ordinary shares aggregating to 154,739,168 shares of Rial Omani 0.100 each amounting to Rial Omani 15.474 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders;
12. The Bank prepares a Management Discussion and Analysis report which is included as a separate section in the Annual Report;
13. Pursuant to the requirements of item 2 (o) of the Fourth Principle of the Code of Corporate Governance for Public Listed Companies (July, 2015) and to the approval of the annual general meeting of the shareholders (AGM) held on 19th March, 2017 to appoint Ernst & Young LLC, Oman ("EY"), as consultant, to appraise and evaluate the performance of the Board and its committees for years (2017-2018-2019), EY was engaged to perform assessment of the performance of the Board and its committees and then report to Chairman accordingly. The assessment of the performance of the Board and its committees of the Bank for the year ended 31st December 2019 resulted in an overall positive performance regarding effectiveness and efficiency of the Board and its committees. Particularly positive was the openness and willingness of all Board members to continue to improve the work of the Board and its committees.

Dividend Policy

The Board follows a conservative dividend policy so as to provide adequate reserves and provisions to meet any circumstances that may arise due to internal or external contingencies. The policy seeks to reward shareholders yet looks at future growth in terms of capital adequacy through profit retention.

Disclosures, disclosure policy and investor information

1. Bank Muscat attaches the utmost priority to shareholder rights and disclosure of information. All the Banks' news and developments, including the financial statements, are available to any shareholder who seeks this information. Any shareholder seeking any information about the Bank may approach the Bank for same;
2. The latest news and information about the Bank is also available on its website, www.Bankmuscat.com;
3. There is a comprehensive Disclosure Policy and nominated spokespersons for disclosure of information news and data relating to the Bank to shareholders, stakeholders and the public. All material information is disclosed in a timely and systematic manner to shareholders and stakeholders;
4. Items of investor information are posted simultaneously on the Bank's website www.Bank Muscat.com and all interested are encouraged to access this information at convenience;
5. During the last three years, no fines were imposed on the Bank by the Capital Market Authority (CMA). A penalty of Rial Omani 301,500/- and Saudi Arabian Rial 85000/- was imposed by Central Bank of Oman (CBO) and Saudi Arabian Monetary Authority (SAMA) respectively, during last three years in relation to operational issues, system related requirements, reporting and annual examination findings;
6. During the year 2019, an amount of RO 302,715/- was accrued/paid to the Bank's external auditors against the audit and assurance related work. The Bank uses different external auditors in different jurisdictions it operates. The payments to external auditors are for the Bank's operations in Oman, KSA and Kuwait for audit and other assurance related work;
7. The Bank presented to a number of analysts and investors from local, regional and international jurisdictions during the year.

Bank Muscat's equity share price and price band in the Muscat Securities Market

Kindly see Table 6 given at the end of this report for a month-wise listing of share prices of Bank Muscat's shares on the Muscat Securities Market.

PricewaterhouseCoopers (PwC) - Our External Auditors

PwC is a global network of firms operating in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy;

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 5,600 people (www.pwc.com/me);

PwC has been established in Oman for over 40 years and the firm comprises 5 partners, including one Omani national, and over 180 professionals and support staff. Our experts in assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience;

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Board of Directors and Executive Management profiles

Sheikh Khalid bin Mustahail Al Mashani is the Chairman of the Board of Directors of the Bank and the Chairman of the Board's Nomination and Compensation Committee since April 2011. He served as Deputy Chairman of the Board of Directors since March 1999 until his appointment as Chairman in April, 2011. Sheikh Khalid bin Mustahail Al Mashani has a BSc. in Economics from the UK and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies, the University of London, U.K.

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai is the Deputy Chairman of the Board of Directors since June, 2011. He is also the Chairman of the Board Risk Committee and a member of the Board's Nomination and Compensation Committee. Mr. Sulaiman Al Yahyai holds a certificate in Assets Management - Lausanne University, Switzerland (2002), MBA - Institute of Financial Management, University of Wales, UK (2000), and a Certificate in Financial Crisis - Harvard University, USA (1999). Mr. Al Yahyai is an Investment Advisor at the Royal Court Affairs, the Chairman of Oman Chlorine Co. "SAOG", a Director of Al Madina Real Estate Co. "SAOC", Chairman of Oman Fixed Income Fund, Chairman of Integrated Tourism Projects Fund, Chairman of Telecom Oman, Chairman of the Oryx Fund, Chairman of the Oman Development Fund, Chairman of the National Bank of Oman GCC Fund, Chairman of Gulf Chlorine "W.L.L.", (State of Qatar) a Director of Union Chlorine "L.L.C" (United Arab Emirates).

Mr. Nasser bin Mohammed Al Harthy is a Director of the Bank since March 2007 and Chairman of the Board's Audit Committee. During his Service in the Ministry of Defence, he assumed several key positions notably Head of Internal Audit, General Manager Organization and Plans, General Manager Administration and Human Resources.

Mr. Hamoud bin Ibrahim Soomar Al Zadjali is a Director of the Bank since January, 2001 and a member of the Board's Risk Committee. Mr. Al Zadjali is employed by the Royal Oman Police Pension Fund "LLC" in the capacity of General Manager.

Sheikh Said bin Mohammed Al Harthy is a Director on the Board of Directors of the Bank since July 2011 and a member of the Board's Audit Committee. Sheikh Said is the Deputy Director General of Supplies at the Royal Court Affairs, board of director of Oman Chlorine Co. "SAOG", and Gulf Chlorine "W.L.L.". He holds a Master of Business Administration from Victoria University, Melbourne/Australia and a Bachelor's degree in Business Administration (Management), Minor in Computer Information System (CIS) from California State University Stanislaus, USA.

Sheikh Saud bin Mustahail Al Mashani is a Director on the Board of Directors of the Bank since March 2013 representing Muscat Overseas "LLC" and is a member of the Board's Audit Committee. Sheikh Saud is a Director of Marketing and Business Development in Muscat Overseas Group of companies since 2008. Muscat Overseas Group is a diversified group of companies that has interests in financial sector, real estate, trading, travel, insurance, joint venture projects etc. In 2011, Sheikh Saud joined the Ministry of Foreign Affairs- International Organizations. Sheikh Saud is holding a Master Degree on International Diplomacy from University of East Anglia (UK) in (2015). He is a graduate in Business Management from the Staffordshire University (UK) in 2010.

Mr. Khalid bin Nasser bin Humaid Al Shamsi is a Director on the Board of Directors of the Bank since October, 2015, a member of the Board's Risk Management Committee and member of the Board's Nomination & Compensation Committee. Mr. Khalid Al Shamsi has experience that varies across public and private assets, real estate and alternative investments. He serves on the boards of several publicly listed and private companies. Mr. Khalid Al Shamsi has a BSc (Hons) in Accounting, and International Business and is an INSEAD certified Director in Corporate Governance (IDP-c)

Mr. Sunder George is a proxy Director for Jabreen International Development Co. "S.A.O.C", a member of the Board's Risk Committee and a member of the Board's Nomination Compensation Committee. He is an experienced banker and has over 40 years of banking experience with close to 36 of those years in Oman. At the end of December 2012, Mr. George retired from Bank Muscat as Deputy Chief Executive, where he was not only an integral part of the decision-making process with regard to the corporate vision and strategic direction of Bank Muscat, but also keenly involved with the general management of the Bank. Bank Muscat grew from a one branch bank to the largest bank in the country with an asset base of over US\$ 20 billion during his tenure with the Bank. On his retirement from the Bank in December, 2012, the Bank had appointed Mr. George to the position of Chief Advisor to Bank Muscat, advising the Bank on strategic issues from January, 2013 to December, 2013. Mr. Sunder George is an Omani national of Indian origin. He was confirmed Omani citizenship in the year 2001 considering his dedicated services to Oman in general and the banking sector in particular. Mr. Sunder George is a Science graduate from Madras University, India and holds an MBA from IMD, Lausanne Switzerland. He is also a Fellow of the Chartered Institute of bankers. Mr. Sunder George also sits on the Boards of Renaissance Services "SAOG", Halcyon Capital "SAOC", Oman Fixed Income Fund and Integrated Telecommunication Company (TeO) "SAOC". He is also on the Board of Trustees of Middle East College (Oman).

Brig. General Saif bin Salim Al Harthi is a Director on the Board of Directors of the Bank since March, 2019 representing Ministry of Defence Pension Fund and a member of the Board's Audit Committee. Brig. General Saif bin Salim Al Harthi is an advisor at the Ministry of Defense. He has Ph.D. in Human Resource Development from Egypt as well as fellowships of the International Arab Society of Certified Accountants (ASCA) of Jordan and the National Defense College at Nasser Higher Military Academy in Egypt. He has a Bachelor's degree in Military Science from State of Kansas, USA. He has also completed a number of accounting and finance courses including a Higher Diploma in Account Management from the University of Oxford (1995). Brig. General Saif bin Salim Al Harthi has experience that varies across in accounting and financial auditing and sits on the Boards of Al Omaniya Financial Services Co. "SAOG" and Al Maha Petroleum Products Co. "SAOG".

Top (7) Management Profiles

Bank Muscat announced a new organization structure, effective 1st January, 2019.

Sheikh Waleed K. Al Hashar is the Chief Executive Officer of Bank Muscat. He is also the Chairman of Oman Banks Association and a member of the Board of Directors of the Oman Center for Governance and Sustainability, and the College of Banking and

Financial Studies. His experience over the past 28 years spans Banking as well as the Oil and Gas sectors. Before joining Bank Muscat, he held senior positions in a number of leading corporates including Petroleum Development Oman and HSBC Bank Middle East. Sheikh Waleed K. Al Hashar joined Bank Muscat in 2004 and has since held various senior positions including Group General Manager – Corporate Services and Deputy Chief Executive Officer. He assumed the role of Chief Executive Officer of the Bank in January 2019. He holds a postgraduate diploma in General Management from Harvard Business School as well as a BSc and Masters in Business Administration from California State University in Sacramento, USA.

Mr. Sulaiman Al Harthy is the Group Chief Personal Banking Officer at Bank Muscat. He held the position of Deputy Chief Executive Officer of Islamic Banking "Meethaq Islamic Banking" and has over 31 years of Banking experience, covering retail, corporate and private Banking. He joined Bank Muscat in 2005, and sits on the Board of Tatweer of SEZAD, a Board member of Public Authority for Industrial Estate and Chairman of Duqm Quarries SAOC. Mr. Sulaiman holds a MBA Finance from University of Leicester and is an alumnus of the Oman Institute of Bankers, and has also attended Harvard Business School Advance Management Program, and Advanced Management Program at INSEAD.

Mr. K. Gopakumar is the Chief Personal Banking Officer of the Bank. Prior to becoming Chief Personal Banking Officer he served as Deputy Chief Operating Officer. Mr. Gopakumar is responsible for managing Retail Banking and the Service Excellence Centre of the Bank. He is a Chartered Accountant, Cost Accountant and Company Secretary from India, a member of the Chartered Institute of Management Accountants, London, Member of the ACI - The Financial Markets Association, London and a Member of the Corporate Treasurers, London. He also holds an MBA from IMD Lausanne, Switzerland.

Mr. Ahmed Faqir Al Balushi is the Chief Corporate Banking Officer of Bank Muscat, responsible for leading the Corporate Banking Group (CBG), which includes Large Corporates, Project and Structured Finance and SME divisions and International Branches. Mr. Ahmed is a Fellow member of the Association of Certified Chartered Accountant (ACCA), UK and holds an EMBA from HEC Paris. Mr. Ahmed started his career with Bank Muscat in October 1994 as an Internal Auditor and has completed 25 years with Bank Muscat. Prior to becoming Chief Corporate Banking Officer, Bank Muscat he served as Deputy General Manager (DGM) Human Recourses Department and Chief Executive Officer (CEO) for Bank Muscat KSA.

Mr. Abdulla Zahran Al Hinai is the Chief Wholesale Banking & Strategic Growth Officer of the Bank and is responsible for Treasury and Capital Markets, Investment Banking, Asset Management, Global Financial Institutions, Proprietary Investment and Strategic Growth areas of the Bank. Prior to becoming Chief Wholesale Banking & Strategic Growth Officer he served as General Manager Wholesale Banking. Mr. Abdullah has an experience of over 23 years in the Banking industry and sits on a number of boards and fund investment committees. Mr. Abdullah has completed his Executive Master of Business Administration (EMBA) from IMD, Lausanne. He is also a qualified Certified Public Accountant (USA), and a CFA Charterholder from the CFA Institute (USA). He also holds diploma in General Management from Harvard Business School and Advanced General Management from INSEAD.

Mrs. Sheikha Yousuf Al Farsi is the Chief Strategy and Corporate Services Officer. Her responsibility covers Strategy Management, Human Resource, Customer Experience, Corporate Communications & CSR, Information Technology and Credit function. Prior to this role, she served as General Manager - Strategy and Organizational Development and Assistant General Manager- Financial Control and Strategy at Bank Muscat. She received her BSc in Commerce and Economics, majored in Marketing, from the Sultan Qaboos University in 1999. Sheikha holds an MSc in Finance from Cass Business School, City University London in 2005. Before joining the Bank, she worked at the Omani Centre for Investment Promotion and Export Development (currently known as Ithraa') as Acting Director General of Investment Promotion.

Mr. T. Ganesh is the Chief Financial Officer of the Bank and is responsible for Group Finance and Business Planning, Centralised Procurement & Services and Treasury & Investment Operations. Ganesh has a post-qualification experience of 25 years out of which 22 years has been in the Banking industry. He is a qualified Chartered Accountant (ACA) from the Institute of Chartered Accountants of India, Certified Management Accountant (CMA) from the Institute of Management Accountants, USA and Cost Accountant (ICWA) from the Institute of Costs and Works Accountant of India. He also holds a postgraduate diploma in General Management from Harvard Business School.

Shariah Supervisory Board (SSB) profiles.

His Eminence, Prof. Dr. Ali Muhyealdin A. al-Quradaghi – Chairman, is a leading Shari'a advisor in Islamic Banking & finance worldwide. He chairs or otherwise leads a number of Shari'a boards & councils, such as the European Fatwa & Research Council (Ireland), Islamic Fiqh Academy (Jeddah), Accounting & Auditing Organization for Islamic Financial Institutions "AAOIF" (Bahrain) and Zakat World Organization (Kuwait). His Eminence was awarded the Qatar State's Incentive Award in Islamic Comparative Jurisprudence, and also the Ajman Award on community service in 2001 by the Ajman emirate, UAE. In 1985, he received PhD in Shari'a & Law from Al-Azhar University. Dr. al-Quradaghi authored over 50 books and 200 researches, including the "Student Economic Bag" in 12 volumes, and frequently appears on Islamic-related events and forums. Currently, he serves as chairman of Board of Trustees of the Human Development University, besides his membership at the Advisory Academic Committee of the Islamic Centre –the University of Oxford, UK.

His Eminence, Esam Mohamed Abdulrahman Ishaq – Executive Member, is a prominent Shari'a scholar with massive presence in the Islamic finance industry, including Islamic Banking, Takaful and investment funds, with rich exposure covering regions like the Middle East, South Asia and Europe. He serves as a key member in many Shari'a-related bodies including the High Council for Islamic Affairs (Bahrain), the High Sharia Authority of the UAE Central Bank, the Shari'a boards of Investment Dar Bank (Bahrain), the EcolIslamic Bank (Kyrgyzstan), Abu Dhabi Islamic Bank "ADIB" (UAE), ArCapita Bank (Bahrain), Al Baraka Islamic Bank (Bahrain), AlMeezan Islamic Bank (Pakistan), Dar Takaful (UAE), the International Islamic Financial Markets "IIFM" (Bahrain), Maldives Monetary Authority (Maldives), and the Accounting & Auditing Organization for Islamic Financial Institutions "AAOIFI" (Bahrain). He holds a BA since 1983 from McGill University, Montreal (Canada) and currently teaches Islamic Jurisprudence, Islamic theology, and Quranic exegesis in a number of Islamic centres of the Ministry of Islamic Affairs in Bahrain.

His Eminence, Dr. Majid bin Mohamed bin Salim Al-Kindi – Executive Member, is an icon in the field of Islamic Jurisprudence in Oman, enriching the Shari'a Supervisory Board of Meethaq with a vast experience on Islamic pronouncement, with a focus on the standard practices in Oman. He is one of the pioneers of Islamic Banking and finance among local Shari'a scholars in the Sultanate. In parallel to his assignment at Meethaq, Dr. Majid works as the Secretary-General of the Fatwa Body of the Sultanate. He has been an assistant judge at the Ministry of Justice, and also a researcher at the Fatwa Body of the Sultanate. He received his PhD in Islamic Jurisprudence from the International Islamic University – Malaysia (2012) and another PhD in Economics and Islamic Banking from Yarmouk University – Jordan (2014). He is the first Omani author on Islamic finance, by publishing: "Financial Transactions and Contemporary Application" and "Securities Markets Under the Shariah Guidelines", and is frequently seen on Islamic Forms.

His Eminence, Mufti Irshad Ahmed Aijaz – Member, is a prominent Shari'a scholar from the Republic of Pakistan in Islamic finance in general and Islamic Banking in particular. He chairs the Shari'a Advisory Committee of the State (Central) Bank of Pakistan, the Shari'a Supervisory Board of Summit Bank, and Bank Islami Pakistan. He is a member of the Shari'a Supervisory Board of Standard Chartered Bank –Pakistan, the Shari'a Committee of Barakah Group – Australia, and many others. Mufti Irshad is also engaged in the academic field, including teaching at the National Institute of Banking & Finance, lecturing at the Institute of Business Administration, and faculty membership at Sheikh Zayed Islamic Center, the Center for Islamic Economics, Karachi, Iqra University, Karachi, etc. He is frequently seen on Islamic economic and financial forums and at Islamic economic centers and educational entities. Mufti Irshad has completed "Takhassus fi-Al-Ifta" at Jamia Darul Uloom–Karachi in 1996, and MBA at Iqra University. He now pursues M. Phil in Islamic Finance at the University of Karachi, Pakistan.

His Eminence, Walid bin Sulaiman al-Qurri – Member, is a scholar in the area of Islamic jurisprudence in the Sultanate of Oman. Currently, he is active in the domain of Islamic finance broadly speaking and particularly in Islamic insurance (Takaful). Since 2007, he works as Fatwa Secretary at the Fatwa Office of the Sultanate. He also seats as a member of the Shari'a Supervisory Board of Oman Takaful since incorporation, as well as member of the Shari'a Review Bureau –Bahrain. Sheikh al-Qurri obtained his BA in Shari'a from the Institute of Shari'a Studies in Oman, and the Certified Shari'a Advisor and Auditor (CSAA) AAOIFI, Bahrain. Presently, he is pursuing his MA degree in Islamic Theology from the Sultan Qaboos University, Sultanate of Oman.

TABLES

Table 1: Composition of Board, category of Directors, attendance of Directors in Board and Board's committees' meetings and sitting fees in (2019)

Details of Board of Directors and meetings held during the year 2019 and attendance of individual Director were as follows:

This table is prepared in accordance of the requirements of annexure no. (3) of the Code of Corporate Governance "CCG". The table is covering item (2.1-composition and category of directors and institutions represented), item (2.2-Board meetings and dates thereof), item (3.3-meetings and attendance during the year) and item (5.1-sitting fees):

Name of the director	Board position and membership of Committees	Board of directors meetings attended	Audit Committee meetings attended	Board Risk Committee meetings attended	Board Nomination & Compensation Committee meetings attended	Basis and capacity of membership	Sitting fees in RO.
Sheikh Khalid bin Mustahail Al Mashani	Chairman of the Board and Chairman of the Board Nomination and Compensation Committee.	9	Not member	Not member	3	Independent/ Non-executive/ Non-shareholder.	10,000/-

Name of the director	Board position and membership of Committees	Board of directors meetings attended	Audit Committee meetings attended	Board Risk Committee meetings attended	Board Nomination & Compensation Committee meetings attended	Basis and capacity of membership	Sitting fees in RO.
Mr. Sulaiman bin Mohamed Al Yahyai, Proxy of Royal Court Affairs (*)	Deputy Chairman, Chairman of the Board Risk Committee and a member of the Board Nomination and Compensation Committee.	4	Not member	2	1	Non-Independent/ Non-executive/ shareholder in personal capacity/ representative of a shareholding juristic person.	5,200/-
Mr. Nasser bin Mohamed Al Harthy	Member of the Board and Chairman of the Audit Committee.	9	6	Not member	Not member	Independent/ Non-executive/ Non-shareholder.	9,900/-
Mr. Hamoud bin Ibrahim Soomar Al Zadjali, Proxy for ROP Pension Fund LLC	Member of the Board and a member of the Board Risk Committee.	8	Not member	5	Not member	Independent/ Non-executive/ representative of a shareholding juristic person.	9,400/-
Sheikh Said bin Mohamed Al Harthy	Member of the Board and a member of the Board Audit Committee.	9	6	Not member	Not member	Non-Independent/ Non-executive/ shareholder in personal capacity.	9,400/-
Sheikh Saud bin Mustahail Al Mashani, Proxy for Muscat Overseas "LLC"	Member of the Board and a member of the Board Audit Committee.	4	3	Not member	Not member	Independent/ Non-executive/ representative of a shareholding juristic person.	4,900/-
Mr. Khalid bin Nasser Al Shamsi	Member of the Board, a member of the Board Risk Committee and a member of the Board Nomination and Compensation Committee.	9	Not member	5		Non-Independent/ Non-executive/ non-shareholder.	9,400/-
Mr. Sunder George, Jabreen International Development	Member of the Board, a member of the Board Risk Committee and a member of the Board Nomination and Compensation Committee.	9	Not member	5	3	Independent/ Non-executive// representative of a shareholding juristic person.	9,800/-

Name of the director	Board position and membership of Committees	Board of directors meetings attended	Audit Committee meetings attended	Board Risk Committee meetings attended	Board Nomination & Compensation Committee meetings attended	Basis and capacity of membership	Sitting fees in RO.
Brig. General Saif bin Salim Al Harthi, Proxy for Ministry of Defence Pension Fund	Member of the Board and a member of the Board Audit Committee	7	5	Not member	Not member	Independent/ Non-executive// representative of a shareholding juristic person	8,475/-
Mr. K.K. Abdul Razak **	Ex-Board Member	1	1	Not member	Not member	Independent/ Non-executive/ shareholder in personal capacity.	1,325/-
Total amount paid as sitting fees to directors							77,800/-

* Royal Court Affairs has replaced its proxy with a new member.

** Mr. K.K. Abdul Razak left the Board of Directors on 25th March, 2019 following the expiry of the term of office of the Board and election of a new Board, hence attended one meeting of the Board of Directors and one meeting of the Audit Committee meeting. Brig. General Saif bin Salim Al Harthi, Proxy for Ministry of Defence Pension Fund.

Table 2: Attendance of Directors of the Bank at the Annual General Meeting of Shareholders (AGM)

This table is prepared in accordance of the requirements of item (2.2-attendance of Directors of the Bank at the last AGM held on 25th March, 2019) of annexure no. (3) of the CCG

NO.	Director Present at the AGM Meeting	Representation
1	Sheikh Khalid bin Mustahail Al Mashani	Self
2	Mr. Sulaiman bin Mohamed Al Yahyai	Royal Court Affairs
3	Mr. Nasser bin Mohamed Al Harthy	Ministry of Defence Pension Fund
4	Mr. Hamoud bin Ibrahim bin Soomar Al Zadjali	Royal Oman Police Pension Fund "LLC"
5	Mr. K.K Abdul Razak	Self
6	Sheikh Said bin Mohamed Al Harthy	Self
7	Sheikh Saud bin Mustahail Al Mashani	Muscat Overseas "LLC"
8	Mr. Khalid bin Nasser Al Shamsi	Self
9	Mr. Sunder George	Jabreen International Development

Table 3: Board and Board committees' meetings in (2019)

The total number of meetings the Board had between 1st January, 2019 and 31st December, 2019 was nine meetings. The maximum interval between any two meetings did not exceed four consecutive months, in compliance with article 10 (B) of the Second Principle of the CCG (July, 2015). The dates of the meetings of the Board of Directors, the Audit Committee, the Board Risk Committee and the Board Nomination and Compensation Committee during year 2019 were provided in table below.

This table is prepared in accordance of the requirements of item (2.4-meetings and attendance during the year) of annexure no. (3) of the CCG

S r. .No	Dates of the Board of Directors Meetings	Dates of the Board Audit Committee Meetings	Dates of the Board Risk Committee Meetings	Dates of the Board Nomination and Compensation Committee Meetings
1	29th January, 2019	29th January, 2019	28th April, 2019	24th January, 2019
2	25th March, 2019	28th April, 2019	22nd July, 2019	29th January, 2019
3	28th April, 2019	22nd July, 2019	17th September, 2019	21st March, 2019
4	17th June, 2019	17th September, 2019	21st October, 2019	
5	22nd July, 2019	21st October, 2019	11th December, 2019	
6	17th September, 2019	11th December, 2019		
7	21st October, 2019			
8	22nd and 23rd October, 2019			
9	11th December, 2019			

Table 4: Chairman of Board's Committees

This table is prepared in accordance of the requirements of item (2.3-number of other boards and other committees where the director is a member or chairman) of annexure no. (3) of the CCG:

Sheikh Khalid bin Mustahail Al Mashani

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Personal Capacity	Chairman
2	Dhofar International Development & Investment Holding Co. "SAOG"	Personal Capacity	Chairman
3	Al Omaniya Financial Services "SAOG"	Personal Capacity	Director
4	Dhofar Cattle Feed Co. "SAOG"	Personal Capacity	Director

Mr. Sulaiman bin Mohamed Al Yahyai

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Royal Court Affairs	Deputy Chairman
2	Oman Chlorine Co. "SAOG"	Personal Capacity	Chairman

Mr. Nasser bin Mohamed Al Harthy

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Personal Capacity	Director
2	Oman Investment & Finance Co. "SAOG"	Personal Capacity	Chairman

Mr. Hamoud bin Ibrahim Soomar Al Zadjali

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Proxy of ROP Pension Fund "LLC"	Director

Sheikh Said bin Mohamed Al Harthy

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Personal Capacity	Director
2	Oman Chlorine Co. "SAOG"	Personal Capacity	Director

Sheikh Saud bin Mustahail Al Mashani

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Proxy of Muscat Overseas "LLC"	Director

Mr. Khalid bin Nasser Al Shamsi

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Personal Capacity	Director

Mr. Sunder George

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Personal Capacity	Director
2	Renaissance Services "SAOG"	Personal Capacity	Director and Member of the Audit Committee

Brig. General Saif bin Salim Al Harthi

No.	Name of the Company in which you are holding directorships or chairmanships (SAOG)	Personal Capacity /Proxy	Position on Board of Directors/Chairman
1	Bank Muscat "SAOG"	Proxy of Ministry of Defence Pension Fund	Director
2	Al Omaniya Financial Services "SAOG"	Proxy of Ministry of Defence Pension Fund	Director
3	Al Maha Petroleum Products Marketing Co. "SAOG"	Proxy of Ministry of Defence Pension Fund	Director

Table 5: Members and Chairman of Board's Committees:

This table is prepared in accordance of the requirements of item (3.2-Board's Committees, composition, names of members and chairmen) of annexure no. (3) of the CCG:

Members of the Audit Committee:

No.	Name	Position in Board's Committee
1	Mr. Nasser bin Mohamed Al Harthy	Chairman of the Audit Committee
2	Sheikh Said bin Mohamed Al Harthy	Member
3	Sheikh Saud bin Mustahail Al Mashani	Member
4	Brig. General Saif bin Salim Al Harthi	Member

Members of the Board Risk Committee

No.	Name	Position in Board's Committee
1	Mr. Sulaiman bin Mohamed Al Yahyai	Chairman of the Board Risk Committee
2	Mr. Hamoud bin Ibrahim Soomar Al Zadjali	Member
3	Mr. Khalid bin Nasser Al Shamsi	Member
4	Mr. Sunder George	Member

Members of the Board Nomination and Compensation Committee

No.	Name	Position in Board's Committee
1	Sheikh Khalid bin Mustahail Al Mashani	Chairman of the Board Nomination and Compensation Committee
2	Mr. Sulaiman bin Mohamed Al Yahyai	Member
3	Mr. Sunder George	Member
4	Mr. Khalid bin Nasser Al Shamsi	Member

Confirmation of compliance in accordance with item (6) of annexure no. (3) of the CCG:

During the year ended on 31 December, 2019, the Board of Directors of the Bank received sitting fees RO. 77,800/- for (2019) for the Board, the Audit Committee, the Board Risk Committee meetings and Board Nomination & Compensation Committee meetings.

This confirmation is being issued in accordance with item (6) of annexure no. (3) of the CCG.

Table 6

Monthly share prices of Bank Muscat's shares quoted at the Muscat Securities Market (MSM) and the bands for the Banking sector stocks on the MSM.

(This information is available from news agencies and is published information. This is given here as part of the requirements of the Code of Corporate Governance for MSM listed companies. This is not a solicitation in any manner to subscribe to the Bank's shares.)

Bank Muscat Share Price

Month	High	Low	Closing
January 2019	0.420	0.400	0.412
February 2019	0.420	0.404	0.412
March 2019	0.480	0.396	0.402
April 2019	0.406	0.398	0.404
May 2019	0.420	0.400	0.420
June 2019	0.420	0.404	0.408
July 2019	0.418	0.404	0.416
August 2019	0.450	0.416	0.448
September 2019	0.450	0.438	0.440
October 2019	0.450	0.440	0.444
November 2019	0.450	0.442	0.444
December 2019	0.448	0.428	0.434

Financial Index Movement during 2019			
Date	High	Low	Close
January 2019	6788.950	6788.950	6696.320
February 2019	6668.070	6714.900	6668.070
March 2019	6539.840	6545.530	6538.420
April 2019	6315.180	6337.990	6285.950
May 2019	6371.570	6384.220	6342.140
June 2019	6314.340	6316.290	6282.000
July 2019	6104.770	6128.000	6098.250
August 2019	6492.350	6534.260	6472.480
September 2019	6547.150	6567.190	6547.430
October 2019	6511.700	6511.700	6489.140
November 2019	6456.320	6456.320	6421.780
December 2019	6288.290	6366.090	6288.290

Source: MSM Monthly Bulletins

The Board acknowledges:

- Preparation of the financial statements in accordance with the International Financial Reporting Standards.
- That it reviewed the efficiency and adequacy of internal control systems of the Bank and that it complied with the internal rules and regulations in 2019;
- That there are no material events that affect its ability to continue its operations during the next financial year.

50 Years of Progress

Pioneering Renewable Energy

As a pioneer of sustainability, Oman has continually invested in renewable sources of energy. The Miraah Solar Thermal Project in Marmul, is regarded as one of the largest solar installations in the world.



Report of factual findings to the Board of Directors of bank muscat SAOG in respect of Basel II - Pillar III and Basel III Disclosures ("Pillar III Disclosures")

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures ("Pillar III Disclosures") of bank muscat SAOG (the Bank) set out on pages 29 to 65 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, Circular No. BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018. 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 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018.

We report our findings as follows:

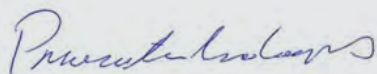
- Based on performance of the procedures detailed above, we found the Pillar III Disclosures free from any material misrepresentation.

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 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 or to be distributed to any other parties other than CBO. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.



5 March 2020
Muscat, Sultanate of Oman

Bank Muscat

Pillar III Disclosures

31 December 2019

Purpose and basis of preparation

Bank Muscat SAOG ("the Bank" or "the Parent Company") is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Iran (non-transactional). The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman ('CBO') and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The **Basel framework issued by CBO** for Banks' in Oman is structured around three Pillars: the Pillar I Minimum capital Requirements, the Pillar II Supervisory review process and the Pillar III the Market discipline. The purpose of pillar III is to compliment the Pillar I and Pillar II. The aim of Pillar III is to produce disclosures that allow market participants to assess the scope of application by bank of the Basel framework and the rules applicable, the capital condition, the risk exposures, the risk management processes, and the capital adequacy of the Bank. Pillar III requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile.

The **Pillar III Disclosures** comprise detailed information on the underlying drivers of Risk-Weighted Assets (RWA), capital, leverage and liquidity ratios as at 31 December 2019 in accordance with the guidelines issued by Central Bank of Oman. The qualitative and quantitative disclosures has been prepared in accordance to meet the minimum disclosure requirement as per CBO regulations relating capital adequacy and capital disclosures in line with Basel III framework as per CP2 guidelines issued by CBO. The Bank has board approved policy on the disclosure requirements forming part of Basel II and Basel III Norms in line with the requirements of CBO regulations.

A. Introduction and overview

Risk Management is a process by which Bank Muscat (SAOG) (the Bank) identifies key risks by applying consistent risk measurement techniques, recommends which risks to accept or reject or mitigate, by what means and establishes procedures to monitor and report the resulting risk position for necessary action.

The objective of risk management is to ensure that the Bank operates within the risk appetite levels set by its Board of Directors (Board) while various business functions pursue their objective of maximizing the risk adjusted returns. In the Bank, risk is defined as the potential for loss or an undesirable outcome in relation to expected earnings, capital adequacy or liquidity, leading to volatility in earnings. The Bank has exposure to the following core risks:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Risk management is the overall responsibility of Board and managed through the Board Risk Committee (BRC). The Board reviews and approves the risk management strategy and defines the risk appetite of the Bank. To facilitate achievement of the Bank's strategic objectives within the Board approved risk appetite, the Bank has established a Management Risk Committee (MRC). The Management Risk Committee provides recommendations to the Board through BRC on the risk-reward strategy, risk appetite, policies and framework for managing various risks. For the purpose of day-to-day management of risks, the Bank has established an independent Risk Management Department (RMD), which objectively reviews and ensures that the various functions of the Bank operate in compliance with the risk parameters set by the Board. The Risk Management Department acts independently of the business with direct reporting to the Board of Directors.

The risk appetite in various business areas is defined and communicated through a well-established Enterprise-wide risk policy. Enterprise wide risks are managed with the objective of maximising risk adjusted returns through a well defined risk management framework. The Bank's risk policy, approved by the Board, analyses and sets risk limits/thresholds for Credit, Market, Liquidity, Operational and other risks. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels is reported on a regular basis. This ensures prudent management of risks assumed by the Bank in its normal course of business. The risk policy is updated regularly, based on changes in the Bank's strategy / organisational goals, regulatory guidelines, analysis of the economic trends and the operating environment in the countries where the Bank operates.

The Bank's risk management processes have proven to be effective throughout the year and remains well supported by a strong risk culture. The Bank's Board has remained closely involved with key risk management initiatives, ensuring effective management of the Bank's risks, maintenance of appropriate levels of liquidity and capital in line with the evolving requirements.

The Bank recognises risk management process as a key to achieve its objective of enhancing shareholder value and as an area of core competence. It continues to invest in enhancing its risk management capabilities, to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

The Bank is designated as Domestic Systematically Important Bank (DSIB) in Oman. The Bank complies with all the requirements as specified by Central Bank of Oman with respect to DSIB. The Bank has in place an updated Board approved Recovery and Resolution Planning (RRP) document to formalize a process of self-propelled stable and sustainable recovery in the extreme eventuality. The RRP in its present form is essentially the Recovery Plan. During the year, Central Bank of Oman (CBO) issued their final paper on the Resolution framework in Oman, which will facilitate an orderly recovery of the Banks and if that is not possible then allow the authorities to resolve them in an orderly manner with least disruption and minimal cost to the national exchequer while preserving financial stability.

A.1 Emerging risks

An important constituent of the Bank's Enterprise risk management approach is to ensure that new or emerging risks are appropriately identified and managed within the existing Enterprise risk management framework. This practice ensures that the management is forward-looking in its assessment of risks that the organisation may encounter.

The emerging risks as identified by the Bank are as under:

A.1.i Economic environment

An increase in the crude prices during the year helped the Sultanate reduce its budget deficit. The agreement between OPEC and other major non-OPEC oil exporting countries to curb output should help provide stability in prices. The Omani economy is projected to achieve continued growth supported by economic diversification efforts on the part of the Government, a revitalized investment environment, rationalisation of subsidies, focus on privatisation and the progress made in the implementation of the Tanfeedh program for diversification. Given the high degree of interconnectedness between government spending and the domestic private sector, a prolonged lower oil price may have an impact on the financial performance of the local banks.

While geopolitical disturbances in the region continue, Oman being neutral is well positioned to avoid any adverse impact. The concerted Central Banks' action of reducing interest rates globally has benefitted the Sultanate by reducing the borrowing costs despite the declining credit rating.

A.1.ii Regulatory environment

The Bank operates in a tightly controlled regulatory environment. The changes/ introduction of new regulations by regulators impact the way the Bank undertakes its business, both domestically as well as in the overseas markets. The regulatory reforms have potential to increase our operational, compliance, and technological costs. The Bank responds to these changes proactively and strives to minimize any potential business or economic impact due to such changes.

Following are the key regulations, which could impact the Bank. The discussion papers have been published by Basel Committee on Banking Supervision (BCBS) and the final papers are awaited.

- Introduction of additional scenarios for the Banks' interest rate exposure simulations;
- Revised standardised approach for credit risk;
- Fundamental Review of Trading Book (Revised Capital Framework for Market Risk);
- Revised standardised approach for operational risk.

Apart from the Basel committee regulations, the proposed discontinuation of the LIBOR and introduction of new Interbank Offered Rates could have substantial impact on the Banking system. In the absence of domestic law permitting transaction netting, introduction of variation margin protocol has impacted the ability of domestic banks in dealing with international banks particularly those in the Euro Zone countries. The further tightening of norms with the introduction of initial margin may affect the ability of domestic banks in doing business with US/European banks.

A.1.iii Cyber Attacks

Major cyber-attacks on financial institutions globally are being reported and this shows the advancement and sophistication of cyber attackers. There is an increasing concern in the financial industry to ensure that organisations are resilient against attacks by not only ensuring protection of their assets but also having the capability to respond.

The Bank has increased its testing of the technology used in the Bank in order to identify weaknesses, which cyber attackers could exploit. The Bank conducts simulated "hacking" to identify weakness as well as to test the Bank's readiness to respond to an attack. The Bank has built in-house monitoring capability to set up early warning for possible attacks. The Bank also conducts periodic cyber-attack exercises to ensure that the Bank can effectively respond and recover from an attack to ensure continuity and readiness of the Bank's operations as well as for the Bank's management to effectively manage public relations during and post the attack.

B. Enterprise Risk Management

'Enterprise Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives'.

The Bank's Enterprise Risk management policy provides a framework for identifying, measuring, monitoring and reporting on the significant risks that the organisation face.

B.1 Risk control strategies

The Bank's enterprise-wide risk management approach is supported by a comprehensive set of risk controls. The Bank's risk policy describes each specific risk type and the mechanism for identifying, measuring, monitoring and reporting of risks and the roles and responsibilities for managing risk. It sets risk limits for core risks and other risk areas through the risk appetite framework. The risk management matrix lays down the risk ownership within the Bank.

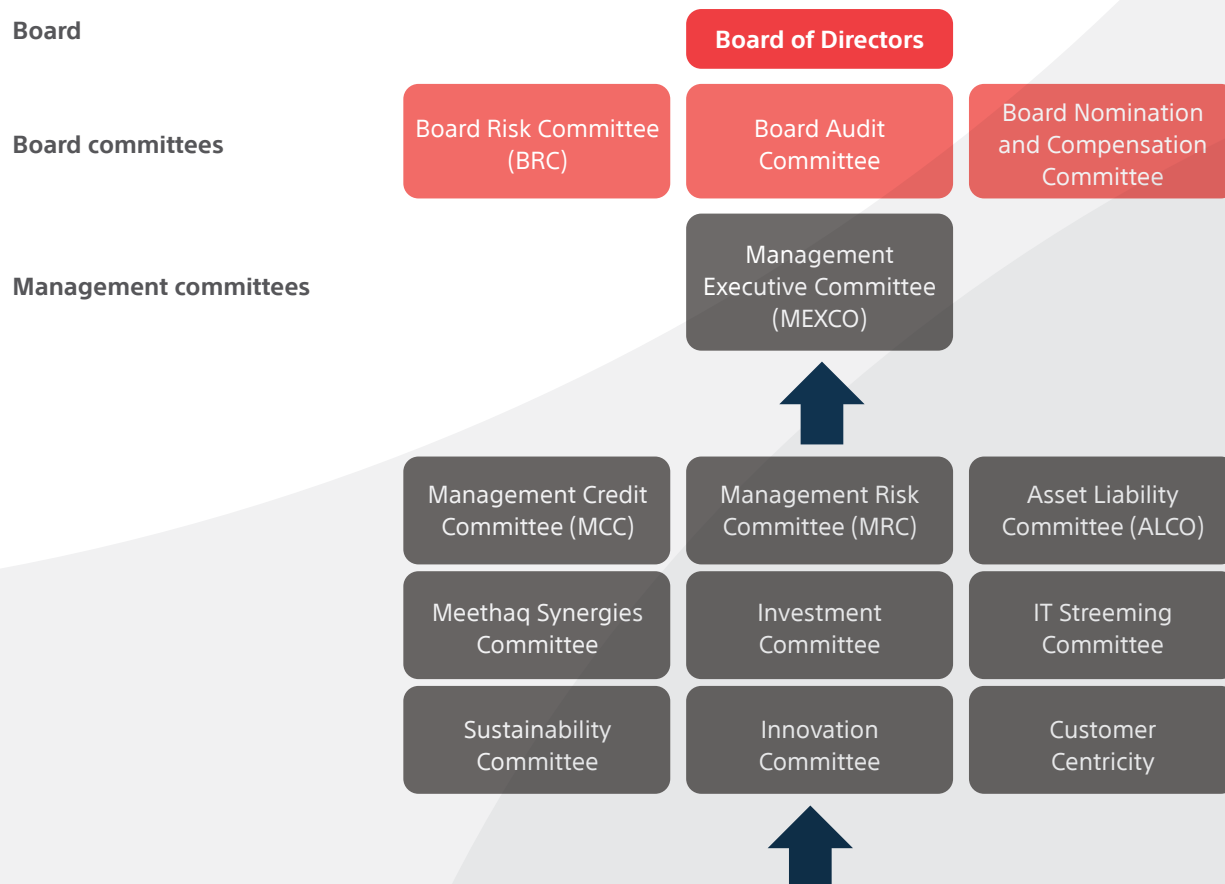
Apart from the Risk Policy, various other key policies including Credit policy, Asset Liability Management policy, Treasury policy, Investment policy, Operations policy, Fraud Risk Management Policy and Anti Money Laundering policy have been established on a comprehensive basis, duly approved by the Board, enabling prudential risk management. These policies lay down the process for managing risks across business lines.

B.2 Risk governance structure

The approach to managing risk is communicated throughout the organisation and supported by explicit ownership of risks and a clear allocation of responsibilities. The management of risk is guided by a number of committees in the Bank. Also, the Bank has adopted the industry standard of three lines of defence.

The Board committees, key management committees and three lines of defence model which are part of the risk governance structure are given below:

Bank Muscat risk governance structure



Defense line	1 st level	2 nd level	3 rd level
Role	Risk Origination	Risk Review	Assurance
Stakeholders	Business	Risk Management Compliance	Internal Audit
Process	Sourcing risks in line with risk appetite	Facilitate risk appetite framework	Assure alignment
	Full and complete disclosure of facts/risks	Measure, monitor and report risks	Major deviations analyzed & non alignment escalated
	Pro-active post approval monitoring	Escalate deviation and concerns for necessary action	Assurance on corrective action

The Chief Risk Officer (CRO) who is supported by the heads of Credit, Market, and Operational risk and Protective Services unit facilitates day to day management of risk within the Bank. International branches at Kuwait and Saudi Arabia (KSA) also report to CRO in all risk related matters.

The Bank has a Management Risk Committee (MRC) to facilitate achievement of the Bank's strategic objectives within the Board approved risk appetite, without exposing the Bank to undue risks or risk concentration. CRO is the chairman of the Management Risk Committee.

Risk management is an enterprise wide responsibility. The three-lines-of-defense model promotes transparency, accountability and consistency through the clear identification and segregation of roles and responsibilities. The key differences in perspectives (which are also strategically complementary) between Business, Risk Management, Compliance and Internal Audit functions are stated below:

Sourcing business and to remain within the risk appetite is the role and responsibility of the Business function.

Risk Management and Compliance functions ensure that the Bank remains in compliance with the overall risk appetite and reports the same to Board on quarterly basis.

The Internal Audit function, independent of processes, provides assurance through independent reviews that the Bank is in compliance with the thresholds set in the risk policy and risk management systems are effective and adequate. It makes an important contribution in ensuring the adequacy and effectiveness of internal control systems and reports directly to the Board.

B.3 Risk appetite

A risk appetite statement formally defines and expresses the willingness and ability of the Bank to take on certain type, amount and tenure of risk in order to pursue its strategic objectives. It is believed at the Bank that a clearly understood and articulated risk appetite statement contributes to creating value by better aligning decision-making and risk. It reflects the capacity of the Bank to sustain losses and continue to meet its obligations. It helps to reinforce a strong risk culture, which in turn is critical to sound risk management and evaluate opportunities for appropriate risk taking and act as a defence against excessive risk-taking. A sound risk culture will provide an environment that is conducive in ensuring that emerging risks that will have material impact on the Bank, and any risk-taking activities beyond the Bank's risk appetite are recognised, escalated, and addressed in a timely manner.

The qualitative aspects represent the structural framework of the risk appetite statement. The quantitative aspects evolve from the qualitative ones and consist of a set of limits or thresholds for certain key ratios which covers credit risk, market risk, operational risk, capitalization, liquidity and other risks of the Bank. The Bank only seeks and accepts exposure to risks that feature the possibility of earning an adequate return. Rather than avoiding risk in general, the Bank aims at optimizing its risk-return profile.

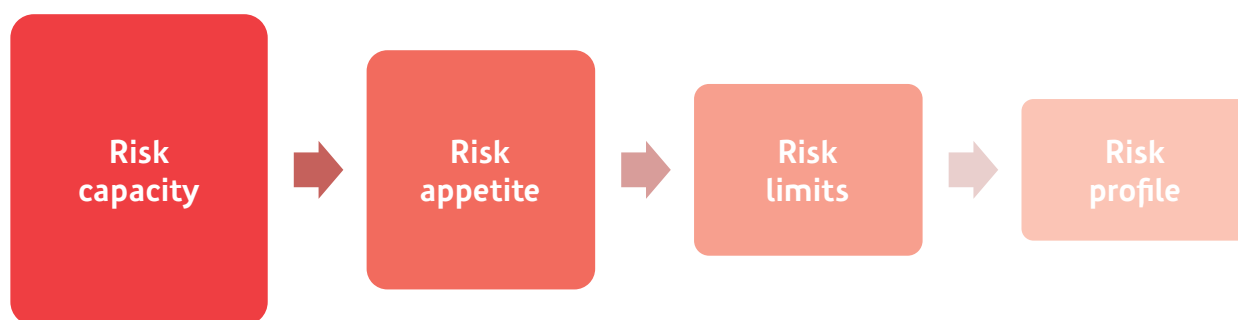
The business model of the Bank is based on fundamental principles ensuring the sustainability, prosperity, growth, and profitability of the Bank as a whole. These principles represent the qualitative aspects of the risk appetite statement. All of the Bank's business activities shall be in line with the following set of principles:

- **Regulatory:** The Bank shall always abide by the regulatory framework, which might be set either by international regulatory institutions or by local supervising authorities.
- **Reputation:** Integrity of its reputation is one of the most important success factors for any financial institution. The Bank shall always endeavour to maintain its reputation and its perception to customers and business partners.
- **Returns:** The Bank shall maintain its ability to generate profits sufficient to provide an attractive dividend to its shareholders.
- **Rating:** The Bank shall retain favourable external credit ratings by adherence to strong capital adequacy ratios –Common Equity Tier 1, Tier 1, Pillar I and Pillar II, follow prudent and sustainable management practices and earn consistent return on capital.
- **Strategic:** All elements of the Bank's business activities must be in accordance with its self-determined business model and strategic objectives.
- **Liquidity:** The Bank's business activities shall always support and guarantee a comfortable liquidity position. In particular, the Bank shall always meet all its obligations to its depositors and creditors.

The quantitative aspects of the risk appetite framework comprise both statutory constraints and internal constraints. The violation of constraints will trigger an escalation process to the Board Risk Committee and Management Risk Committee along with the designated assignees to decide on appropriate remedial actions to overcome the same.

The risk appetite statement is reviewed and updated on an annual basis considering the economic environment, regulatory changes, business objectives and plan. The results of the periodic assessment are reported to the Board and Management Risk Committee.

The risk appetite framework consists of four components which are depicted below:



The framework defines the above 4 components as:

- **Risk capacity:** The maximum level of risk the Bank can assume given its current level of resources before breaching constraints determined by regulatory capital and liquidity needs, the operational environment (e.g. technical infrastructure, risk management capabilities, expertise) and obligations from a conduct perspective to stakeholders.
- **Risk appetite:** The aggregate level of risk that the Bank is willing to accept or to avoid within its risk capacity, in order to achieve its business objectives and plan. It includes thresholds expressed relative to different types of risks such as earnings, capital, core risks, liquidity and reputation.
- **Risk limits:** Quantitative measures based on forward looking assumptions that cascade the Bank's aggregate risk appetite statement to business lines. The Bank has cascaded the risk appetite framework to business lines.
- **Risk profile:** Point in time assessment of the Bank's risk exposures aggregated within and across each relevant risk category.

B.4 Risk culture

The Bank has a strong risk culture which begins at the top, from Board of Directors and moves right down to the lowest level. It is supported by risk and other policies, risk appetite statement, training programs, employee orientation program, e-learning tools and direction from senior management. The Bank is committed to building and maintaining strong risk culture.

B.5 Risk measurement

Measuring risk is one of the important components of the enterprise risk management. The Bank has various tools and techniques for measuring different types of risks. The measurement techniques evaluate both the quantitative and qualitative factors to ensure they are within the threshold set under the risk appetite.

Expected loss

Expected loss is loss which is expected to occur in the normal course of business over a future period. For credit risk, it is calculated using Probability of default (PD), Loss given default (LGD) and Exposure at default (EAD). To cover the expected loss the Bank holds provision.

Unexpected loss

Unexpected loss is the estimate of loss above the expected loss over a future period, calculated statistically and measured at a specified level of confidence. To cover the unexpected loss the Bank holds capital. For more information please refer to the capital management section.

Value at risk (VaR)

Value-at-Risk is an important tool for measuring risks in the market risk portfolio. It is a statistical measure of potential loss that the portfolio may incur due to adverse market movements at a given confidence level and holding period. The Bank measures Market Risk VaR at 99% confidence level for a 10 day holding period in line with Basel guidelines.

Stress Value at risk (SVaR)

Stressed Value-at-Risk is a risk measure that measures the maximum possible loss at a given confidence level for given holding period, factoring stressed market conditions.

The VaR and the SVaR measures are used to have better oversight on risks emanating from the market related exposures as well as allocate Economic capital for the Bank's market risk exposures.

For more information on VaR and SVaR refer section F.7. Risk measurement.

Expected Shortfall (ES)

Expected Shortfall is the average of all losses beyond the VaR measure at a given confidence level. Guidance from global regulators to banks is to substitute the VaR measure with that of ES as the ES is considered to be a better measure than the VaR. The Bank has started on a project to incorporate ES as a key risk measure.

Stress testing

Stress testing examines potential effects resulting from changes in risk drivers corresponding to exceptional but plausible adverse events, and is an important component of our risk management framework. It helps the Bank to examine its capabilities in the stress scenarios. Stress testing results are used to monitor risk profile relative to risk appetite, identifying key risks, available mitigating actions in response to adverse events and assessing the adequacy of our target capital levels.

For further details, refer to stress testing and Liquidity sections.

Along with our internal stress testing program, the Bank also participates in regulator defined stress test exercises.

B.6 Compensation policy

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.

Qualitative Disclosures

The Policy

Remuneration policy supports the Bank's long-term objectives. The scope of the Bank's remuneration policy extends to all employees of the Bank and is designed to attract, retain and motivate the best talent in the industry. It seeks to encourage and support long-term stability, particularly of its capital base, and promote steady growth and appropriate risk awareness. The Bank is committed to fair, balanced, performance-oriented compensation practices that align the interest of employees, the Bank and shareholders. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the Bank's success.

The Bank's remuneration policy promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerance established by the Board of the Bank. The policy includes measures to avoid any conflicts of interest. This policy is reviewed by the Board Nomination and Compensation Committee (BNCC) at least once every two years.

Bonus awards at the Bank are calculated taking into account current and future risks, the cost and quality of capital plus liquidity. They are consistent with the timing and likelihood of anticipated income/ revenues. The variable compensation pool including that of Material Risk Takers is based on the risk adjusted profit of the Bank. Bonuses, including those previously earned, are considerably reduced, where subdued or negative financial performance occurs or is anticipated.

Board Nomination and Compensation Committee (BNCC)

The Bank has a Board appointed Nomination and Compensation Committee whose primary objectives are:

- Setting the principles, parameters and governance framework for the Bank's compensation policy; and
- Ensuring the Bank is equipped to meet standards of international best practice.

The responsibilities of the BNCC and other particulars such as members of the committee are enunciated in the Corporate Governance statement section of the annual report.

Material Risk Takers (MRT)

MRTs have been assessed as those who management believes have a material impact on the Bank's risk profile, including staff who head key functions. They will have either regional responsibility for their business, a significant influence on corporate decision-making or are heads of key control functions. The Bank conducts an annual risk-assessment exercise that aims at assessing the Bank's specific risk profile. The BNCC approves the Bank's rewards policy and specific compensation of the Material Risk Takers

The Bank's staff shall be identified as MRTs if they meet one or more of the following three criteria:

- Standard qualitative criteria:** Related to the role and decision-making power of staff members.
- Standard quantitative criteria:** Related to the level of variable compensation in absolute or in relative terms.
- Internal criteria:** This criteria is based on internal risk assessment processes and aims at assessing the Bank's specific risk profile.

In order to be sensitive to the time horizon of risks, the bonus/ incentive payouts for MRTs are deferred over the 4 years period wherein first year around 55% of the bonus is paid and the balance is equally paid over the subsequent 3 years subject to certain conditions relating to malus and clawback.

Control Functions

Staff engaged in assurance functions such as Risk Management, Compliance and Internal Audit are independent of the business units they oversee. Their remuneration, both fixed and variable, are determined centrally and front line business units are not involved in this process. As a result, the bonus pool for control functions is funded separately (ring-fenced) from the Bank-wide bonus pool, which is approved by the BNCC.

The Bank's remuneration policy is designed to manage the conflicts of interest, which might arise if other business areas had undue influence over the remuneration of staffs within control functions.

Malus and Clawback

The Bank has adopted incentive compensation malus and clawback policy in order to ensure that incentive compensation is paid based on accurate financial and operating data, and the correct calculation of performance against incentive targets. If the BNCC determines to seek recovery for the overpayment, the Bank shall have the right to demand that the covered staff reimburse the Bank for the overpayment.

Quantitative Disclosures

The Board Nomination and Compensation committee held three meetings in 2019 and sitting fees were paid to the members for two meetings.

As per the policy, the bonus pool for all staff is based on Risk Adjusted Return on Capital (RAROC). The bonus pool eligibility is computed as a percentage of the net profit based on different slabs of RAROC. In this process, the Bank factors in to account all the associated risks and expected losses by using capital requirement as per Economic capital model. Generally, the compensation structure of the Bank is split between fixed and variable in the proportion of 76% : 24% for all employees.

The key management comprises of 7 members (2018: 5 members) of the management executive committee. The below table provides details of key management compensation:

	2019	2018
	RO 000's	RO 000's
Salaries and other short-term benefits	3,895	5,792
Post-employment benefits	58	55
TOTAL	3,953	5,847

The amounts disclosed in the table above are the amounts accrued / paid recognised as an expense during the reporting period related to key management personnel. Certain components of key management compensation are on deferral basis and are disclosed accordingly. The previous year figures are revised considering the actual payment, wherever applicable.

C. Scope of application

Pillar III disclosures applies to the consolidated bank. The Bank has an investment in a subsidiary - Muscat Capital LLC in the Kingdom of Saudi Arabia. The Bank has international branches in Saudi Arabia and Kuwait and representative offices in Dubai, Singapore and Tehran. The financials of subsidiaries are consolidated in the Bank's financial statements. The disclosures made in this section pertain to the Bank alone.

Details of Bank's foreign branches and subsidiaries are as below:

Name of Entity	Country of operation	Percentage interest held by the Bank	Status	Regulator
Bank Muscat SAOG	KSA, Kuwait, UAE, Singapore and Iran	100.00	Parent Company with foreign branches and representative offices	Saudi Arabian Monetary Agency, Central Bank of Kuwait, Central Bank of UAE, Monetary Authority of Singapore and Central Bank of Iran respectively.
Muscat Capital LLC	KSA	100.00	Subsidiary	Saudi Capital Market Authority

An outline of differences in the basis of consolidation for accounting and regulatory purposes is explained below:

	Basel III	IFRS
Principle	Treatment is dependent on the nature of activity of the entity	Treatment is the same for all entities, not dependent on activity
Subsidiaries conducting banking, securities or financial services, as defined.	Consolidated ^a	Consolidated
Other Subsidiaries	Deducted ^b	Consolidated

a. Entire risk-weighted exposures amounts of the subsidiary are consolidated with the Bank's risk-weighted exposures

b. Investment in the entity is deducted from the Bank's consolidated capital and reserve funds and the related assets are removed from the consolidated balance sheet

Muscat Capital Company is consolidated both under Basel III and IFRS.

D. Capital management

D.1.a Capital structure - As per Basel III regulations

The Bank follows the Basel III capital norms and it remains strongly capitalised. The appended tables are part of the disclosures under the new guidelines.

The Bank's regulatory capital as per Basel III regulations is grouped into:

- Common Equity Tier 1 (CET1) capital will include common shares, share premium resulting from the issue of common shares, retained earnings net of any interim losses and net of any interim and/or final cash dividend proposed/declared, other disclosed reserves, qualifying minority interest (i.e. CET 1 capital instruments issued by consolidated subsidiaries of the Bank held by third parties), less regulatory adjustments applied in the calculation of CET 1 Capital.
- Additional Tier 1 capital shall consist of capital instruments issued by the Bank that meets the criteria specified for additional tier 1 capital, and not included in CET 1 capital, share premium resulting from the issue of Additional Tier 1 instruments, qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the Bank held by third parties, less regulatory adjustments applied in the calculation of additional Tier 1 Capital.
- Tier 2 capital, which includes capital instruments issued by the Bank that fulfill the criteria specified in Tier 2 capital instrument, and are not included in Tier 1 capital, share premium resulting from the issue of Tier 2 instruments, qualifying capital instruments issued by consolidated subsidiaries of the Bank held by third parties, loan/financing loss provisions, revaluation reserves with a haircut of 55% and less regulatory adjustments applied in the calculation of Tier 2 Capital. Stage 1 and stage 2 expected credit loss (ECL) allowances under IFRS 9 are included in Tier 2 Capital. The stage 2 ECL allowances under IFRS 9 are required to be phased out from Tier 2 capital over a period of 4 years as indicated in below table. The total stage 1 and permitted stage 2 ECL allowance included in Tier 2 capital is subject to the ceiling of 1.25% of credit risk weighted assets and cannot exceed the total general provision amount taken under tier 2 capital as on 31 December 2017.

Stage 2 ECL Allowance (Phase out)	2018	2019	2020	2021	2022
	80%	60%	40%	20%	0%

1. Table 1: Basel-III Regulatory Capital disclosure

Common Disclosure Template		RO '000	Reference to the regulatory Scope of consolidation from Table 2B
Common Equity Tier 1 capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	841,013	(A)+(B)
2	Retained earnings	418,170	(C)
3	Accumulated other comprehensive income (and other reserves)	500,328	(D)+(E)+(F)
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	1,759,511	
Common Equity Tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	12,248	(G)+(H)
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	34	(I)
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	
15	Defined-benefit pension fund net assets	-	

16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	34,077	(J)
20	Mortgage Servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	5,157	(K)-(L)
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments: Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-Basel III treatment	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common equity Tier 1	51,516	
29	Common Equity Tier 1 capital (CET1)	1,707,995	
Additional Tier 1 capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	130,000	(M)
31	of which: classified as equity under applicable accounting standards 5	130,000	
32	of which: classified as liabilities under applicable accounting standards 6	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	130,000	
Additional Tier 1 capital: Regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments: Regulatory adjustments applied to additional Tier 1 in respect of amounts subject to pre basel III treatment.	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	130,000	
45	Tier 1 capital (T1 = CET1 + AT1)	1,837,995	

Tier 2 capital: Instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	3,927	(N)
48	Tier 2 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 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	87,558	(O)+(P)
51	Tier 2 capital before regulatory adjustments	91,485	
Tier 2 capital: Regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-basel III treatment.	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	91,485	
59	Total capital (TC = T1 + T2)	1,929,480	
Risk weighted assets			
	Risk weighted assets in respect of amounts subject to pre-basel iii treatment	-	
60	Total risk weighted assets (60a+60b+60c)	9,784,845	
60a	Of which: Credit risk weighted assets	8,796,525	
60b	Of which: Market risk weighted assets	151,541	
60c	Of which: Operational risk weighted assets	836,779	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.46%	
62	Tier 1 (as a percentage of risk weighted assets)	18.78%	
63	Total capital (as a percentage of risk weighted assets)	19.72%	
64	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)	10.50%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB/G-SIB buffer requirement	1.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.72%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00	
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	12.50	
71	National total capital minimum ratio (if different from Basel 3 minimum)	14.50	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	5,157	

Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	86,747	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	109,957	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (Only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	3,927	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	9,163	

Table 2a

Reconciliation between published financial statements and regulatory capital adequacy workings	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at 31-Dec-2019	As at 31-Dec-2019
	in RO '000	in RO '000
Assets		
Cash and balances with CBO	781,755	781,755
Due from banks	723,679	723,679
Loans & Advances/Islamic Financing - Net	8,878,041	8,919,997
Investments in securities	1,444,832	1,444,832
Loans and advances to banks	146,125	146,125
Fixed assets	79,482	79,482
Deferred Tax Asset (CET1 adjustment)	6,023	6,023
Other assets	230,671	230,671
Non-Qualifying Components of Basel III (General Provision)	-	(41,956)
Total Assets	12,290,608	12,290,608
Liabilities		
Due to banks	1,173,479	1,173,479
Customer deposits	8,043,666	8,043,666
Current Tax	47,168	47,168
Other liabilities	520,998	520,998
Sukuk	90,205	90,205
Euro Medium term notes	385,410	385,410
Subordinated bonds	26,180	3,927
Deferred Tax Liabilities (CET1 adjustment)	866	866
Non-Qualifying Components of Basel III (Subordinated Liabilities Reserve)	-	22,253
Total liabilities	10,287,972	10,287,972

Shareholders' Equity		
Share capital	309,478	309,478
Share premium	531,535	531,535
General reserve	384,078	384,078
Retained profit	526,487	526,487
Legal reserve	103,160	103,160
Subordinated loan reserve	13,090	13,090
Cash flow hedge reserve	(34)	(34)
Foreign currency translation reserve	(2,296)	(2,296)
Cumulative changes in fair value	(372)	(9,141)
Non-Qualifying Components of Basel III:		
Revaluation reserve	4,904	4,904
Impairment reserve	2,606	2606
Non-Qualifying Components of Cumulative changes in fair value	-	8,769
Total equity	1,872,636	1,872,636
Perpetual Tier I capital	130,000	130,000
Total equity	2,002,636	2,002,636
Total liability and shareholders' funds	12,290,608	12,290,608

Table 2b

Reconciliation between published financial statements and regulatory capital adequacy workings	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	As at 31-Dec-2019	As at 31-Dec-2019	
	in RO '000	in RO '000	
Assets			
Cash and balances with CBO	781,755	781,755	
Due from banks	723,679	723,679	
Investments:	1,444,832	1,444,832	
- Designated as Amortised Cost	1,274,696	1,274,696	
- Designated as Fair Value through OCI	110,125	110,125	
- Designated as fair value through profit or loss	25,934	25,934	
Non-Strategic Investment (CET1 adjustment)	34,077	34,077	(J)
Loans & Advances/Islamic Financing - Net, Of which:	9,024,166	9,024,166	
- Loans and advances to non-resident banks	146,125	146,125	
- Loans and advances to domestic customers	7,740,997	7,740,997	
- Loans and advances to non-resident for operations abroad	71,246	71,246	
- Loans and advances to SMEs	247,485	247,485	
- Financing from Islamic banking window	1,165,848	1,165,848	
(Less): Provision against Loans and Advances, Of which:			
- Stage 3 ECL allowance	218,832	218,832	
- Stage 1 and Stage 2 ECL allowance eligible for Tier 2	128,703	86,747	(P)
- Stage 2 ECL allowance Non-Qualifying for Tier 2	-	41,956	
Fixed assets	79,482	79,482	
Other assets :	236,694	236,694	
Acceptances	123,317	123,317	
Positive value of Derivatives	22,274	22,274	
Deferred Tax Asset (CET1 adjustment)	6,023	6,023	(K)
Accrued Interest & Others	85,080	85,080	
Total assets	12,290,608	12,290,608	

Capital & Liabilities			
Paid-up Capital, Of which:			
Amount eligible for CET1			
Paid-up share capital	309,478	309,478	(A)
Share Premium	531,535	531,535	(B)
Legal reserve	103,160	103,160	(D)
General reserve	384,078	384,078	(E)
Subordinated Loan Reserve	13,090	13,090	(F)
Retained earnings	526,487	418,170	(C)
Proposed Dividend (Reduced from Retained Earnings)		108,317	
Cash Flow Hedge reserve	(34)	(34)	(I)
Cumulative loss on Fair Value (CET1 adjustment)	(372)	(9,952)	(G)
Foreign Currency Translation Reserve (CET1 adjustment)	(2,296)	(2,296)	(H)
Amount eligible for AT1			
Perpetual Tier I capital	130,000	130,000	(M)
Amount eligible for Tier 2			
Cumulative gains on fair value- (Positive MTM after applying 55% haircut)		811	(O)
Subordinated liabilities	26,180	3,927	(N)
Subordinated liabilities Reserve - (Non- Qualifying for Basel)	-	22,253	
Reserve for restructured accounts - (Non- Qualifying for Basel)	2,606	2,606	
Cumulative gains on fair value - (Non- Qualifying for Basel)	-	8,769	
Revaluation reserve - (Non- Qualifying for Basel)	4,904	4,904	
Total Capital	2,028,816	2,028,816	
Deposits from banks	1,173,479	1,173,479	
Customer deposits	8,043,666	8,043,666	
Unsecured bonds	90,205	90,205	
Borrowings in the form of bonds and Notes	385,410	385,410	
Other liabilities	520,998	520,998	
Taxation	47,168	47,168	
Deferred Tax Liabilities (CET1 adjustment)	866	866	(L)
Total Capital & Liabilities	12,290,608	12,290,608	

2. Disclosure template for main features of regulatory capital instruments

1	Issuer	US \$ Subordinated Debt	Additional Equity Tier 1 Capital (AET1)	Paid-up share capital
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)			MSM code: BKMB
3	Governing law(s) of the instrument Regulatory treatment	English Law Tier 2 Capital	Governed by the Laws of the Sultanate of Oman	CMA Oman CET1 Capital
4	Transitional Basel III rules	Tier2 Capital	Additional Tier 1 Capital	CET1 Capital
5	Post-transitional Basel III rules	Tier2 Capital	Additional Tier 1 Capital	CET1 Capital
6	Eligible at solo/group/group & solo	Group	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	AET1 Capital	Paid-up share capital
8	Amount recognised in regulatory capital - in RO million	3.927	130.000	309.478

9	Par value of instrument - in RO	NA, debt instrument	130.000 million	0.100 baisa
10	Accounting classification	Liability – fair value option	Equity	Liability – fair value option
11	Original date of issuance	12-Jan-12	03-Apr-17	Various
12	Perpetual or dated	Dated	Perpetual	Perpetual
13	Original maturity date	15-Oct-21	Perpetual	Various
14	Issuer call subject to prior supervisory approval	No	Yes, After 5 years	No
15	Optional call date, contingent call dates and redemption amount	NA	Redemption of the Capital Deposit pursuant to agreement and CBO may only occur on the First Call Date or on any Call Date thereafter or on any interest payment date after the first call date.	NA
16	Subsequent call dates, if applicable	NA	The First Call Date (fifth anniversary of the Deposit Date) or the Second Call Date or the call date falling on any interest payment date after the first call date.	NA
Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed	Floating
18	Coupon rate and any related index	Libor + 3.75	5.50%	NA
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Fully discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Cumulative	Non-cumulative	
23	Convertible or non-convertible	Nonconvertible	Non-convertible	Nonconvertible
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into		NA	
30	Write-down feature	No	Yes	No
31	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	The instrument is subordinated to depositors, general creditors and subordinated debt/sukuk of the Bank.	Sub-Debt
32	If write-down, write-down trigger(s)	NA	Non viability event	NA
33	If write-down, full or partial	NA	In Full or partial, as determined by the Bank in conjunction with CBO and in accordance with the Basel Regulations.	NA
34	If write-down, permanent or temporary	NA	Permanent	NA
35	If temporary write-down, description of write-up mechanism	NA	NA	NA
36	Non-compliant transitioned features	None	None	None
37	If yes, specify non-compliant features	NA	NA	NA

D.1.b Capital structure– As per Basel II regulations

The capital structure as per Basel II regulations issued by Central bank of Oman is provided below for monitoring purposes. The Bank's regulatory capital as per Basel II regulations is grouped into two tiers:

- Tier I capital, which includes common equity, share premium, distributable and non-distributable reserves and retained earnings after deductions for goodwill and 50% of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital, which includes qualifying subordinated liabilities (net of reserves), collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI to the extent permitted after deductions for 50% of carrying value of investments in associates.

Various limits are applied to elements of the capital base. The qualifying tier II capital is limited to 100% of tier I capital; qualifying subordinated liabilities is limited to 50% of tier I capital; and amount of collective impairment allowances stage 1 at 100% and Stage 2 at 60% that may be included as part of tier II capital is limited to 1.25% of the credit risk-weighted assets.

The Bank's regulatory capital is as below:

Capital Structure	2019	2018
	RO'000	RO'000
Tier 1 Capital		
Share capital	309,478	294,741
Share Premium	531,535	531,535
Legal reserve	103,160	98,247
General reserve	384,078	370,988
Subordinated Loan reserve	13,090	13,090
Retained Profit *	418,170	382,243
Perpetual Tier I Capital	130,000	130,000
	1,889,511	1,820,844
(Less):		
Cumulative loss on fair value	(9,952)	(12,139)
Cumulative loss on Cash Flow Hedge	(34)	-
Deferred tax Asset	(5,157)	(7,733)
Foreign currency translation reserve	(2,296)	(2,068)
Non- Strategic Investment in Banks (50%)	(17,038)	(16,650)
Total Tier I Capital	1,855,034	1,782,254
Tier II Capital		
Cumulative change in fair value (45%)	811	538
General Loan loss impairment	86,747	110,664
Subordinated liabilities (net of reserves)	13,090	26,180
	100,648	137,382
(Less):		
Non-Strategic Investment in Banks (50%)	(17,039)	(16,650)
Total Tier II Capital	83,609	120,732
Total Capital available	1,938,643	1,902,986

* Retained profit for the year 2019 is after reducing proposed cash dividend of RO 108.317 million (2018: RO 103.159 million).

D.2 Capital adequacy

Capital adequacy indicates the ability of the Bank in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and increases confidence of the stakeholders and creditors. The Bank aims to maximise the

shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Bank has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Bank is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the Bank assuming higher levels of risk. Hence, with regards to the retention of capital, the Bank's policy is governed by the need for adequately providing for associated risks and for servicing the capital retained. The Bank utilises Additional Equity Tier 1 (AET1) and subordinated debt and raises share capital as and when the need arises. The Bank's strong and diverse shareholders profile provides the Bank with the necessary confidence in its ability to raise capital when needed.

The Bank's regulator, the Central Bank of Oman (CBO) sets and monitors capital requirements for the Banks in the Sultanate of Oman. CBO requires the Bank to maintain a minimum ratio of 14.50% of total capital to risk-weighted assets. This includes the capital conservation buffer of 2.50% and DSIB buffer of 1.00%. Counter cyclical buffer implementation shall be in phased manner, as & when the Central Bank determines its need for introduction.

The Bank determines regulatory capital as recommended by the Basel II & III capital accord and in line with the guidelines of Central Bank of Oman. The Bank has adopted Standardised approach for Credit and Market Risk and Basic Indicator approach for Operational Risk. In preparation for migration to advanced approaches, the Bank has implemented the models for measurement of risk in credit and market risk areas. The enhanced process, models and model outputs are used in the decision making process of the Bank to manage risks.

The summary of capital adequacy ratio of the Bank as per Basel II is as below:

	Gross Bal.	Net Balances	Risk Weighted Assets
	(Book Value)	(Book Value) *	
	RO'000	RO'000	
On-balance sheet items	12,396,146	10,294,854	7,500,152
Off -balance sheet items	2,773,444	2,773,169	1,230,112
Derivatives			66,261
Total Credit risk			8,796,525
Total Market Risk			151,541
Total Operational Risk			836,779
Total Risk Weighted Assets			9,784,845
Capital Structure			
Tier 1 Capital			1,855,034
Tier 2 Capital			83,609
Total Regulatory Capital			1,938,643
Capital Requirement for Credit Risk			1,275,496
Capital Requirement for Market Risk			21,973
Capital Requirement for Operational Risk			121,333
Total Required Capital			1,418,803
Tier 1 Ratio			18.96%
Total Capital Ratio			19.81%
* Net of provisions & reserved interest & eligible collaterals			

Target capital adequacy

Target capital level for the Bank is set in relation to the minimum regulatory requirements set by the Central Bank of Oman or the assessed capital requirement as per Internal Capital Adequacy Assessment Process (ICAAP), whichever is higher. The target capital level is also based on the expected return on capital and future growth prospects together with an intention of optimising the shareholder's return.

For 2019, the Bank has set a target capital level, as per the Board approved risk appetite statement above the minimum regulatory requirement of 14.50%, which is comfortably met. The capital requirements would increase in phases in line with the Central Bank's Basel III implementation guidelines.

D.3 Capital raised

The Bank generated internal capital of RO 82.391 million after payment of RO 103.159 million cash dividend approved for the year 2018.

D.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources and the fit of the activity with the Bank's longer term strategic objectives are taken in to account while allocating capital.

D.5 Economic capital

Apart from the regulatory capital, which is based on the guidelines issued by Central Bank of Oman, the Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) that provides an assessment of the Bank's actual capital adequacy based on advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, Interest Rate Risk on Banking Book (IRRBB) along with the core risks. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to estimate future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital for the next 5 years based on the Bank's risk profile. It will scrutinize the current business model of the Bank and may lead to corresponding adjustments, if the inherent risk goes beyond the Bank's risk appetite. The business plan will be updated at least annually on a rolling basis for forward-looking period of 5 years. On an annual basis, ICAAP is approved by the Board and then submitted to Central Bank. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital supply is suitable to support its business strategy. The forward looking assessment of capital adequacy has helped the Bank to plan ahead for capital management.

D.6 Stress testing

Given the unexpected severity and frequency of events, stress testing has gained greater prominence and credibility within banks as a complementary risk management and capital planning tool to provide a different risk perspective. It is an important risk management tool used by the Bank as part of its internal risk management.

A stress test is commonly described as the evaluation of a bank's financial position under a severe but plausible scenario, to assist in decision making within the Bank. Stress testing alerts management to adverse unexpected outcomes related to a variety of risks, provides an indication of how much capital might be needed to absorb losses should large shocks occur, ensure sufficient liquidity is maintained and have a plan of action in place. While stress tests provide an indication of the appropriate level of capital necessary to endure deteriorating economic conditions, a bank alternatively may employ other actions in order to help mitigate increasing levels of risk.

Within the Bank, the term "stress testing" is used not only in respect to the mechanics of applying specific individual tests, but to the wider environment within which the tests are developed, evaluated and used within the decision-making process. The stress testing process is not a stand alone process but interacts with existing risk management framework.

The Bank has in place a stress testing framework which defines the guiding principles, types of stress tests, the governance around the process and the uses with the Bank.

In order to determine the Bank's capability to withstand stressed conditions and examine the resilience of the Bank's risk-bearing capacity, the Bank conducts various stress testing scenarios which broadly fall into 2 main types:

- Sensitivity tests, generally shock individual parameters or inputs. Though these scenarios ignore multiple risk factors or feedback effects, their main benefit is that they can provide a fast initial assessment of portfolio sensitivity to a given risk factor and identify certain risk concentrations.
- Scenario analysis, where range of simultaneous shocks are applied on different parameters or inputs. Approaches are either historically based or hypothetical.

Apart from the periodic stress testing as per the framework the Bank also conducts need based stress testing depending upon the situation prevalent at that point of time.

Under the framework, the Bank has designed and developed various stress testing scenarios of high, medium and low impact in the areas of liquidity, interest rate risk, credit risk, market risk etc.

The Bank also conducts "bottom-up" stress testing under the scenarios suggested by the Central Bank of Oman from time to time.

The results of the stress testing shows that the Bank would continue to meet regulatory ratios and adhere to risk policy norms even in periods during stress.

Reverse Stress testing

While stress testing scenario is a top down approach, reverse stress testing is a bottom up approach. Reverse stress tests start from a known stress test outcome (such as breaching internal/regulatory capital ratios, illiquidity or insolvency) and then asking what events could lead to such an outcome for the Bank.

The starting point in the analysis would be an assumption that over a short period of time an institution incurs a very large loss. The analysis would then work backward to identify how such a loss could occur given actual positions and exposures prevailing when the stress test is conducted. If the assumed loss were truly large, it is highly likely that the possible sequence of events producing such a loss would have to entail elements of contagion or systemic forces. Thus, the reverse stress test is likely to require institutions to address issues that are not normally captured in stress tests. In the reverse stress test the emphasis is on the contagion that could cause a significant stress event to the firm.

The Bank has developed various scenarios under reverse stress testing in areas of insolvency, Recovery and Resolution Planning and aggregate currency risk.

D.7 Leverage ratio

Basel Committee for Banking Supervision (BCBS) introduced a non-risk sensitive Leverage Ratio to address excessive build-up of on and off-balance sheet exposures, which was the root cause of the Financial/Credit crisis of 2008. The ratio is calculated by dividing the Tier I capital of the Bank by the Bank's total assets (sum of all on and off-balance sheet assets). Being a DSIB the Bank is required to maintain a higher Leverage ratio of 5% considering its systemic importance.

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

	Item	RO'000
1	Total consolidated assets as per published financial statements	12,290,608
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(34,077)
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	102,986
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)	1,404,205
7	Other adjustments	(5,157)
8	Leverage ratio exposure	13,758,565

Table 2: Leverage ratio common disclosure template

	Item	Current Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	12,290,608
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(39,234)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	12,251,374
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	25,881
5	Add-on amounts for PFE associated with all derivatives transactions	77,105
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)	102,986
	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	2,773,589
18	(Adjustments for conversion to credit equivalent amounts)	(1,369,384)
19	Off-balance sheet items (sum of lines 17 and 18)	1,404,205
	Capital and total exposures	
20	Tier 1 capital	1,837,995
21	Total exposures (sum of lines 3, 11, 16 and 19)	13,758,565
	Leverage Ratio	
22	Basel III leverage ratio (%)	13.36

Risk exposure

At the macro level, Bank has exposure to the following risks.

- Credit risk
- Market risk
- Liquidity risk
- Operational risk and
- Other residual risks

E Credit risk

E.1.i Introduction

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure.

The credit risk management process in the Bank begins with the risk policy, which defines indicators to address different dimensions of credit risk including credit concentration risk, single borrower limit etc. For each of the indicator, the Bank has set for itself, clear and well-defined limit and trigger point. Compliance with the various indicators is monitored and reported on a regular basis and exceptions, if any are escalated to enable remedial actions.

The Bank manages credit risk through the following processes:

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, are governed by the Bank's credit manual which is reviewed by Risk Management Department and approved by appropriate approval authorities. The credit policy clearly stipulates role and responsibilities for each of the functions and the lending authority at various levels are stipulated in 'Lending Authority Limits'.
- All corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a certain threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, are reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sectors are governed and monitored according to regulatory norms / internal limits prescribed in the Bank's risk policy. The analysis of large customers at group level is conducted on a regular basis. The lending division undertakes account updates, monitoring and management of exposures on a continuous basis. Industry and sectoral analysis and benchmark reports are prepared as a part of credit risk management process to understand the trends in industry.
- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to manage prevalent credit risk.
- Retail portfolio is rated using a scorecard.

E.1.ii Counterparty credit risk (CCR)

Counterparty Credit Risk (CCR) can be either due to the Bank's exposure to the sovereign or to banks/corporates of other countries. It includes bank's exposure to

- Sovereign/ Country risk
- Counterparty bank risk
- Settlement risk

E.1.ii.a Country risk or Cross-border risk

The Bank assesses the counterparty credit risk or default risk at the country level as well as at the individual bank level. Country risk in the Bank is managed in the same manner as corporate credit risk. The Bank supplements the external credit rating with an internal due diligence process while setting up exposure limits. The exposure limits are approved by the appropriate authority as defined in the Bank's delegation matrix. The Bank monitors all cross border exposures on a continuous basis and takes pre-emptive corrective action based on evolving market conditions.

The Bank's overseas exposures are governed by the guidelines issued by Central Bank of Oman in this respect. All counterparty exposures are classified in various stages and provisioning/impairment accounting is accordingly undertaken under IFRS 9.

The rating wise distribution of cross border exposure as at the end of December 2019

Country Rating Distribution	%
Aaa to Aa3	20.0
A1 to A3	50.6
Baa1 to Baa3	14.7
Ba1 to Ba3	0.2
B1 to B3	10.8
Below B3	3.4
Total	100.0

E.1.ii.b Counterparty bank risk

Counterparty bank risk is the risk arising from the probability of failure of a counterparty bank to honour its commitments to the Bank. Here again, the Bank supplements the external credit rating with an internal due diligence process while setting up exposure limits. The Bank monitors all interbank exposures on a continuous basis and takes pre-emptive corrective action based on evolving market and credit conditions.

The Bank executes Credit Support Annex (CSA) agreements with major counterparty banks to mitigate its exposure risks arising out of non-linear products like derivatives. This agreement enables active exchange of margins based on the current market value of the outstanding trades, thereby helping reduce credit exposures.

The rating wise distribution of exposure to counterparty banks as at the end of December 2019:

Bank Rating Distribution	%
Aaa to Aa3	21.5
A1 to A3	32.8
Baa1 to Baa3	13.7
Ba1 to Ba3	4.3
B1 to B3	8.4
Below B3	0.2
Unrated	18.7
Total	100.0

E.1.iii Settlement risk

Settlement risk is the risk of loss due to the difference in time zones of banks operating in different geographies. The Bank has set in place appropriate settlement limits and monitors the same on a continuous basis. Further, the Bank has an arrangement to settle all major foreign exchange transactions through Continuous Linked Settlements (CLS). The CLS is a Central Counterparty (CCP) which helps the Bank to mitigate settlement risks.

E.1.iv Loans, advances and Islamic financing receivables

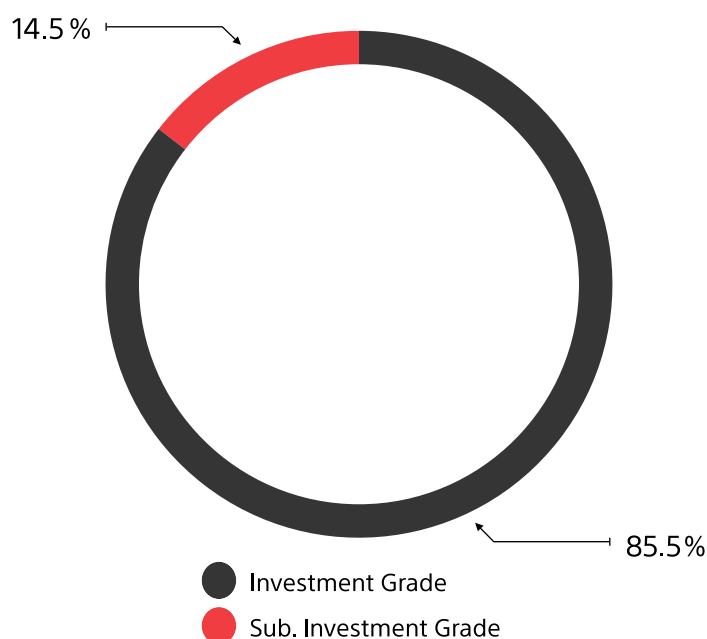
Gross loans, advances and Islamic financing receivables form approximately 74.8% of the Bank's total assets. The Bank's credit risk in loans, advances and Islamic financing receivables are measured, monitored and managed against various parameters.

E.1.iv.a Conventional Banking

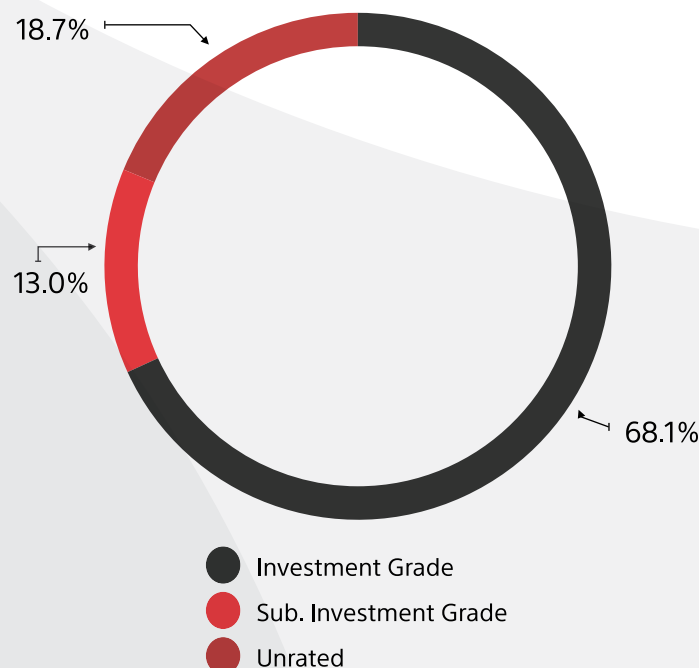
E.1.iv.a.I Corporate Banking

Corporate lending accounts for approximately 58.0% of the total gross loan book of the Bank. While the day-to-day management of corporate credit and the asset quality is the responsibility of the business line management, credit proposals/ renewals above certain threshold are independently reviewed by the Risk Management Department, whose recommendations form an important input to the decision making process. Every relationship is reviewed individually once a year or more frequently, if situation so warrants.

Country Rating Distribution



Bank Rating Distribution



The risk policy ensures that the Bank's lending is targeted and distributed over various economic sectors. To restrict concentration risk in the portfolio the Bank has various limits viz. sectoral, substantial exposure limit, cross border lending etc. in place. All exposures, which include both funded and non-funded, for the year 2019 were within these prescribed limits. Detailed sector analysis is done every year and reports are submitted to the Board / Management on emerging trends to aid the lending decisions.

Using globally renowned risk rating software, the Bank does risk rating of its corporate borrowers based on their financial position as reflected in their latest audited financial statements and other relevant subjective parameters as evaluated by the concerned relationship managers. The risk rating process is centralised in the Risk Management Department to provide objectivity and ensure uniformity of the rating process. In forming an opinion on the corporate proposals/ renewals, the borrower's risk rating, collaterals, pricing and other relationship are considered. The risk rating of the borrowers are back tested and calibrated to ensure robustness of the rating model. Portfolio and migration analysis based on risk rating are carried out annually. Downward migrations are escalated for review and necessary mitigating actions.

E.1.iv.a.II Retail Banking

Retail Banking is guided and administered by the retail lending policy. Personal loans and residential mortgage loans account for 26.04% and 15.96% of the gross loan book. Personal loans in the Bank are largely granted against confirmed assignment of salaries from approved employers. The residential housing loans are granted against mortgage of the underlying properties and confirmed by assignment of salaries from approved employers. The approved employers list is regularly reviewed and updated based on the financial profile of the company and other relevant factors, which includes their profile as stable employers.

The risk management review of retail business is achieved through a product-wise portfolio review. Portfolio review analyses the risk prevalent in the retail loans post approval and disbursement. A combination of robust lending policy, loan application process and retail credit control enables mitigation of risk at the pre-approval stage. The loan application process helps mitigates credit risk by evaluating the applicant's ability and the intention to repay the loan.

The Bank uses a scorecard for evaluating retail customers and rank ordering them. The retail scorecard brings in objectivity in decision making and helps to ensure centralized, uniform, more consistent and reliable decision management across the Bank. It also helps in enhancing the credit quality of the retail portfolio by better prediction of credit losses, management's ability to react to changes fast and accurately and to measure and forecast impact of policy decisions.

E.1.iv.b Islamic Banking

Islamic Banking is guided and administered by separate Islamic Banking Policy. Retail Islamic financing receivables including mortgage accounts for 44.8% of the gross receivable book, while Corporate Islamic financing receivables accounts for 55.2% of the gross receivables. The Bank follows the same processes and controls for managing credit risk in retail and corporate Islamic financing which it follows for conventional banking.

E.1.v Collateral management

The Bank employs a range of policies and procedures to mitigate credit risk. The credit risk mitigants include collaterals like:

- Lien on deposits
- Securities
- Real estate
- Inventories
- Assignment of receivables
- Guarantees
- Cash or acceptable securities from interbank counterparties

A robust collateral management system is in place to mitigate any operational 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. While securities such as listed equities are valued regularly, credit policy mandates 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.

The Bank executes Credit Support Annex (CSA) with major counterparty banks to mitigate credit risk arising out of changes in the value of the underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

E.1.vii Impairment policy

All loans, advances and Islamic financing receivables of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. These loans, advances and Islamic financing receivables are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The risk classification of accounts into Stage 1, 2 and 3 for the purpose of IFRS 9 is done in accordance with the internal policy, accounting standards and applicable regulatory guidelines. The Bank adopts a rigorous standard for identification, provisioning and monitoring of the non-performing loans and Islamic financing receivables. Every problem account is reviewed to evaluate compliance to laid down lending norms, arrive at an appropriate grade commensurate with the risk and incorporate the lessons, if any, into the Bank's lending guidelines. The primary responsibility for identifying problem

accounts and classifying rests with business lines. Supervisory responsibility to ensure that the accounts are reviewed and classified, in line with the Bank's risk policy rests with Risk Management Department. Line management shall ensure that the downgrading of accounts is gradual and appropriate measures have been initiated at each level of classification. Counterparties which on the basis of the risk rating system demonstrate the likelihood of problems are identified well in advance to effectively manage the credit exposure and optimize the recovery. The motive of this early warning system is to address potential problems while adequate options for action are still available. All possible help is extended to those customers in the watch list, which will enable them to stay in the 'Standard' category. The Bank has a specialist remedial credit unit for Corporate and SME portfolio to manage problem loans, both for conventional and Islamic banking. This unit provides assistance and advice to customers to recover from problem situations and help aid recoveries. The Bank has a robust collection department with dedicated resources to follow-up on past due loans, both for conventional and Islamic banking. To handle the Non-Performing Assets (NPA) of the retail loan portfolio, both for conventional and Islamic banking, the Bank has a dedicated recovery unit.

Central Bank of Oman vide its circular BM1149 requires banks to follow IFRS 9 that requires the recognition of expected credit losses on all financial assets at amortised cost or at fair value through other comprehensive income (other than equity instruments), lease receivables and certain loan commitments and financial guarantee contracts. The expected credit loss must also consider forward looking information to recognise impairment allowances earlier in the lifecycle of a facility. Banks portfolio is categorised in Stage 1, 2 and 3 based on the requirements under IFRS 9 standard. The facilities and borrowers are identified in respective grades based on the significant increase in credit risk as defined in IFRS 9 policy of the Bank and as required by the regulators. Additional disclosures in relation to IFRS 9 are included in note number 42 of the Notes to the financial statements forming part of the annual report.

The Bank complies with the regulatory guidelines issued from time to time in relation to the risk classification. The Bank makes provision for bad and doubtful debts promptly, where required in line with the conservative provisioning norms it has set for itself. The Bank arrives at the provisioning requirement both under IFRS and regulatory guidelines and maintains provision, whichever is higher. In case the ECL as per IFRS 9 is lower than the provision required as per BM 977 issued by Central Bank of Oman, the excess is charged through equity. The provisions held in the books satisfies the requirements of both IFRS 9 regulations and BM 977 regulatory guidelines.

The following table details the broad criteria used for categorising of exposure in to various categories as per regulatory guidelines:

Sl. no.	Category	Retail – Loans & Islamic financing receivable	Commercial – Loans & Islamic financing receivable (*)
1	Standard	Meeting all the payment obligations or remain past due for less than 60 days	Loans & financing receivables having no financial weaknesses and are not classified in any of the other four categories
2	Special Mention	Remain past due for 60 days or more but less than 90 days and Standard restructured loans.	
3	Substandard	Remain past due for 90 days or more but less than 180 days	
4	Doubtful	Remain past due for 180 days or more but less than 365 days	
5	Loss	Remain past due for 365 days or over	

(*) Commercial loans & Corporate Islamic financing receivable are classified into various risk categories both on the basis of quantitative and qualitative parameters. The quantitative parameter i.e. payments past due for a specified number of days, are considered only as a threshold. Loans which exhibit early signs of defaults are appropriately classified, notwithstanding the fact that the loans are not past due for the period specified under different categories of risk classification.

The restructured or rescheduled loans are upgraded only after satisfactory performance of a minimum period defined in the Bank's policy from the date of the first payment of interest or principal, whichever is later, under the rescheduled/ renegotiated terms and regulatory guidelines.

The remedial action in case of classified advances is aimed at recovering maximum salvage value through enforcement of collateral and guarantees. No outstanding facilities would be written off until it has been classified as doubtful or loss and all recovery options exhausted. This is to prevent rapid downgrading and writing off overdue accounts without the benefit of any appropriate remedial measures. The Board of Directors approves all write-offs above a threshold limit.

1. The Gross Loans and Advances/Islamic Financing receivables by category is given in the below table:

Category	Retail	Corporate	Total
	RO '000s	RO '000s	RO '000s
Stage 1	3,719,628	3,298,104	7,017,732
Stage 2	28,878	1,847,670	1,876,548
Sub Standard	9,528	28,919	38,447
Doubtful	13,671	35,753	49,424
Loss	60,325	150,351	210,676
Grand Total	3,832,030	5,360,797	9,192,827

2. The gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are given in the below table:

Types of Credit Exposure	Average Gross Exposure	Total Gross Exposure
	RO'000	RO'000
Overdrafts & Credit Cards	281,196	314,220
Personal & Housing Loans	3,755,193	3,779,389
Loans against Trust Receipts	207,271	186,036
Corporate & other Loans /Financing	4,717,354	4,492,054
Bills purchased / discounted & other advances	429,938	421,128
Total	9,390,952	9,192,827

3. Geographic distribution of gross exposures, broken down into significant areas by major types of credit exposure is given in the below table:

Types of Credit Exposure	Oman	Other GCC Countries	Others	TOTAL
	RO'000	RO'000	RO'000	RO'000
Overdrafts & Credit Card	305,698	8,517	5	314,220
Personal & Housing Loans /Financing	3,758,057	14,352	6,980	3,779,389
Loans against Trust Receipts	171,616	14,420	-	186,036
Corporate & other Loans /Financing	4,224,576	240,898	26,580	4,492,054
Bills purchased / discounted & other advances	368,762	31,721	20,645	421,128
Total	8,828,709	309,908	54,210	9,192,827

4. Industry wise distribution of gross exposures, broken down by major types of credit exposure is given in the below table:

Economic Sector	Overdrafts & Credit Card	Loans/ Financing	Bills/ LTR & other advances	Total Loans	Off Balance Sheet Exposure
	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture and allied activities	8,895	12,406	5,343	26,644	11,530
Construction	69,279	163,470	100,808	333,557	519,509
Export Trade	382	206	25,926	26,514	-
Financial Institutions	5,425	386,162	64,061	455,648	869,261
Government	42,047	-	-	42,047	2,740
Import Trade	12,795	210,423	136,849	360,067	103,605
Manufacture	26,655	636,774	51,741	715,170	100,511
Mining and quarrying	6,769	479,541	27,276	513,586	142,873
Personal and Housing Loans	61,899	3,795,675	3,011	3,860,585	-
Real Estate	-	328,509	-	328,509	8,162
Services	49,403	688,824	78,988	817,215	404,876
Transport	2,941	754,532	3,105	760,578	65,095
Utilities	7,378	645,349	140	652,867	22,213
Wholesale and retail trade	18,066	68,917	107,617	194,600	39,011
Others	2,286	100,655	2,299	105,240	33,571
Total	314,220	8,271,443	607,164	9,192,827	2,322,957

5. Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure are given below in the table:

Time Band	Overdrafts & Credit Cards	Loans / Financing	Loan against trust receipts	Bills Purchased / Discounted & others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Upto 1 month	66,151	836,064	60,470	172,442	1,135,127
1 - 3months	13,056	466,317	87,273	177,298	743,944
3 - 6months	13,056	385,719	38,293	56,012	493,080
6 - 9 months	13,056	123,365	-	1,112	137,533
9 - 12 months	13,056	211,459	-	4,235	228,750
1 - 3years	65,281	1,132,157	-	10,029	1,207,467
3 - 5years	65,282	900,158	-	-	965,440
Over 5 years	65,282	4,216,204	-	-	4,281,486
Total	314,220	8,271,443	186,036	421,128	9,192,827

6. An analysis of the loan book by economic sector or counter party type is given below:

Economic Sector	Gross Loans / Financing	Of which, Stage 3	Stage 1 & 2 Provision	Stage 3 Provision	Provisions during the year	Adv w/off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture and allied activities	26,644	4,525	242	1,624	1,235	78
Construction	333,557	57,882	10,019	43,880	13,167	105
Export Trade	26,514	-	30	-	9	-
Financial Institutions	455,648	-	3,462	-	1,421	-
Government	42,047	-	3	-	-	-
Import Trade	360,067	4,625	2,009	3,216	3,716	-
Manufacture	715,170	13,445	10,476	7,449	12,224	46
Mining and quarrying	513,586	21,534	7,477	21,217	1,272	-
Personal and Housing Loans	3,860,585	84,391	15,766	70,307	24,966	704
Real Estate	328,509	18,021	5,777	8,982	2,846	-
Services	817,215	50,819	18,513	35,134	9,079	41
Transport	760,578	25,825	14,927	19,973	(6,736)	84
Utilities	652,867	544	5,335	320	55	-
Wholesale and retail trade	194,600	16,139	1,536	6,216	4,315	1,365
Others	105,240	797	382	514	260	-
Total	9,192,827	298,547	95,954	218,832	67,829	2,423

7. An analysis of Gross loans/ Financing broken down by significant geographic areas is given below:

Countries	Gross Loans / Financing	Of which, Stage 3	Stage 1 & 2 Provision	Stage 3 Provision	Provisions during the year	Adv w/off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Oman	8,828,709	246,113	91,372	176,060	56,453	1,030
Other GCC Countries	309,908	52,060	4,412	42,435	11,426	1,393
Others	54,210	374	170	337	(50)	-
Total	9,192,827	298,547	95,954	218,832	67,829	2,423

8. Movement of gross loans/ financing is given in the below table:

Details	Performing Loans		Non-Performing Loans	Total
	Stage 1	Stage 2	Stage 3	
	RO '000s	RO '000s	RO '000s	
Opening Balance	6,595,413	2,385,829	286,784	9,268,026
Migration / Changes	(1,113,629)	1,020,637	92,992	-
New Loans	4,044,983	-	-	4,044,983
Recovery of Loans	(2,509,035)	(1,529,918)	(24,106)	(4,063,059)
Loans written off	-	-	(57,123)	(57,123)
Closing Balance	7,017,732	1,876,548	298,547	9,192,827
Provisions held	18,203	77,751	218,832	314,786

Substantial exposure

The aggregate substantial exposure i.e. credit exposure individually of 10% or more of the total capital of the Bank, on a gross basis without adjusting for the credit risk mitigants to all the connected parties account for 87.70% of the total capital of the Bank and 24.84% of the total gross loan book.

E.2 Credit risk: disclosures for portfolio subject to the Standardised approach

The Bank uses Moody's / Organisation for Economic Co-operation and Development (OECD) ratings to risk weight bank and country exposures. The exposure-wise summary is as below:

Type of exposure	Rated	Unrated
	RO'000	RO'000
Country	2,327,921	-
Bank	1,752,933	404,997

E.3 Credit risk mitigation: disclosures for Standardised approach

Main types of applicable collaterals under Standardised approach are:

- Cash on deposit with the Bank
- Certificates of deposits, issued by Central Bank of Oman.
- Sultanate of Oman Government Development Bonds and Certificate of Deposits
- Bank Guarantees
- Equities listed in Muscat Securities Market included in the Main Index
- Equities listed in Muscat Securities Market that are not included in the Main Index but are listed in the exchange

Apart from the above mentioned collateral, guarantees of the government of Sultanate of Oman are considered for credit risk mitigation purpose.

Systems and processes are in place to mitigate any operational risk, which may manifest in the process of obtaining securities to mitigate credit risk. Continuous review and valuation of securities taken are done to ensure their quality. Appropriate haircuts, as provided by the Central Bank of Oman, to mitigate the risks within the securities are applied.

Break-up of total exposure covered by eligible collaterals under the Standardised approach are given below:

Collateral Details	Gross Loans & Advances / Financing
	RO '000
Loans fully secured by Cash	127,824
Commercial loans secured by shares	400,217
Total	528,041

F. Market risk

Market risk is the potential loss due to changes in market determined variables. It manifests in the following variables:

1. Foreign exchange risk
2. Investment price risk
3. Interest rate risk
4. Commodity price risk

F.1 Market risk management framework

The Bank has a well-established Market risk management process consisting of risk identification, setting risk thresholds, measurement of risks as well as continuous monitoring, reporting and escalation. The Bank has an independent Middle-office unit within RMD, which monitors Treasury, Investment banking, Asset Management, Global Financial Institution, Private Banking and Corporate Advisory divisions of the Bank. The Middle-office monitors and reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action. The process ensures that the risks assumed by various front office desks are within the Board approved risk appetite and related policies of the Bank.

The broad framework for market risk management at the Bank is governed by the following factors:

1. Sectoral limits for investments.
2. Exposure limits to foreign currencies, commodities, markets and instruments.
3. Permitted derivatives structures.
4. Stop loss limits for both Investments and FX trading portfolio.
5. Sensitivity measures in addition to the VaR measure is also established to measure Market Risk.

F.2 Foreign exchange risk

Foreign exchange risk is the potential adverse impact on earnings and market value of currency holdings due to changes in foreign exchange rates. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of open foreign exchange positions.

The Bank's foreign exchange exposures predominantly arise from client transactions with a limited amount of exposure due to trading and overseas investments. The Bank's open FX position is predominantly in US Dollar and GCC currencies.

The foreign currency exposure of the Bank as at the end of December 2019.

USD'000	Currencies	RO'000
48,517	UAE Dirhams	18,679
201,044	US Dollar	77,402
47,597	Saudi Riyal	18,325
9,797	Qatari Riyal	3,772
5,956	Pakistani Rupee	2,293
6,371	Indian Rupee	2,453
4,821	Kuwait Dinar	1856
457	Bahraini Dinar	176
2,681	Others	1,032
327,241	Total	125,988

The exposure in foreign currencies excludes exposure arising out of investment in overseas associates and branches, equivalent to RO 26 million which is exempted by the regulator. The Bank treats its entire foreign exchange exposure under the Basel II Standardised method for capital calculation. Market risk capital for the Bank's forex position as at the end of 2019 is RO 7.97 million.

F.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the stock and securities in which the Bank has invested. The Bank's investments are governed by the Investment policy, Treasury policy and Risk policy, approved by the Board and are subject to rigorous due diligence. The Investment committee monitors the investments portfolio on a periodic basis. The Market Risk Unit enables setting up of various thresholds for the investments and the Middle Office monitors compliance, reports and escalates breaches, if any for necessary corrective action.

Under IFRS 9, investments are classified as FVOCI, FVPL or at amortised cost and the relative impairment or provision is accounted appropriately.

In case of unlisted investment, the Bank follows a highly conservative approach in the valuation and makes provisions as appropriate based on internal valuation methodologies. The Bank allocates capital for its investments portfolio based on the Basel II Standardised approach based on the issuer rating.

F.4 Interest rate risk

Interest rate risk is the risk of adverse impact due to changes in market interest rates on the Bank's financial position. While the impact on the trading book is by way of change in the value of the investments, the Banking book impacts the Net Interest Income (NII) and/or Economic Value of Equity (EVE).

The short-term and long-term impact of interest rate risk are measured by conducting sensitivity analysis on the NII and Economic Value of Equity (EvE) of the Bank, respectively.

The responsibility for managing interest rate risk lies with the Asset Liability Committee (ALCO).

The Bank's interest rate risk reports, currency wise as well as the consolidated ones, are regularly reviewed by the ALCO and also reported to the Board, Board Risk Committee and Management Risk Committee.

Interest Rate risk measurement

The changes in market interest rate have an impact on the earnings and economic value due to the Bank's banking book. Thus, given the complexity and range of products, the Bank uses the ALM system to assess the impact of the change in interest rate on both earning and economic value. The simulation range from simple maturity (fixed rate) and repricing (floating rate) to static simulation, based on current on-and-off-balance sheet position, to highly sophisticated dynamic modeling techniques that incorporate assumptions on behavioral pattern of assets, liabilities and off-balance sheet items. The simulations inter alia covers basis risk, embedded option risk and yield curve risk.

The Bank undertakes interest rate simulation at various interest rate shock levels to determine its impact on Net Interest Income (NII) and Economic Value of equity (EvE). Following risk thresholds are set for the interest rate risk at a shock level of 200 basis points

Net interest income impact	Not more than 5% of the base case scenario
Economic Value of Equity impact	Not more than 20% of Tier I capital

Since the Bank does not run any active interest rate trading book, the Interest Rate Risk in Banking Book (IRRBB) is considered under Pillar II and an economic capital is allocated under the Internal Capital Adequacy and Assessment Process (ICAAP).

The effect of different rate shock under Earnings perspective and Economic value perspective (OMR consolidated) is given below:

Impact on net interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
As at 31 December 2019	18,700	(12,750)	10,387	(3,504)	5,576	2,367
Average for the period	18,368	(17,417)	11,238	(4,659)	5,812	858
Maximum for the period	22,712	(20,782)	12,747	(6,330)	6,514	2,367
Minimum for the period	13,560	(12,750)	9,715	(2,582)	5,097	(1,429)
Impact on economic value	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
As at 31 December 2019	(237,000)	350,580	(87,413)	106,036	(104,070)	106,905
Average for the period	(224,866)	343,878	(80,416)	106,311	(99,057)	64,852
Maximum for the period	(237,744)	368,911	(87,823)	122,277	(104,070)	106,905
Minimum for the period	(211,576)	317,946	(72,775)	94,669	(94,920)	(3,329)

F.5 Commodity price risk

The Bank offers commodities hedging facility to its clients. The Bank covers all customer trades in commodities on back-to-back basis and does not run any position in its own books. In view of the high volatility in the commodity prices, the Bank sets a variation margin limit over and above the volume limit. This enables the Bank to actively manage customer exposures and make margin calls in the event of adverse price movements.

F.6 Derivatives

The Bank offers interest rate, foreign exchange and commodity derivatives to its customers for hedging purposes. The derivative structures are offered as per the Board approved internal "Client & Product Appropriateness Matrix" based on the customer's underlying exposure. The customer derivative positions are covered back-to-back with interbank counterparties. The market risk unit ensures appropriate limit setting process for customers for dealing in derivative products, monitors and reports exposures on daily basis. The daily valuation of all derivative products is undertaken and customers as well as interbank margin thresholds are monitored by the middle office on daily basis.

The Bank also undertakes interest rate derivative deals to manage its own interest rate exposures by way of Interest Rate Swaps, Forward Rate Agreements etc. Such positions are initiated with the approval of the ALCO. The capital for these positions is accordingly allocated.

The outstanding notional value of the interest rate swap done by the Bank for balance-sheet hedging was USD 594 million.

F.7 Risk measurement

F.7.i Interest Rate risk in Banking Book (IRRBB)

Under Basel II Pillar II (ICAAP), the Bank measures its interest rate risk in banking book. IRRBB is the risk that arises due to the variance in the market interest rates vis-à-vis the rates on the Bank's assets and liabilities. As part of its Internal Capital Adequacy Assessment process, the Bank measures IRRBB by quantifying its impact on the Economic value of Equity (EvE).

The Bank has internally developed a model to identify the appropriate stress level to test its IRRBB based on the historic USD and OMR yield curves, since the Bank's assets and liabilities are majorly denominated in these two currencies. The worst-case scenario is considered for the interest rate stress test on the Banking book. The Bank conservatively uses this stress level to measure the impact on its EvE and maintains economic capital for IRRBB based on the same.

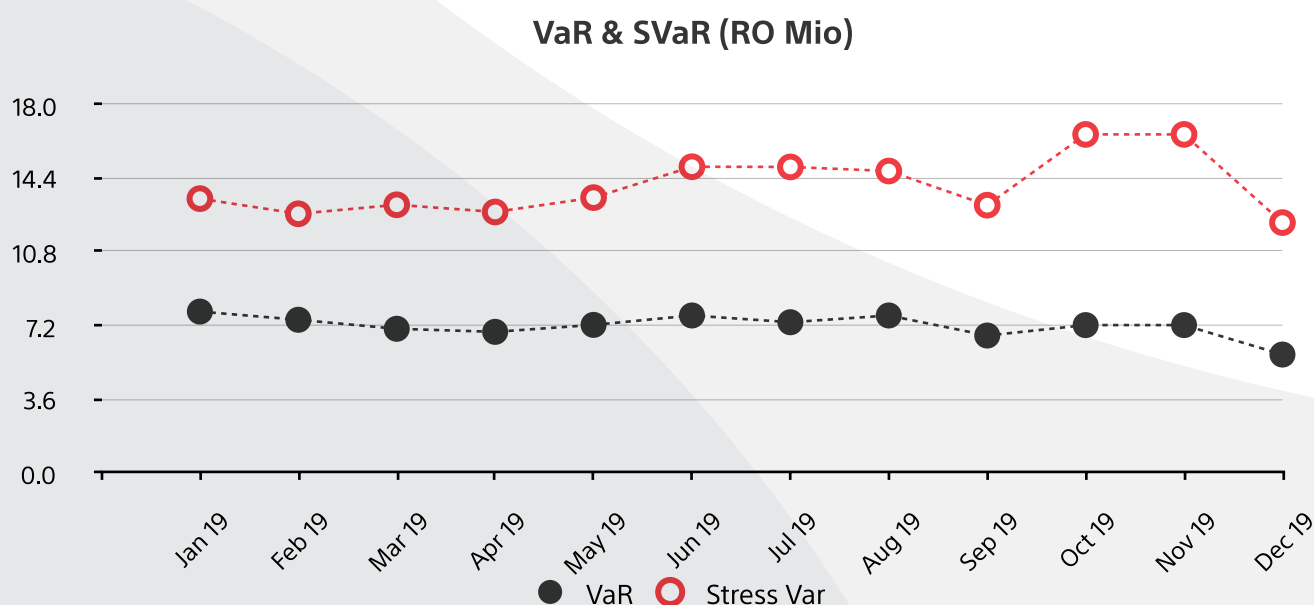
F.7.ii Measurement of market risk

Value-at-Risk (VaR): As a primary risk measurement tool, the Bank uses the VaR approach to derive quantitative risk measures in the Bank's market related portfolio. The VaR measure provides an appropriate risk oversight and enables effective monitoring of exposures.

The market risk portfolio considered for VaR measurement includes the following:

1. Equity and bonds investments portfolio.
2. Forex and Commodities portfolio.
3. Interest rate swaps portfolio.
4. Options portfolio of Forex and Commodities.

Periodic VaR and SVaR measured at 99% confidence level for a 10 day holding period is as below:



G. Liquidity Risk

G.1 Liquidity risk management

Liquidity risk or funding risk arises when the Bank is unable to generate sufficient cash resources in a timely and cost effective manner to meet obligations as they fall due and/or to fund assets growth. The inherent business model exposes banks to liquidity risk either due to external or internal factors.

The Bank's treasury manages the liquidity on day-to-day basis under the guidance and supervision of the ALCO. The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and to ensure that the Bank is fully prepared to meet any unforeseen stress condition. The Bank's ALCO ensures adequate liquidity within the Bank through:

- a. Establishing time-band based "gap limits" and "maximum cumulative outflow" limits;
- b. Development of stress testing and contingency plans to ensure "crisis survivability".
- c. Various liquidity ratios/thresholds such as LCR, NSFR etc.

The Risk Management oversight ensures Bank's preparedness in meeting both planned and unplanned liquidity flows without material adverse impact on profitability and the market perception of the Bank.

Basel III Liquidity Ratios

Liquidity Coverage Ratio (LCR): LCR measures the stock of High Quality Liquid Assets (HQLA) against short-term obligations (30 days). The Bank always maintains its ratio well above the regulatory requirement.

Net Stable Funding Ratio (NSFR): NSFR regulation seeks that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of Stable Funding against Required Funding. The Bank maintains a strong NSFR ratio to avoid any funding mis-match.

The Bank is compliant with the Basel III Liquidity Norms and ratios as of December 2019 are as given below:

Basel III Liquidity Ratio	Ratio as at December 31, 2019 (%)	Regulatory Requirement
LCR	215	100%
NSFR	117	100%

Apart from the regulatory liquidity ratios, the Bank also maintains internal liquidity thresholds that are monitored on regular basis to ensure it remains comfortably liquid.

The detailed LCR and NSFR disclosure is given below. The disclosures are also available on the Bank's website.

Liquidity Coverage Ratio (LCR)

		Total Unweighted Value (average) (RO '000)	Total Weighted Value (average) (RO '000)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		1,954,553
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	3,565,855	154,005
3	Stable deposits	1,956,808	58,704
4	Less stable deposits	1,609,047	95,301
5	Unsecured wholesale funding, of which:	2,605,405	1,298,823
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	2,605,405	1,298,823
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:	352,701	73,967
11	Outflows related to derivative exposures and other collateral requirements	29,521	29,521
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	323,180	44,446
14	Other contractual funding obligations	106,655	106,655
15	Other contingent funding obligations	2,214,172	110,709
16	TOTAL CASH OUTFLOWS		1,744,159

Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	1,531,248	835,499
19	Other cash inflows		
20	TOTAL CASH INFLOWS	1,531,248	835,499

		Total Adjusted Value	
21	Total hqla		1,954,553
22	Total net cash outflows		908,660
23	Liquidity coverage ratio (%)		215

Liquidity Coverage Ratio (LCR)

ASF item		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
		(RO '000)	(RO '000)	(RO '000)	(RO '000)	(RO '000)
1	Capital:	1,884,879	-	-	-	1,884,879
2	Regulatory capital	1,763,009				1,763,009
3	Other capital instruments	121,870				121,870
4	Retail deposits and deposits from small business customers	-	-	1,067,618	-	987,829
5	Stable deposits			539,457		512,484
6	Less stable deposits			528,161		475,345
7	Wholesale funding:	-	70,692	1,875,136	5,390,140	6,363,054
8	Operational deposits		70,692			35,346
9	Other wholesale funding			1,875,136	5,390,140	6,327,708
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	NSFR derivative liabilities				22,401	
13	All other liabilities and equity not included in above categories	2,014,667				
14	Total ASF					9,235,762
RSF item						
15	Total NSFR high-quality liquid assets (HQLA)					67,460
16	Deposits held at other financial institutions for operational purposes		165,286			82,643
17	Performing loans and securities:	-	106,638	2,973,352	5,545,127	5,935,025
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions		106,638			15,996
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which			2,973,352	4,140,099	5,005,761
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				1,405,028	913,268
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other Assets:	1,650,964	53,011	-	-	1,703,975

27	Physical traded commodities, including gold				
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				
29	NSFR derivative assets		53,011		53,011
30	NSFR derivative liabilities before deduction of variation margin posted				
31	All other assets not included in the above categories	1,650,964			1,650,964
32	Off-balance sheet items			2,537,352	126,868
33	TOTAL RSF				7,915,971
34	NET STABLE FUNDING RATIO (%)				117

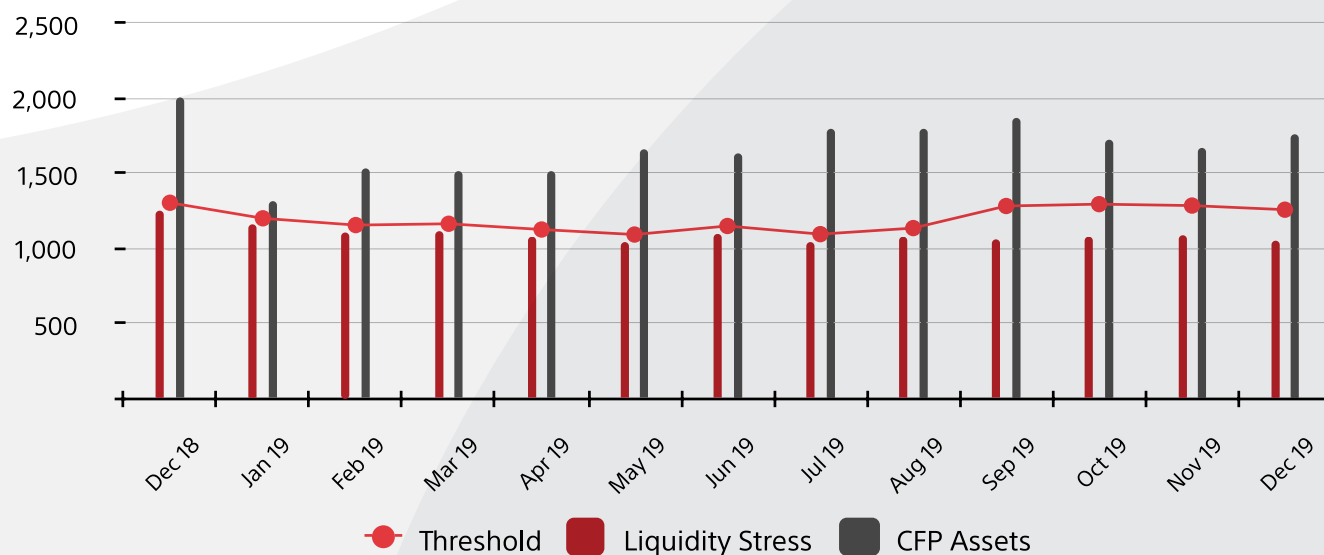
G.2 Liquidity Assessment and Management Process (LAMP)

LAMP involves a comprehensive liquidity stress testing under various stress conditions and this forms an integral part of the Bank's liquidity risk management process. Anticipated on and off-balance sheet cash flows are subjected to a variety of idiosyncratic and systemic stress events to evaluate the impact on the Bank's liquidity position. The Bank considers all such events that could cause moderate to severe liquidity strain. The stress tests involve both sensitivity and scenario analysis, to study the impact on the Bank at three levels of severity – moderate, medium and worst case scenario.

The Bank maintains a Contingency Funding Plan (CFP) to meet any unforeseen but plausible stress conditions. The contingency funding consists of unencumbered high quality liquid assets that include cash balances with Central Bank of Oman and other banks, Government Development Bonds, Treasury Bills, T-Bills issued by other investment grade sovereigns or by GCC countries and borrowing back-stops such as stand-by credit lines and committed facilities. The contingency funding plan as detailed in the Bank's ALCO Policy defines the roles and responsibilities of various departments/ individuals in the event of severe liquidity strain.

The results of the stress tests and the contingency funding over the past one year is as under:

Liquidity Stress Test, Contingency Funding Plan & Internal Threshold



H. Operational risk

H.1 Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. Operational risk loss results from deficiencies in information systems, internal controls or uncontrollable external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes.

H.2 Objective

The Bank's risk policy provides the framework to identify, assess, monitor and report operational risks in a consistent and comprehensive manner across the Bank. The Operational risk function independently supports business units in the management of operational risks. The main objectives of Operational risk management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives;
- To minimize the impact of operational risks events through fully functional IT Disaster recovery system, comprehensive insurance arrangements, up-to-date documentation and effective implementation of Business Continuity Plan;
- To minimise operational losses, increase the efficiency and effectiveness of the available resources.
- To provide operational risk training to new hires as well as regular refresher training for all relevant staff.
- To spread operational risk awareness across the Bank to ensure effective internal controls.

H.3 Operational risk management

Business units have the primary responsibility of understanding, identifying and managing the operational risks that are inherent in their respective products, activities, processes and systems. Operational risk is controlled through strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. Internal Audit Department independently reviews effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

The Management Risk Committee is the primary oversight body for operational risk. The committee is represented by various business and control functions and is responsible for ensuring that the Bank has an adequate risk management process that covers identification, evaluation and management of operational risks and formulation of sound, adequate policies pertaining to operational risk management. The responsibility of facilitating the process lies with Operational risk unit in accordance with the Operational risk management framework.

The Operational risk management framework of the Bank is based on 3 tools:

1. Internal assessment of operational risks performed by the departments through Controls and Risk Self-Assessment (CRSA) exercise, facilitated by Operational Risk team;
2. Operational loss data collected from actual and potential loss events and Key Risk Indicators (KRI's);
3. Independent assessment of operational risks and controls of various departments conducted by the Internal Audit Department.

CRSA's are used to identify all material operational risks and assess the effectiveness of controls in place to mitigate those risks, within each business and control units, by self-assessment.

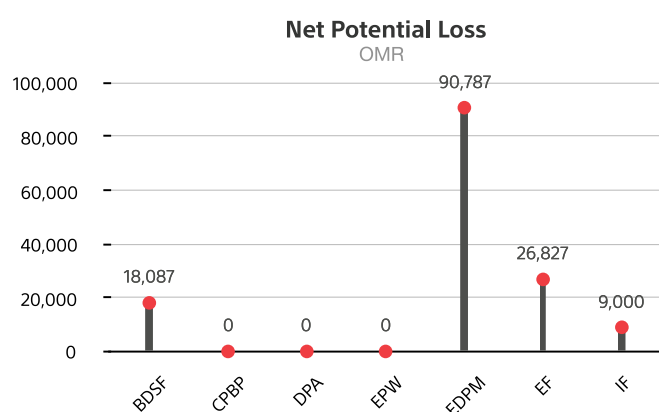
KRI's are core component of the Bank's risk and control framework and act as early warning signals by providing the capability to indicate changes in the Bank's Operational risk profile and its impact. KRI's are based on measurable thresholds and the ownership matrix is defined for action plan, if required.

All business units are required to report operational losses through the Bank's operational risk management system. The operational loss data collected is categorised by Basel business line, loss event type and reported to senior management on a periodic basis. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to Board, Management Risk Committee and senior management. The Bank also undertakes analysis of the operational losses to identify the root cause for the losses and take appropriate actions to reduce and prevent from re-occurrence of the incidents.

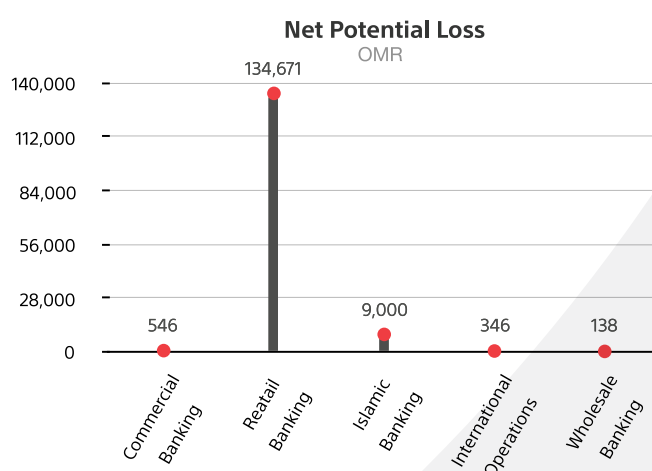
The net potential operational loss based on the events occurred and reported across the Bank during the year was OMR 144,710 (2018: OMR 612,146). The Bank recognizes the operational loss at the time of the event. Few of the events that occurred during the year are still under recovery process, which is expected to be completed soon. The Bank has improved the controls where required.

During the year, the Bank has undertaken several initiatives to mitigate operational risk losses, including declining of PIN bypass and fallback transactions, providing customer an option to block his/her debit cards through IB & MBS for international transactions, enhancement of existing processes and system controls and extending coverage of real time Fraud Management System to all channels.

Operational Loss Summary - Risk Event Type



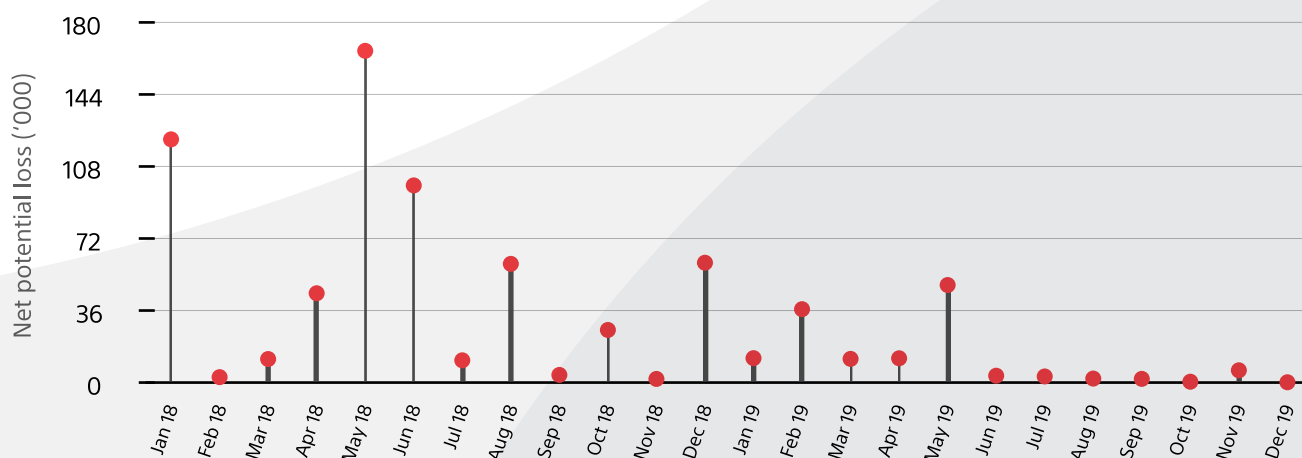
Operational Loss Summary - Business Segment



Aggregate net potential loss = OMR 144,701

BDSF: Business Disruption, and System Failures	EDPM: Execution, Delivery, and Process Management
CPBP: Clients, Products, and Business Practices	EF: External Fraud
DPA: Damage to Physical Assets	IF: Internal Fraud
EPW: Employment Practices and Workplace	

Net Potential Loss



Aggregate net potential loss Occurred in 2019 = OMR 144,701 | Aggregate net potential loss Occurred in 2018 = OMR 612,146

Note: The above graphs are reported as of date of event (Occurred).

Insurance is used as a tool to transfer the operational risks of the Bank. The Bank has obtained insurance against operational risks and the policies includes Bankers' Blanket Bond, Electronic & Computer crimes and Professional indemnity. While insurance cannot alter the likelihood of risks, it allows transfer of the financial impact of risks. Insurance is primarily aimed at protecting the Bank from high-severity, low-frequency risks.

H.4 Protective Services Unit (PSU)

The Protective Services Unit is an integrated function relating to security and protection of all the Bank's assets. The objective of PSU is:

- To effectively protect the Bank's assets from physical (manmade and natural) threats, cyber/technological threats by ensuring appropriate security controls are implemented and operational;
- To set up early warning mechanism in the Bank to warn of possible or imminent threat so that appropriate plan can be implemented to mitigate and control the impact of the threats;
- To ensure continuity in business by robust risk management techniques and resuming "business as usual" quickly and seamlessly;
- To have an effective incident response plan to be ready for various security incidents.

H.4.i Physical security management

The Bank ensures that adequate and effective security systems are deployed to protect the Bank's assets from physical threats that could cause harm and loss to Bank's assets.

The Bank has set up a framework to govern and manage the physical assets. Key elements of the physical security framework include:

- Governance through policies, procedures, guidelines and standards;
- Implement physical protection technology to protect the Bank's assets;
- Implement early warning systems with authorities for our infrastructure, such as Branches and ATM's.

H.4.ii Information / Cyber security management

The Information / Cyber security management function helps to secure information within the Bank as well as protecting the Bank from Cyber security risk.

Information risk is defined as the risk of accidental or intentional unauthorized use, modification, disclosure or destruction of information resources, resulting in compromise of confidentiality, integrity or availability of information. Information risk management deals with all aspects of information in its physical and electronic forms and is focused on the creation, use, transmission, storage, disposal and destruction of information.

Cyber security risk is the risk that attacks could disrupt the Bank's business by causing failure or breach of the Bank's various channels, security systems or infrastructure, including the third party vendors and other service providers, which will result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and negatively impact our reputation. With the increased sophistication and reach of organised crime, hackers, terrorists, activists, and other external parties the risk has increased.

The Bank continues to invest significant resources to maintain and regularly update its systems and processes that are designed to protect the security of the Bank's computer systems, software, networks and other technology assets. This is to protect against attempts to obtain unauthorised access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damages. The Bank also works with appropriate third party and government agencies with deep knowledge of cyber defence to ensure that the Bank is protected and prepared in an unfortunate eventuality of an attack.

The Bank invests in the training of people, stays abreast of global trends in cyber risk and ensures that appropriate measures are taken against emerging threats and changes in the landscape. Comprehensive review and testing are conducted for new technologies that are introduced in the Bank.

The Bank has an effective Information and cyber security risk management function focusing on the following important aspects:

- Information security governance through security policies, procedures, guidelines and standards;
- Implementing a robust network security defense as well as strong internal controls to enforce "need-to-know" principle;
- Information security monitoring through latest solutions and tools – monitoring includes real time as well as at fixed frequency monitoring;
- Cyber security incident response plan to have quick and effective management of cyber security incidents;
- Information security reviews comprising new and existing technologies, solutions, networks and also the various processes/ operations within each and every department of the Bank.

H.4.iii Health, Safety and Environment (HSE) management

The Bank acknowledges that people are its most important assets and therefore staff health and safety is of paramount importance. The Bank ensures and provides a safe working environment for the staff while conducting their assigned duties. This includes regular inspection of the fire detection systems in all its premises, conducting emergency evacuation drills, staff training on how to handle minor fires, and installation of In-Vehicle Monitoring System (IVMS) in all its vehicles so that staff adhere to the traffic rules and regulations while they are on duty. The Bank also promotes health awareness through regular health events organised in association with leading organisations in Oman.

In 2018, the Bank signed a MOU with Bee'ah, a recycling and environmental company to minimise its environmental footprint by recycling all its obsolete hardware.

In 2019, the Ministry of Manpower approved the Bank's Health and Safety (HSE) Policy. This confirms that the Bank is in compliant with regulatory guidelines. To enhance the safety of its employees the Bank introduced an incident reporting system where all staff can report any incident/ unsafe conditions which will be actioned immediately by the Health and Safety department.

H.4.iv Business Continuity Management (BCM)

Business Continuity Management is the planning, implementation and management, in order to ensure that the Bank can continue to operate at least at a pre-determined level following a significant unplanned event or major operational disruption.

The Bank ensures that its systems and procedures are resilient in potential situations of failure. The Bank has put in place Business Continuity Plans (BCP) for each critical department as well as every branch to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards.

The Bank continuous to strengthen and enhance its existing plans by implementing a robust business continuity framework to be ready to meet 'emergency preparedness'. The Bank provides training to its new joiners as well as existing employees through online and onsite training to ensure that everyone is familiar with resumption and business recovery procedures.

The Protective Services Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Bank. The said committee continuously reviews and agrees to the business continuity strategy. It also ensures that planning and maintenance responsibilities are assigned, understood and implemented across the business.

The Bank's recovery centre has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure proper functioning of the Business Recovery Centre (BRC), all departments of the Bank are required to complete bi-annual testing to ensure that it will operate successfully in times of emergencies.

I. Other residual risks

Apart from the core risk areas discussed above, the Bank also monitors other risks as discussed below:

1. Financial crime risk
2. Financial reporting risk
3. People risk
4. Compliance risk
5. Technology risk
6. Reputation risk
7. Sustainability - Environment and Social Risk
8. Model risk
9. Social media risk

I.1 Financial crime risk

The failure to identify, report and act on matters related to financial crime and money laundering is referred to as financial crime risk. This risk may lead to financial losses, penalties and loss of reputation.

Fraud and money laundering are the two most common crimes seen within the financial services sector. Accordingly, the Bank has placed combating financial crime and associated compliance requirements high on its corporate agenda. This has led to policies, procedures and systems that proactively identify, alert, assess and monitor the risk of such events. The Bank has a dedicated Money Laundering Reporting Officer who is supported by a fully qualified Anti-Money Laundering (AML) team. They utilize systems to monitor transactions on an on-going basis and report suspicious transactions to the competent authority. All the officers of the Bank undergo continuous training on AML and have to take a computer-based test on AML on a periodic basis. In addition, specific front line staff undergone enhanced training to ensure they are up to date with the latest developments in this area.

The Bank has put in place an effective Fraud Risk Management Framework consisting of Fraud Risk Management Policy and Fraud Risk Management Systems. It has an Anti-Fraud committee and programme in place and has developed a methodology for undertaking a comprehensive fraud risk assessment. The team utilizes software to assist in identifying, recording and reporting fraud incidents. During the year, the Bank conducted an Enterprise-wide fraud risk assessment exercise to identify fraud risks, assess controls and take actions required steps to address the residual risks.

I.2 Financial reporting risk

The risk of failing to detect any material misstatement or omission within the Bank's external financial reporting is termed as financial reporting risk.

The Bank has a robust and established financial reporting process with adequate internal checks and controls to minimise such risks. The Bank's internal audit division independently reviews the internal controls and procedures to mitigate such risks. The key agenda of the Audit committee of the Bank is to ensure best industry practices and high standards of corporate governance with regard to financial reporting.

I.3 People risk

All organizations are exposed to People Risk. People are the single most important asset in any business but they are also the most vulnerable asset. People risk includes lack of appropriate workforce, unethical behaviour of staff, failure to manage performance and rewards, lack of people development opportunities, lack of succession planning and career progress opportunities, failure to comply with labour laws and legislations etc.

The Bank assigns the highest importance to its human resources and allocates considerable resources to provide state-of-the-art working environment that has helped the Bank to be among best employer in Oman. These include equal opportunities to all, HR benefits and services, learning and development opportunities, etc. These efforts include adopting best practices in areas of HR policies and services, performance management and rewards, talent management and succession planning, learning and development etc. The Bank continuously reviews its HR policies in line with the evolving conditions and provide various facilities such as staff loans, medical care coverage, employee engagement initiatives, etc. It continues to invest in ERP platform to deliver fast, efficient and convenient services to staff in Oman as well as in international locations. HR initiatives not only helps the Bank to mitigate people risk but also enhances its position as employer of choice and provide tangible competitive edge.

The Bank continuously innovates its talent management and succession planning programs. Succession plans are in place for all identified critical roles by ensuring a steady pipeline of Omani employees who are groomed for leadership positions within the Bank. The Bank achieved the Omanisation targets in both quantitative and qualitative dimensions as stipulated by the regulators and reached overall Omanisation ratio of 94.7% across the organization.

In line with the Bank's well rooted philosophy of attracting best talented graduates and groom them into future leaders, the Bank regularly conducts a 2-year High Potential Graduate Program. The Bank's Learning & Development Centre (Jadara Academy) ensures that employees are adequately trained and their competency upgraded to suit their career plans and simultaneously enabling achievement of the Bank's Strategic Plans. In 2019, Jadara Academy delivered over 634 programs over 1,200 training days attended by 14,098 employees (each staff attending an average of 4 programs). The Bank has also done significant investments to provide E-Learning services. The management development programs are multi-level and are delivered by the best-in class global business schools.

1.4 Compliance risk

Compliance risk is the failure to comply with applicable laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but is also detrimental to the reputation and long term prosperity of any organisation.

The Bank's Management is primarily responsible for managing the compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty together with the various business units. The Bank has a strong Compliance department and its Compliance Officer has a direct reporting line to the Bank's Board. The Bank is aware of the challenges of operating under multiple regulatory regimes and the increasingly demanding regulatory environment in the financial services industry. It has geared up its process to meet the challenges. Apart from training and developing the workforce on its regulatory obligations, the Compliance department is also involved in the approval process of products and services to ensure the Bank always operates in compliance with the regulatory norms across all of its operations.

1.5 Technology risk

Banks and financial institutions have been embracing technological transformation, especially with the drive towards automation of processes, fierce competition among banks to provide more online channels to customers and digitalisation of financial institutions. Technology permeates the operations of the entire organisation and enables processes that the Bank uses to develop, deliver, and manage its products, services, and support operations.

Technology risk can occur due to the choice of faulty or unsuitable technology or adoption of untested or obsolete technology and this remain as one of the key risk because of heavy reliance on technology.

The Bank ensures smooth business growth by identifying and adapting to the fast changing technological environment. The Bank has two management level committees to manage technology risk:

- An Information Technology Steering Committee to oversee the strategic direction of information technology within the Bank as well as effective implementation of the determined security controls;
- A Protective Services Steering Committee supervises the robustness of the Bank's security and business continuity plans including IT – Disaster Recovery Systems.

1.6 Reputation risk

Reputational risk is defined as the current and potential risk of incurring an economic loss or a capital shortfall or risk to earnings or litigation due to negative opinion of the Bank's image by its main stakeholder groups - i.e. customers, regulators, shareholders, employees and consumers, resulting from loss of reputation or public trust and standing.

Strong corporate reputation is an invaluable asset to any organisation and if ever diminished, it's the most difficult asset to restore among all the other assets of the organisation. Reputation has a vital impact on the long term prosperity of the organisation. A deteriorating reputation can have a very adverse impact on business growth, earnings, capital raising and day to day management. This risk often exposes the organisation to litigation and financial losses. The exposure to reputation risk is always present and hence this necessitates the responsibility of every employee to exercise an abundance of caution in dealing with customers and the community at large.

The Bank aspires to maintain highest ethical standards in all its business dealings in order to safeguard its reputation. The Bank recognizes that the responsibility for reputation risk must permeate across all levels of the Bank and continuously takes steps to reinforce this message across the organisation. Following are the key components of reputation risk management framework:

- The Bank ensures that its products comply with the relevant regulations in geographies where it operates.
- The Bank has a Disclosure Committee that ensures that all key developments that have a bearing on investor's confidence are reported promptly and effectively to the regulatory agencies and the public at large. The Bank ensures that it remains in full compliance with all its disclosure obligations. It has framed and adopted for itself a framework in line with the highest standards of corporate governance and strongly focuses on integrity.
- The Bank's Corporate Communication department has been entrusted with the responsibility to measure, monitor and continuously improve the Bank's brand image. It is also responsible for continuous monitoring of threats to the reputation of the Bank.
- The Bank continues to invest in the development of its people through training, to ensure fair dealing with customers and society.

- To encourage ethical practices, the Bank has a Whistleblower Protection policy which covers all areas of dealings with customers, colleagues and others, including suppliers and contractors.
- The Bank has a Corporate Social Responsibility (CSR) department that plays an active role in creating awareness for environment protection within the Bank. It has been involved in several social service projects during the year demonstrating the Bank's commitment to the community it serves.
- The Bank has a Business Continuity Plan (BCP) in place to take care of uncertainties, which is tested and updated regularly to take care of external uncertainties.
- The Bank enforces strong and consistent controls relating to governance, business compliance and legal compliance.

The Bank has developed a quantitative framework for measuring reputational risk. The framework incorporates various risks indicators to arrive at the Reputational risk score for the Bank. The framework is useful both as ex ante (e.g. an early warning system and pre-emptive management action) and ex post (mitigation actions). The framework also helps the Bank understand its strengths, weaknesses and the evolving trends that impacts its Reputation risk.

1.7 Environment and Social risk

Environmental risk means the risk of causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species), either through accidental or deliberate actions.

Social risk is the risk of a customer not meeting acceptable standards for employment and business ethics, within his own business or by his actions.

The risks arising from environmental problems or social discontent surrounding a project can be extremely costly in terms of delays and stoppages, negative publicity, threats to operating license, and significant unforeseen expenditures. At the same time, reputational damage can far exceed the immediate cost impacts of a single project.

The Bank is committed and has always been proactive to deliver value to economy, environment and society. To achieve this, a sustainability framework has been designed and a Sustainability committee is in place to ensure implementation of CSR and Sustainability projects. The Bank has invested in training of officers in STEP (Sustainability Training and e-learning Program). Moreover, a set of Corporate Values and Customer Rights have been identified for which staff receive training and periodic awareness campaigns are conducted.

1.8 Model risk

Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, inappropriate use, or inappropriate methodologies leading to incorrect decisions by the user.

Model risk in the Bank is prevalent due to the use of various models in different areas such as customer rating, capital calculation etc. The introduction of IFRS 9 has increased the model risk due to the use of various models for calculating provisions for expected credit loss.

However, the Bank's approach to managing model risk is based on the following principles:

- Model development function is independent of model validation function;
- Governance through model review committee with members comprising from different functions;
- Formulation of policies which deal with materiality, validation criteria and approval criteria;
- Regular monitoring of model performance;
- Back-testing of the model results against actual results;
- An independent validation of models including process and procedures on a periodic basis;
- Review and governance of data used as model inputs.

The Bank maintains additional buffers towards unknown model risk, wherever required.

1.9 Social media risk

The growing popularity of social media and digital technologies has brought in new opportunities together with new risks. The Bank fully recognises and appreciates the importance of the social media in marketing of new products, engaging with customers and in shaping public opinion about the Bank and its products and services, but at the same time fully recognises the risks.

Social media risk is the risk of failing to monitor, protect and manage the Bank's reputation, brand, products, services, customers and employees across social media space. However, due to the dynamic and unregulated nature of the medium, risks in social media are multiple and will remain in the foreseeable future.

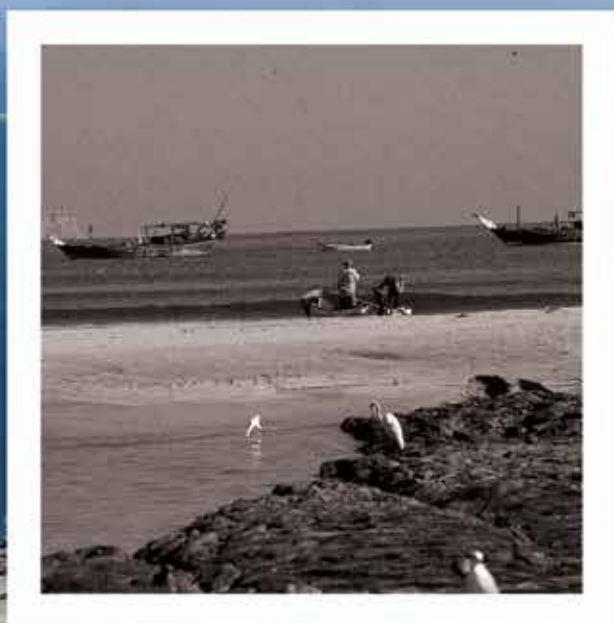
To avert these multiple risks and to manage the Bank's brand presence within social and digital media space, the Bank established the Social and Digital Media Unit which developed a Social Media Policy and guidelines. The unit ensures compliance with the policies and follows a set of specific guidelines and manuals that govern daily operations and activities on the Bank's social media and digital space. Constant monitoring is required to ensure minimal risk to the Bank's reputation and brand. The Social Media and Digital unit activities includes managing social media accounts, promoting and monitoring guidelines on social media usage, work closely with customer service department to monitor social media space for proactive customer management, and ensure 24/7 crisis management.

The Bank has also established a customer service team within the Contact Centre to address customer queries on social media (twitter, WhatsApp and others).

50 Years of Progress

Growing Marine Pursuits

Since the 1970s Oman has been building harbours, ports and free zones to take advantage of the country's geostrategic location.



Report of factual findings to the Board of Directors of bank muscat SAOG (the “Bank”) in respect of Basel II - Pillar III and Basel III Disclosures of Meethaq Islamic Banking Window (“Meethaq Pillar III Disclosures”)

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (“Meethaq Pillar III Disclosures”) of Meethaq Islamic Banking Window (the Islamic window) of the Bank set out on pages 68 to 79 as at and for the year ended 31 December 2019. Meethaq Pillar III Disclosures were prepared by the directors in accordance with the related requirements of IBRF issued by CBO and Circular No. BM 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 Article 10.1.2 of title 5 ‘Capital Adequacy’ of IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank’s compliance with the disclosure requirements set out in IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

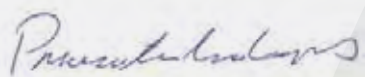
- Based on performance of the procedures detailed above, we found Meethaq Pillar III Disclosures free from any material misrepresentation.

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 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 or to be distributed to any other parties other than CBO. This report relates only to the accompanying Islamic window’s disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic window or the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Islamic window or the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Islamic window or the Bank.



5 March 2020
Muscat, Sultanate of Oman

Meethaq

Pillar III Disclosures

As at 31 December 2019

A. Introduction and scope of application

Bank Muscat (SAOG) (the "Bank") established "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the Central Bank of Oman ("the CBO") on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities.

A complete set of financial statements of Meethaq is included in the consolidated financial statements of the Bank. This document presents Basel II, Pillar III disclosure pertaining to Meethaq on a stand alone basis and is an annexure to the main Pillar III document of the Bank.

There is no restriction on the transfer of funds from the Bank towards Meethaq. However, under the Islamic Banking regulatory framework (IBRF), Title 9, section 1.10.2, Meethaq cannot place funds with the Bank.

Meethaq does not hold controlling interest in any other entity.

B. Capital management

B.1 Capital structure

The capital of Meethaq has been assigned by the Bank. As of 31 December, the regulatory capital structure of Meethaq is as follows:

Particulars	2019	2018
	RO '000	RO '000
Assigned capital / Share capital	70,000	70,000
Less: Cumulative loss on fair value	(2,191)	(2,373)
Retained profits	59,244	48,546
Tier 1 Capital	127,053	116,173
Cumulative gains on fair value (45%)	62	82
Eligible impairment for credit losses	8,257	8,257
Tier II Capital	8,319	8,339
Total capital available	135,372	124,512
Amount of investment account holders funds	897,381	783,023
Profit equalisation reserve	2,177	1,759
Investment risk reserve	323	254
Total equity of investment account holders	899,881	785,036

Meethaq follows the Basel III capital norms and remains strongly capitalised. Meethaq's regulatory capital as per Basel III regulations is grouped into:

- Common Equity Tier 1 (CET1) capital which includes assigned capital and retained earnings.
- Meethaq does not have any additional Tier 1 capital.
- Tier 2 capital, which includes stage 1 and stage 2 provision as calculated under IFRS 9 subject to ceilings as per CBO guidelines and investment fair value reserve with regulatory haircut.

There are no amounts in capital adequacy calculation of Meethaq which are subject to a different pre-Basel III treatment.

B.2 Capital adequacy

Capital adequacy indicates the ability of Meethaq in meeting any contingency without compromising the interest of the investment account holders and to provide financing across the business cycles. Besides being a regulatory requirement, sufficient capital in relation to the risk profile of Meethaq's assets helps promote financial stability and confidence of the stakeholders.

Risk coverage is the primary consideration influencing capital management, however, Meethaq being a business driven window of the Bank, needs to provide comfortable rate of return to the capital providers. Hence, with regards to the capital management, Meethaq strives to remain conscious of the balance between the two.

Risk weights are assigned to assets as per the regulatory guidelines from the CBO. Assets funded by investment accounts are also assigned same risk weights as the assets funded by own equity.

The summary of capital adequacy ratio of Meethaq is as below:

	31 December 2019	31 December 2018
	Risk Weighted Assets	Risk Weighted Assets
	RO'000	RO'000
On-balance sheet items	872,001	786,649
Off -balance sheet items	8,190	25,539
Total Credit risk	880,190	812,188
Total Market Risk	11,613	27,069
Total Operational Risk	53,068	51,633
Total risk weighted assets	944,871	890,889
Capital Structure		
CET1 Capital	127,053	116,173
Tier 1 Capital	127,053	116,173
Tier 2 Capital	8,319	8,339
Total Regulatory Capital	135,372	124,512
Capital Requirement for Credit Risk		
- Murabaha contracts	8,088	5,960
- Musharaka contracts	66,918	61,816
- Ijara	7,287	8,175
- Wakala	3,577	3,665
- Others	10,950	9,725
Capital Requirement for Credit Risk	96,821	89,341
Capital Requirement for Market Risk	1,277	2,978
Capital Requirement for Operational Risk	5,837	5,680
Total Required Capital	103,936	97,998
Tier 1 Ratio / CET 1 ratio	13.45%	13.04%
Total Capital Ratio	14.33%	13.98%

C. Disclosures for Investment Account Holders (IAH)

Meethaq accepts funds from investment account holders under Shari'a compliant Mudaraba contracts. These funds are unrestricted in nature i.e. it is the discretion of Meethaq to invest in any Shari'a compliant assets. There are no limits on the investment of Investment Accounts fund in any particular type of asset. Currently, Meethaq offers various types of Investment accounts:

- Savings accounts, Meethaq Savings plan, Hibati Saving Plan, Government Plus accounts, Call accounts.
- Term deposits of various maturities from 1 month to six years.

The products of Meethaq are listed on its website with detailed product information, as well as, the underlying Shari'a basis for such product.

Equity of investment account holders is commingled with Meethaq's funds and utilised completely in the business of Meethaq according to the weights of each type of fund. These weights are declared by Meethaq at the beginning of each month in the form of circulars which are available at its branches and website. Mudarib expenses are charged to the pool which include all direct expenses incurred by Meethaq, including impairment provisions. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, after charging Mudarib expenses, allocation is made between shareholder funds and funds of IAH's. From the share of IAH's, Mudarib share is deducted and the distribution is made subject to creation of profit equalisation and investment risk reserves as discussed below.

Meethaq is committed to provide competitive rate of return to its investment account holders. Meethaq appropriates a certain amount in excess of the profit to be distributed to investment accountholders before taking into consideration the Mudarib share of income. This reserve being called Profit Equalisation Reserve (PER) is used to maintain a certain level of return on investment for equity of investment accountholders. Further, Investment Risk Reserves (IRR) is also maintained by Meethaq

which are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater against future losses for equity of investment accountholders. No transfers were made during the year from PER to IRR or vice versa.

The rate of return on each type of investment account is disclosed by Meethaq on a monthly basis in the form of circulars which are available at its branches and website. The investment account holders who invest in term deposits are entitled to withdraw before the maturity. However, in such case the profit is distributed on the basis of declared rate of relevant maturity/ as per the terms of the product.

The website of Meethaq and the branch staff assist investment account holders in choosing the right investment account as per their needs. In addition to direct access to the branch management and call center, Meethaq's website also provides opportunity to raise complaints and concerns faced by the investment account holders, if any.

C.1 Ratios and returns

Certain ratios relevant to Investment Accounts holders (IAH) as of 31 December are as follows:

Particulars	2019	2018
PER to IA's	0.243%	0.225%
IRR to IA's	0.036%	0.032%
ROA (Net income before IA's distribution / total assets of Meethaq - End of year)	2.65%	2.57%
ROE (Net income after IA's distribution / shareholder equity of Meethaq- End of year)	6.8%	8.6%

Rate of return for the current period and historical returns for Meethaq's major deposit products are as follows:
(excluding PER, Mudarib share and IRR)

Type of accounts	Average 2019	Average 2018	Average 2017	Average 2016	Average 2015
Saving / Baraem accounts	-	-	-	0.00%	0.50%
0- 499.9	0.10%	0.10%	0.10%	0.10%	0.10%
500-4,999.9	0.50%	0.50%	0.50%	0.50%	0.50%
5,000-14,999.9	0.75%	0.75%	0.75%	0.75%	0.75%
15,000-29,999.9	1.00%	1.00%	1.00%	1.00%	1.00%
30,000- 49,999.9	1.25%	1.25%	1.25%	1.25%	1.25%
50,000- 99,999.9	1.50%	1.50%	1.35%	1.25%	1.25%
100,000- 149,999.9	1.75%	1.75%	1.46%	1.25%	1.25%
150,000 -199,999.9	2.00%	2.00%	1.56%	1.25%	1.25%
200,000- 249,999.9	2.25%	2.25%	1.67%	1.25%	1.25%
250,000- 299,999.9	2.50%	2.50%	1.77%	1.25%	1.25%
300,000- 499,999.9	2.73%	2.50%	1.77%	1.25%	1.25%
500,000- 749,999.9	2.96%	2.50%	1.77%	1.25%	1.25%
750,000- 999,999.9	3.19%	2.50%	1.77%	1.25%	1.25%
RO 1,000,000 and above	3.42%	2.50%	1.77%	1.25%	1.25%
Meethaq Saving Plan	3.00%	3.00%	3.00%	NA	NA
Hibati Saving Scheme	0.10%	0.10%	NA	NA	NA
Government Plus	0.75%	0.75%	0.50%	0.50%	0.50%
Call Deposits	0.50%	NA	NA	NA	NA
Term accounts					
1 Month	0.81%	0.18%	0.15%	0.15%	0.10%
2 Month	1.01%	0.23%	0.20%	0.20%	0.15%
3 Months	1.23%	0.38%	0.35%	0.35%	0.21%
6 Months	1.48%	0.63%	0.58%	0.60%	0.51%
9 Months	2.06%	1.38%	0.96%	1.13%	0.61%
12 Months	3.38%	2.77%	2.96%	2.36%	0.82%
18 Months	3.52%	3.02%	3.12%	2.48%	1.14%
2 Years	3.71%	3.27%	3.44%	2.65%	1.30%
3 Years	3.96%	3.52%	3.73%	3.15%	1.60%
4 Years	4.21%	3.77%	4.17%	3.65%	2.10%
5 Years	4.21%	3.77%	4.38%	3.90%	2.35%
6 Years	4.21%	3.77%	4.60%	4.15%	2.60%

Meethaq has also in place fixed deposits products with different profit payment options i.e. customers can choose to receive profit on their Fixed deposits periodically instead of only at maturity. Weightages and actual profit rates for all products are also available in Meethaq branches and also on the website of Meethaq.

C.2 Details of Investment accounts (IA's)

Particulars	31 December 2019	31 December 2018
	RO'000	RO'000
Assets		
- Murabaha	53,448	39,667
- Musharaka	647,778	621,412
- Ijara	72,097	81,651
- Wakala bil Istithmar	58,743	60,110
- Investments	93,756	52,308
Total amount of IA's invested as of 31 December (propotionate allocation basis)	925,822	855,149
Share of profit of IA's before PER and IRR for the year	29,531	25,308
Transfers to:		
PER	418	789
IRR	69	100
Share of profit of IA's after PER and IRR for the year	29,044	24,419
Share of profit of IA's as a percentage of funds invested	3.14%	2.86%
PER as % of distributable profit	1.42%	3.12%
IRR as % of distributable profit	0.23%	0.40%
Total administrative expenses charged to IA's pool for the year	14,831	14,730
Mudarib fee percentage for the year	12.8%	23.9%

Movements in PER and IRR balances during the year have been disclosed in Note 14 of Meethaq Financial statements. There have been no changes in asset allocation in the current year. No off balance sheet exposure is allocated to the pools.

D. Risk management

Meethaq's risk management is centralized at Bank. It is a process whereby the Bank identifies key risks, applies consistent risk measurement techniques, and recommends which risks to accept or reject or mitigate, by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that Meethaq operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximizing the risk adjusted returns.

Being a window operation, Meethaq's risk management is the overall responsibility of the Bank's Board of Directors. The detailed risk management approach of the Bank, which is also applicable to Meethaq, is explained in the main Pillar III document.

The Bank's risk management processes have proven effective for Meethaq throughout the current year. The Bank's Board of Directors and Management Risk Committee (MRC) has remained closely involved with key risk management initiatives, in ensuring the Meethaq'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 Meethaq is disclosed in the main Pillar III document of the Bank. In addition, a dedicated Shari'a Supervisory Board (SSB) has been established which reports to the Board of Directors of the Bank and ensures Shari'a compliance in the operations of Meethaq. The details of SSB are disclosed in section E.

Specifically, Meethaq has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk and
- Displaced commercial risk
- Shari'a non compliance risk

D.1 Credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honor its financial or contractual obligations in accordance with the agreed terms. Meethaq's credit risk is managed by monitoring credit exposures, continually assessing the creditworthiness of counterparties, and by entering into collateral agreements in the form of mortgages, pledge of assets and personal guarantees. The detailed credit risk management policy of the Bank, which is being followed by Meethaq also, is disclosed in the main Pillar III document of the Bank.

a. Impairment Policy

All financing contracts of Meethaq are regularly monitored to ensure compliance with the stipulated repayment terms. These financing contracts are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The risk classification of accounts into Stage 1, 2 and 3 for the purpose of IFRS 9 is done in accordance with the internal policy, accounting standards and applicable regulatory guidelines. Detailed criteria is disclosed in the Main Pillar III document of the Bank.

Commercial financing are classified into various risk categories on the basis of quantitative and qualitative parameters. The quantitative parameter i.e. payments past due for a specified number of days, are considered only as a threshold and financing which exhibit early signs of defaults are appropriately classified, notwithstanding the fact that the financing are not past due for the period specified under different categories of risk classification.

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets at amortised cost or at fair value through other comprehensive income (other than equity instruments), lease receivables and certain financing commitments and financial guarantee contracts. The expected credit loss must also consider forward looking information to recognise impairment allowances earlier in the lifecycle of a product

In addition to the impairment policy followed by the Bank for recognising Expected Credit Losses (ECL) in the financials based on IFRS 9 as mentioned above, the Bank also complies with the regulatory guidelines issued from time to time in relation to the risk classification. Central Bank of Oman regulations require the Bank to make a loan loss provision on the Performing and Non performing portfolio. The provisions held in the books satisfies the requirements of both IFRS 9 regulations and BM 977 regulatory guidelines.

b. Staging of Islamic Financing and allowance for Impairment

IFRS 9 based staging of Islamic Financing together with the ECL is as follows:

	31 December 2019	31 December 2018
	RO'000	RO'000
Stage 1	848,431	855,738
Stage 2	328,583	265,256
Stage 3	14,918	10,815
Total Islamic Financing	1,191,932	1,131,809
Stage 1	2,492	2,197
Stage 2	15,624	14,275
Stage 3	7,968	4,907
Total ECL held	26,084	21,379
Net Financing	1,165,848	1,110,430

c. Movement in allowance for Impairment

	31 December 2019	31 December 2018
	RO'000	RO'000
Provision at beginning of the period	21,379	17,808
Impact of remeasurement on transition to IFRS 9	-	(496)
Impairment for credit losses	7,572	7,193
Recoveries from impairment for credit losses	(3,082)	(3,325)
Transfer from / (to) memorandum portfolio	215	199
Provision at end of the period	26,084	21,379

d. Categorization of financing

The Gross Financing by category under CBO Norms is given in the below table:

Category	Retail	Corporate	Total
	As on 31 December 2019		
	RO'000	RO'000	RO'000
Standard	530,173	483,565	1,013,738
Special Mention	461	162,814	163,275
Sub-standard	530	5,280	5,810
Doubtful	918	4,451	5,369
Loss	2,412	1,328	3,740
Total	534,494	657,438	1,191,932

e. Collateral Management:

Meethaq employs a range of policies and procedures to mitigate credit risk. The credit risk mitigates include collaterals like:

- Lien on deposits
- Securities
- Real estate
- Inventories
- Assignment of receivables
- Guarantees

Collateral management is exercised for Meethaq at the centralized level. A robust collateral management system is in place to mitigate any operational 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. While securities such as listed equities are valued regularly, credit policy mandates 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.

f. Exposure analysis

As of 31 December 2019, Industry wise distribution of gross exposures, broken down by major types of credit exposure is given in the below table:

Economic Sector	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Wakala bil Istithmar	Musharaka	Total	composition	Off Balance Sheet Exposure**
	RO'000	RO'000	RO'000	RO'000	RO'000	%	RO'000
Manufacturing	35,502	47,004	440	76,212	159,158	13.4%	46,541
Mining & Quarrying	-	-	1,478	21,445	22,923	1.9%	-
Construction	141	22,832		154,887	177,860	14.9%	30,709
Trade	4,127	86	2,300	13,855	20,368	1.7%	2,443
Retail	35,126			499,368	534,494	44.8%	-
Transportation	273	34,803	50,000	61,044	146,120	12.3%	-
Others	539	-	28,303	102,167	131,009	11.0%	17,197
Total	75,708	104,725	82,521	928,978	1,191,932	100.0%	96,890
% of total financing	6.35%	8.79%	6.92%	77.94%	100.00%		

** off balance sheet exposure relates to letter of credit, letter of guarantees and financing commitments which are governed under standard business practice.

As of 31 December 2019, the assets were funded by IA's and equity holders in the following ratio:

IA's	71%
Shareholders	29%

Industry wise distribution of gross average exposures during the year, broken down by major types of credit exposure is given in the table below:

Economic Sector	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Wakala bil Istithmar	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Manufacturing	24,782	46,669	298	48,424	120,172
Mining & Quarrying	-	4,267	2,664	15,173	22,104
Construction	71	22,615	-	138,882	161,568
Trade	4,808	461	1,409	14,144	20,821
Retail	33,468	-	-	498,019	531,487
Transportation	137	36,718	50,450	83,582	170,886
Others	2,603	-	28,099	104,133	134,834
Total	65,867	110,730	82,919	902,355	1,161,871

Residual contractual maturity breakdown of the gross portfolio as of 31 December 2019, broken down by major types of financing is given below in the table:

Time Band	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Wakala bil Istithmar	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Upto 3 months	14,398	1,031	2,478	65,452	83,359
4 - 12 months	32,051	3,093	53,294	47,814	136,252
1 - 5 years	24,110	57,838	8,709	291,390	382,047
Over 5 years	5,149	42,763	18,040	524,322	590,274
Total	75,708	104,725	82,521	928,978	1,191,932

D.2 Liquidity Risk

Liquidity risk or funding risk arises when the Bank is unable to generate sufficient cash resources in a timely and cost effective manner to meet obligations as they fall due and/or to fund assets growth. The inherent business model exposes banks to liquidity risk either due to external or internal factors. Meethaq Asset Liability Committee (MALCO) a sub-committee of ALCO manages the liquidity position of Meethaq and report to Asset Liability Committee (ALCO) of the Bank. In order to ensure that Meethaq meets its financial obligations as and when they fall due, cash flow positions are closely monitored.

Liquidity ratios of Meethaq are regularly monitored. If required, Meethaq, being a window operation of the Bank, obtains funding from the Bank.

Asset and liability mismatches are outlined in note 23 to the financial statements of Meethaq.

D.3 Market risk

Market risk is the potential loss due to changes in market determined variables. It manifests in the following variables:

1. Foreign exchange risk
2. Investment price risk
3. Interest rate risk
4. Commodity price risk

The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As of 31 December 2019, Meethaq holds trading positions in equity securities only. Also, Meethaq has no position in commodities. Meethaq exposure to market risk as disclosed in market risk weighted assets in section B.2 pertains only to foreign currency exposure and equity shares carried at FVPL. As of 31 December 2019, the foreign currency net open position amounts to 4.1% of capital and reserves. A change of 5% in foreign exchange rates, with all other variables held constant, will have an impact of RO 0.26 Million on Meethaq's statement of Comprehensive income.

D.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. Operational risk loss results from deficiencies in information systems or internal controls or uncontrollable external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes.

Detailed operational risk management philosophy of the Bank is disclosed in the main Pillar III document which applies to Meethaq as well.

D.5 Rate of return risk

Rate of return risk refers to the possible impact on the net income of Meethaq 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's 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 Meethaq.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Meethaq is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Meethaq's results do not allow to distribute profits in line with the market rates. To cater against DCR, Meethaq creates Profit Equalisation Reserve as explained in section C and D.6.

An analysis of profit bearing assets (net of provision) and liabilities according to repricing buckets is as follows:

	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
Assets						
Financing	5.23%	83,359	136,252	382,047	564,190	1,165,848
Due from banks	1.11%	43,032	-	-	-	43,032
Investments	4.03%	5,730	50,000	33,378	42,258	131,366
Total profit bearing assets		132,121	186,252	415,425	606,448	1,340,246
Liabilities, equity of investment account holders						
Due to banks under Wakala	3.4%	45,650	-	115,500	-	161,150
Sukuk	5.4%	-	-	90,205	-	90,205
Equity of investment accountholders	3.0%	93,144	206,711	412,677	187,349	899,881
		138,794	206,711	618,382	187,349	1,151,236
Net gap		(6,673)	(20,459)	(202,957)	419,099	-
Cumulative net gap		(6,673)	(27,132)	(230,089)	189,010	-

An analysis of impact on net income of Meethaq due to changes in market rates is as follows:

	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
At 31 December 2019	(2,192)	896	(910)	647	(408)	374
Maximum for the period	(7,701)	7,897	(3,700)	3,645	(1,859)	1,735
Minimum for the period	(2,192)	896	(910)	647	(408)	374
Average for the period	(4,512)	4,022	(2,082)	1,864	(994)	948

D.6 Displaced commercial risk

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Meethaq in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Meethaq creates and manages both PER and Investment Risk Reserve to smoothen IAH returns. Further, Meethaq also adjusts its Mudarib share in order to smoothen returns of IAH's.

An analysis of distribution during the year to IAH's by Meethaq is as follows:

	2019		2018	
	Amount RO'000	% of Mudaraba assets	Amount RO'000	% of Mudaraba assets
Total profits available for distribution	38,203	2.945%	35,373	2.991%
Profit sharing				
- Shareholders	4,338	0.334%	2,138	0.181%
- IAH's	33,865	2.611%	33,235	2.810%
Mudarib fee charged by Meethaq	(4,334)	0.334%	(7,927)	0.670%
Profits for IAH's before smoothening	29,531	2.276%	25,308	2.140%
Smoothening:				
- PER	(418)	0.032%	(789)	0.067%
- IRR	(69)	0.005%	(100)	0.008%
Profits paid out to IAH after smoothening	29,044	2.239%	24,419	2.065%

D.7 Shari'a non compliance risk

Shari'a non compliance risk is the risk that arises from Meethaq's failure to comply with the Shari'a' rules and principles determined by SSB or Central bank with respect to products/services and business activities. Meethaq has in place adequate system and controls including SSB and internal Shari'a review function to ensure compliance with Shari'a principles. This is further explained in section E. General Governance and Shari'a Governance.

E. General governance and Shari'a governance

Meethaq, being the Islamic window operation of the Bank, is managed under the same governance structure as the Bank. The details of which are disclosed in the Main Pillar III document of the Bank. In addition, Meethaq's operations are governed and monitored by the Shari'a Supervisory Board (SSB) which comprises of leading Shari'a scholars from the field of Islamic finance. SSB reports to the Board of Directors of the Bank. A report of SSB on the Shari'a compliance of the operations carried out by operations of Meethaq during the year is included in the annual report of the Bank.

E.1 Shari'a Supervisory Board (SSB)

The composition of SSB is as follows:

S. No.	Name of the Scholar	Qualification	Position in the board	Nationality
1	Sheikh Dr. Ali Mohiuddin Ali Al Qaradaghi	PhD in Shari'a and Law at the University of Al Azhar in the field of contracts and financial transactions, in 1985.	Chairman	Qatar
2	Sheikh Essam Muhammad Ishaq	Graduate of McGill University, Montreal, Canada	Voting Member	Bahrain
3	Sheikh Dr. Majid Bin Mohamed Bin Salim Al Kindi	PhD in Islamic Jurisprudence, International Islamic University –Malaysia, 2012; and PhD in Economics and Islamic Banking, Yarmouk University –Jordan	Voting Member	Oman
4	Mufti Irshad Ahmed Ijaz	Takhassus Fi-Al-Ifta, Jamia Darul Uloom–Karachi,1996; MBA Iqra University, 2010; He pursues M.Phil in Islamic Finance at the University of Karachi –Pakistan.	Non-Voting Member	Pakistan
5	Sheikh Walid bin Sulaiman al-Qurri	BA, Islamic Law, Institute of Shari'a Studies –Oman; the CSAA AAOIFI –Bahrain. Now, he pursues MA in Islamic Theology, the Sultan Qaboos University –Oman.	Non-Voting Member	Oman

SSB members are paid RO 91 thousand during the year in connection with sitting fee, advisory fee and reimbursement of expenses.

SSB's meetings and attendance by the members during the year were as follows.

Participants	Date of Meeting					
	28 Jan 19	24 Mar 19	1 May 19	16 Jun 19	15 Sep 19	23 Dec 19
Sheikh Dr. Ali Mohiuddin Ali Al Qaradaghi	✓	✓	✓	✓	✓	✓
Sheikh Essam Muhammad Ishaq	✓	✓		✓	✓	✓
Sheikh Dr. Majid Bin Mohamed bin Salim Al Kindi	✓	✓	✓	✓	✓	✓
Sheikh Walid bin Sulaiman al-Qurri		✓		✓	✓	✓
Sheikh Mufti Irshad Ahmed Aijaz		✓		✓	✓	✓

E.2 Shari'a compliance key controls

Shari'a compliance is ensured in day to day business of Meethaq through the following key controls:

- All the products being offered by Meethaq are approved by the SSB.
- All investments made by Meethaq are approved by SSB.
- The Fatawa approving such products are available on the website of Meethaq.
- Meethaq has in place a Shari'a Compliance & Audit Division (SCAD) which facilitates the management in ensuring compliance with Shari'a (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, approval and subsequent audit of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), operations, etc.
- Templates of agreements used by Meethaq are approved by SSB.
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Meethaq functions.
- Staff has been provided training throughout the year on business, regulatory & Shari'a matters.
- Stakeholders of Meethaq have the opportunity to raise any queries relating to Shari'a matters through various channels including Meethaq's website.

E.3 Other governance matters

Meethaq follows Financial Accounting Standard issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman. There had been no departure from the financial reporting framework of AAOIFI during the year. Transactions with related parties are disclosed in the financial statements of Meethaq.

Meethaq is committed to avoid recognising any income generated from non-Islamic sources. Any Shari'a non compliant income or penalties charged to customers for late payments are recorded as Charity payable which will be utilised for Charity purposes. Meethaq is not required to pay Zakah on behalf of IAH's and Shareholders.

The undistributed balance of charity account as at 31 December 2019 is amounting to RO 43,000 which will be distributed for charity by the end of first quarter of 2020. Movement in charity fund during the year is given in "statement of sources and uses of charity fund". In 2019, Charity of RO 27,000 was paid to authorized organizations after being approved by the SSB.

Meethaq has a dedicated section on its website to address customers complaints and suggestions. This link is available under the heading of "Customer Feedback".

E.4 Social service and customer education

A number of initiatives were taken by Meethaq during 2019 to improve awareness and to popularise Islamic banking. Some of the significant activities during the year were:

- Meethaq successfully concluded the 'Little Investor' programme for this year across all the Governorates in the Sultanate, in association with the Ministry of Education and Injaz Oman. A total of 226 sessions were conducted to train 10,520 students in 175 different schools with the contributions of 195 teachers and participation of 70 volunteers for this year. Till date, the total number of students benefitted from this programme has reached more than 21,000 students.
- Meethaq conducted a series of events and workshops to raise awareness of general public regarding its Sukuk issuance in particular and understanding of Islamic Sukuk Structures and its Shari'a basis. These events / sessions / workshops / road shows were conducted in the first half of May and were attended by good number of attendees from different walks of life including general public investors, professionals, Islamic banking students / learners among other segments.

F. Liquidity Coverage Ratio (LCR):

LCR of Meethaq as of 31 Dec 2019 is as follows:

		Total Unweighted Value (average)	Total Weighted Value (average)
		(RO '000)	(RO '000)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		201,200
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	224,609	13,140
3	Stable deposits	186,417	9,321
4	Less stable deposits	38,191	3,819
5	Unsecured wholesale funding, of which:	207,971	95,165
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	207,971	95,165
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:	67,531	6,753
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	67,531	6,753
14	Other contractual funding obligations	21,140	21,140
15	Other contingent funding obligations	26,162	1,308
16	TOTAL CASH OUTFLOWS		137,506

Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	69,736	43,865
19	Other cash inflows		
20	TOTAL CASH INFLOWS	69,736	43,865

		Total Adjusted Value	
21	Total HQLA		201,200
22	Total net cash outflows		93,641
23	Liquidity coverage ratio (%)		215%

G. Net Stable Funding Ratio (NSFR)

NSFR of Meethaq as of 31 Dec 2019 is as follows:

ASF item		Unweighted value by residual maturity				Weighted value (RO '000)
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
		(RO '000)	(RO '000)	(RO '000)	(RO '000)	
1	Capital:	135,520	-	-	-	135,520
2	Regulatory capital	127,201	-	-	-	127,201
3	Other capital instruments	8,319	-	-	-	8,319
4	Retail deposits and deposits from small business customers	-	-	272,752	-	254,797
5	Stable deposits			186,417		177,096
6	Less stable deposits			86,335		77,701
7	Wholesale funding:	-	-	281,761	751,476	892,357
9	Other wholesale funding	-	-	281,761	751,476	892,357
14	Total ASF					1,282,674
RSF item						
15	Total NSFR high-quality liquid assets (HQLA)					7,411
16	Deposits held at other financial institutions for operational purposes					3,517
17	Performing loans and securities:	-	-	220,403	939,433	810,711
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	-	220,403	449,392	492,184
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	490,041	318,527
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
26	Other Assets:					71,552
31	All other assets not included in the above categories	71,552				71,552
32	Off-balance sheet items				100,568	5,028
33	TOTAL RSF					898,219
34	NET STABLE FUNDING RATIO (%)					143%

Management Team



Sheikh Waleed Khamis Al Hashar
Chief Executive Officer



Sulaiman Hamed Al Harthi
Group Chief Personal Banking Officer



K. Gopakumar
Chief Personal Banking Officer



Ahmed Faqir Al Bulushi
Chief Corporate Banking Officer



Abdulla Zahran Al Hinal
Chief Wholesale Banking & Strategic Growth Officer



Sheikha Yousuf Al Farsi
Chief Strategy & Corporate Services Officer



T. Ganesh
Chief Financial Officer



Inkawan Dharma Jusi
General Manager Personal Banking



Marco Peter Wolters
General Manager Enterprise Services



Salim Mohammed Al Kaabi
General Manager Credit



Shamzani Mohammed Hussain
General Manager Meethaq Islamic Banking



Thomas Gerard Totton
General Manager Risk Management



Ahmed Omar Al Ojaily
Group Deputy General Manager Technology



Said Salim Al Aufl
Group Deputy General Manager Human Resources



Shamsa Abdulla Al Seefi
Group Deputy General Manager Business Demands & PMO



Abdullah Tamman Al Maashani
Deputy General Manager Institutional Sales & Product Development



Abdulnasir Noori Al Raisi
Deputy General Manager Premier Banking



Ahmed Musallam Al Barami
Deputy General Manager Relationships & Placements



Ali Said Ali
Deputy General Manager Agency & Custody Services



Damian John O'Riordan
Deputy General Manager Internal Audit



Fawzi Hamad Al Kiyumi

Deputy General Manager
Compliance



Ilham Murtadha Al Hamaid

Deputy General Manager
Large Corporates



Mallikarjuna Korisepati

Deputy General Manager
Treasury & Global Financial Institutions



Manas Ranjan Das

Deputy General Manager
Service Excellence Centre



Saleh Nasser Al Habsi

Deputy General Manager
Investment Banking



Tariq Atiq Khan

Deputy General Manager
Transaction & Public Sector Banking



Amjad Iqbal Al Lawati

Assistant General Manager
Cards & eBanking



Fatma Khalifa Al Maskiry

Assistant General Manager
Global Trade Services



Osamah Mahmoud Al Abdullatif

Assistant General Manager
Project Finance



Saleh Mohammed Al Maaini

Assistant General Manager
Muscat Region



Talal Abdul Hameed Al Zadjali

Assistant General Manager
Central Operations



Taya Eid Bait Sabeea

Assistant General Manager
Interior Regions



Hamza Abbas Al Ajmi

Assistant General Manager
Remedial Credit & Recovery



Ibrahim Khamis Al Balushi

Assistant General Manager
Small & Medium Enterprises



Khalifa Abdullah Al Hatmi

Assistant General Manager
CEO Saudi Arabia Branch



Mohammed Saud Al Naamani

Assistant General Manager
Business Applications



Najah Saleh Al Sulaiman

Assistant General Manager
CEO Kuwait Branch

50 Years of Progress

Evolution of Oil & Gas Sector

With the launch of the first gas-processing plant in 1978, the oil & gas sector has been the driving force of the flourishing Omani economy. The production of crude and condensate oil in 2019 amounted to 30 million barrels compared to only 366,000 barrels in 1976.



Management Discussion & Analysis

Global Economy

Global growth was subdued in 2019 according to the latest Global Economic Prospects report by the World Bank. A shift towards increased monetary policy accommodation has cushioned the impact of geopolitical and trade tensions on financial market sentiments and activity, while a generally resilient service sector has supported employment growth in many countries around the world.

Oman's Economy

Oman continues with its diversification in promising sectors like logistics, tourism, transport, mining, manufacturing, and fisheries. The steadying of oil prices around the \$60 mark supported government revenues in 2019.

The Government has been making rapid strides in greatly improving the investment climate in the Sultanate to attract more investments by enacting new laws on Foreign Capital Investment, privatisation and public-private partnership over the past year. These moves will greatly support the Sultanate's economic growth in the coming years. In July 2019, Oman successfully raised US\$ 3 billion (RO 1.15 billion) from international financial markets in five year and ten year bonds demonstrating the country's ability to tap foreign debt markets.

The 2020 budget unveiled by the Ministry of Finance is a bridge to Oman's Vision 2040 with total public spending estimated to rise to RO 13.2 billion in 2020. With spending on investment projects, particularly on job creation projects with quality economic returns expected to reach as much as RO 5.3 billion in the 2020 budget, Oman's future looks promising.

The Central Bank of Oman's annual report released in late 2019 expects growth to gain traction on the back of an improving business climate and effective policy decisions. The World Bank expects growth in Oman to accelerate in 2020 driven largely by the rise in natural gas output as new fields become operational. The boost provided by the government's diversification efforts is expected to facilitate an increase in non-hydrocarbon growth in the medium-term.

Financial Sector

According to statistics from the Central Bank of Oman, the Sultanate's banking sector consolidated in 2019 with a healthy credit growth of about 3.1% year-on-year, touching the RO 25.8 billion mark as at the end of December 2019. Total deposits registered a growth of 1.7% year-on-year to RO 23.7 billion as at the end of December 2019. Notably, private sector deposits, which comprises a large part of the total deposits in the banking system registered a growth of 6.2% year-on-year to RO 15.2 billion as at the end of December 2019.

The Central Bank of Oman continues to adopt prudential regulations and supervision as a means to maintain monetary and financial stability. The proactive regulatory approach will further contribute to growth and enhance the Sultanate's image and reputation in the global financial markets.

Segment-wise Performance

The Bank's dynamic vision "To serve you better, every day" and emphasis on customer-centric initiatives led to enhanced efficiency and a resilient performance in 2019. Giving top priority to financial inclusion, Bank Muscat along with Meethaq Islamic Banking has strategically positioned its branches and service centers as well as Automated Teller Machines (ATMs) and Cash Deposit Machines (CDMs) across all governorates of the Sultanate. The bank also continued its efforts to enhance its product and service offerings to ensure that retail and corporate customers across the country have access to financial services.

The key business lines of the Bank recorded good performance in 2019. Bank Muscat's core business activities are divided into the broad areas of Personal Banking, Corporate Banking, Meethaq Islamic Banking, Investment Banking, Treasury and Capital Markets, Global Financial Institutions, Private Equity and Asset Management, and International Operations. Key support functions include Customer Experience, Information Technology (IT), Finance, Human Resources and Risk Management.

Personal Banking

Bank Muscat continued to demonstrate its market-leading performance with the launch of a number of new products and services for the benefit of its retail banking customers. Giving top priority to financial inclusion, Bank Muscat along with Meethaq Islamic Banking has 169 branches and service centers and 741 ATMs and CDMs, including 5 mobile machines across the Sultanate. The bank has also strategically positioned 19 Statement Printers, and 10 Business Cash Deposit Machines across Oman to enhance banking services for its corporate customers.

During the year, the Bank launched its Just Tap branded 'contactless' debit, credit and prepaid cards in line with the Sultanate's ambitious digitization initiatives. The Bank is also upgrading all its point of sale (POS) terminals available with merchants across the Sultanate to those with contactless payment capability.

In line with its strategy of enhancing customer experience, Bank Muscat introduced Electronic PIN (E-PIN) service for cards, which allows retail debit and credit card customers to create or reset a PIN of their choice. They also do not need to visit branches to request for a new PIN if they have forgotten it. Customers can use channels like Interactive Voice Recognition (IVR), ATM and Statement Printer Kiosks and get their PINs quickly and effortlessly. The facility is being further extended to Internet and Mobile Banking channels.

Internet and Mobile Banking were both upgraded and relaunched during the year 2019 with a number of additional features and options. Similarly, a new Merchant portal is another initiative that was delivered in 2019.

The Bank launched the Al Mazyona savings scheme in 2019 with a total prize money of RO 10 million and a 30% increase in the number of prize winners over the previous year. The 2019 scheme featured prize draws on special occasions and was also based on geographic, lifestyle and demographic segmentation. The scheme will be continued in 2020 with enhanced prizes reaching a total of RO 11 million.

Bank Muscat Private Banking has started sending regular research reports to its customers as part of new initiatives to improve customer experience. The reports cover global macroeconomic outlook and updates on key economic, geographic events impacting performance of various asset classes and investment ideas. Asalah Priority Banking will be further expanding its reach across Oman by opening 3 new centers in Salalah, Jalan Bani Bu Ali and Amerat.

The Najahi business unit celebrated its fifth anniversary in 2019. Since inception, the unit has disbursed loans of more than RO 115 million to over 2,400 customers. As part of further supporting the micro and small business sectors in the Sultanate, Najahi also provides non-financial support to SMEs through the monthly Najahi Talks, a series of knowledge sharing events, which provides a platform for SMEs to hear and learn from the experiences of other successful businesses. Najahi Talks sessions are conducted regularly across different governorates in the Sultanate. Najahi also conducted a successful Small Businesses Exhibition during the Holy Month of Ramadan at Nizwa Grand Mall in collaboration with Zubair SEC and helped in providing market access to a number of SME customers.

In association with the International Finance Corporation (IFC), the Bank also launched Oman's first Green Finance scheme for environment-friendly homes to encourage rooftop solar panel installation. The installation is being facilitated through the Sahim renewable energy project of the Authority for Electricity Regulation (AER). The bank also installed the first ATM for the blind and visually impaired in Oman at the head office of the Al Noor Association of the Blind as part of its efforts for financial inclusion.

Corporate Banking

The Corporate Banking Group strengthened its standing through its unmatched approach of offering sector-specific financial solutions and services with an in-depth understanding of its clients' businesses, market conditions and industry developments, thus fortifying its long-term relationship. The Group's performance in 2019 was aligned with its focus on pursuing 'long-term risk-calibrated growth' which forms the foundation of its strategy. The Group delivered a healthy performance as its business segments continued to exhibit leading capabilities in traversing competitive headwinds and market volatility.

The strategy for growth in corporate banking assets is to further enhance market leadership position in the corporate loan book as well as diversify the revenue streams from corporate clients and enhance the stability of revenues for the Bank. At the same time, Corporate Banking continued to focus on its strategic priorities of improving asset quality with an emphasis on enhancing the portfolio mix.

The Global Relationship Management Programme launched a year ago as part of the Bank's Customer-centric vision, has made a significant difference in enhancing services and strengthening relations with corporate business partners. The programme, which defines global best practices, has created synergies across different divisions of the Bank in helping the Corporate Banking Group deliver industry-specific services and solutions to customers covering the entire spectrum of banking products from the same platform. Given the positive impact created by the programme, the Bank intends to take it to the next level by rolling out the same across different customer segments.

The Bank is committed to supporting large corporates and institutions in smoothly transitioning towards efficient technology-focused processes. As part of its continuous efforts in enhancing ease of banking, Global Trade Services launched a new e-application service aimed at simplifying and reducing processing time.

The Transaction Banking unit meets the requirement of government and corporate entities for efficiently managing their payments, collections, working capital and liquidity by providing end-to-end corporate digital banking solutions. Bank Muscat is addressing the entire value chain of the business by developing and adopting new technological solutions. During the year, the Bank collaborated with a number of corporate clients for integrating their Enterprise Resource Planning Systems with online payment system and digitalisation of their operations. The Bank also provided Remote Deposit Capture (RDC) to various government and corporate entities.

In Project and Structured Finance, the Bank maintained its leadership position by playing an integral part in several large-scale and key infrastructure projects. The key to Bank Muscat's project finance proposition is the constant endeavour to add value to projects through financial structuring to ensure bankability. These services are backed by innovative financial structuring, sectoral expertise and sound due-diligence techniques. The Bank will continue to maintain its leadership position in the project finance domain.

The Bank maintains its emphasis in supporting feasible projects in core sectors which include: Oil and gas, petrochemicals, telecoms, water and power, large-scale industry, shipping and aviation. During the year, the Bank arranged financing for integrated tourism projects, hospitality, and two power and water-related projects including the country's first large-scale solar power project.

Alongside involvement with several large-scale projects, the Bank has also been playing a leading role in supporting and strengthening the SME sector. The Bank continued to organise various annual events like the Al Wathbah Ramadan Souq and other networking forums meant to encourage business owners to grow their business as well as help them become financially independent. The 'Al Wathbah' Academy continued to enroll Omani entrepreneurs to equip them with self-employment skills in an effort to boost economic development.

During the year, the Bank launched Irshad, a first-of-its-kind free consultation programme to support SMEs, startup companies, entrepreneurs and individuals in managing their finances and future financial planning. The Irshad financial coaching covers areas such as setting up new business, personal finance, Islamic banking facilities and financial planning for retirement. The programme has been designed to empower participants with relevant information on financial planning and sustainable business.

Meethaq Islamic Banking

Meethaq Islamic Banking continued with its strong and consistent growth across all business activities. It retains its leading industry position in terms of asset size, deposit base and profitability as well as branch network and distribution channels. Significant investments have been made on enhancing service levels and digitization capabilities with the aim of uplifting its overall Islamic Banking proposition.

Meethaq has made a number of key achievements which include the successful launch of Meethaq Sukuk Series 2 program amounting to RO 46 million bringing the total Meethaq Sukuk issuances to RO 90 million. Meethaq also acted as Joint Lead Manager for the 2019 RO 300 million Sukuk issued by the Government of Oman.

One new full-fledged branch and a service center was added during 2019 culminating in the largest Islamic Banking network in the Sultanate with 20 branches. As part of Meethaq's continuous efforts to offer special privileges and services to its valued customers, the 16th Hafawa Premier Lounge was also opened during the year. In addition to maintaining solid business growth, Meethaq has ensured strong adherence to Shariah governance across all propositions and its overall operations.

Investment Banking & Proprietary Investments

Bank Muscat's Investment Banking division continues to be the undisputed market leader in Oman and an advisor of choice for large and complex transactions. It has a proven track record of successful delivery of transactions underpinned by an experienced team of professionals.

Against the current backdrop of the current challenging macro-economic conditions, the Investment Banking division continued its track record and successfully completed a number of financial advisory and fundraising transactions with an aggregate value of more than US\$ 2 billion (RO 769 million).

The key transactions completed by the Investment Banking division during 2019 included establishment of an Omani Rial denominated Sukuk program for the Government of Oman. The inaugural issuance under the programme was for RO 300 million. The division also provided financial advisory to the Oman Aviation Group and its subsidiaries.

The Bank delivered on the e-IPO of the Musandam Power Company in a newly-designed book-building process with an oversubscription of 3.6x. The division provided financial advisory and arranging funds of US\$ 625 million (RO 240 million) for Octal SAOC with an oversubscription of about 250% from a syndicate of local, regional and international banks. It helped in debt restructuring of US\$ 260 million (RO 100 million) for a conglomerate spread across 7 businesses segments and 10 jurisdictions.

The Proprietary Investments team manages the Bank's investment portfolio, which is among the largest institutional investment portfolio in the Sultanate. During the year, the Bank continued to maintain its successful performance track record of investment in local and international capital markets.

Moreover, during the year, the Bank obtained the Central Bank of Oman's approval to start a US\$ 100 million (RO 38.5 million) Fintech investment programme. The investment will be gradual over the next few years with 2020 being the first year of deployment. The program will target investment in Fintech companies and the Bank will partner with reputed Venture Capital (VC) funds to leverage their expertise and strength to create a high-quality pipeline for direct investments.

Treasury & Capital Markets

The Treasury & Capital Markets division maintained its leadership position in 2019. Bank Muscat is the only bank in the country to offer a full suite of treasury products and services on a continuous basis throughout the week.

Treasury products and services include meeting foreign exchange requirements of the customers and offering hedging solutions for interest rate and commodity price risks. The Bank offers streaming foreign exchange prices to its counterparty banks and customers and is among the few regional banks to offer commodity hedging solutions to its customers. The Bank continues to manage surplus liquidity through active participation in money market instruments in line with the Bank's overall Asset and Liability Management (ALM) policy and regulatory guidelines.

During 2019, the division enhanced its synergy efforts to increase offerings and service level to customers and as a result, enhance profitability for the Bank. Amidst a volatile interest rate environment, the Bank offered hedging solutions to local corporate customers to manage their balance sheet related risks.

The division also added new commodities for clients for their price-risk hedging requirements. The division tapped new markets and continuously builds its global network of counterparty banks to facilitate trade and other mutually beneficial businesses. The division ensured availability of liquidity in both local as well as foreign currency at all times and actively monitored and hedged interest rate risk of the Bank's balance sheet.

Global Financial Institutions

The Global Financial Institutions (GFI) department has an extensive network of correspondent banking relationships across the world. The GFI Coverage team has vast experience in evaluating country and bank risks which enables Bank Muscat to offer international risk-mitigating trade and treasury solutions to corporates and SMEs in Oman. The team offers trade and financing products to its banking relationships in the international markets and has a committed team who consistently strive to provide GFI products and services at quick turnaround times.

GFI continued to play an important role to channelize trade business from Europe, Middle East, Asia and Africa regions to Oman and the Bank's international branches in Saudi Arabia and Kuwait. This was well supported by the Bank's international representative offices. GFI made significant contributions in supporting prominent local infrastructure projects in 2019.

GFI's Structured Trade Finance Team offers the Bank's clients with tailored solutions supporting their efforts to market their products and services worldwide. The knowledge and experience of international markets developed over the years are utilised to add meaningful value to our clients' business. During 2019, GFI was successful in providing cutting edge trade finance solutions to leading export clients from Oman and the GCC region. The Bank's international network of branches and representative offices were instrumental in supporting the trade finance needs of clients. GFI continues to assist its clients in managing their business with distinctive markets with guidance on the operational and compliance risks associated with such markets.

During 2019, GFI's Debt Strategies and Solutions team achieved considerable success in arranging medium to long-term financing to support the Bank's Conventional and Meethaq Islamic Banking operations. GFI was able to leverage on its extensive network of relationships and successfully identify new pools of liquidity for the Bank during the year. These efforts resulted in diversifying the bank's lender profile, enhancing the funding avenues for the bank, at the same time optimising costs amidst a challenging operating environment. During the year, the team further leveraged its fund raising capabilities to assist other financial institutions across the world in their own fund raising efforts.

Private Equity & Asset Management

The Private Equity & Asset Management division of the Bank registered yet another year of strong performance in FY 2019. The division is amongst the leading asset managers in the GCC and reached a total AUM of approximately US\$ 3 billion (RO 1.15 billion).

In the Private Equity business, the division's flagship Izdihar Real Estate Fund, the first and only Omani real estate fund to be structured on REIT principles continued its stellar performance in FY 2019. The Fund acquired a marquee commercial asset in the United Arab Emirates in 2019 aggregating about US\$ 55 million (about RO 21 million) at attractive yields and has completely deployed the additional capital raised in 2018. The Fund continues to pursue deployment opportunities and has raised further equity commitments through private placement that will increase the fund size by a further 70%. The Fund continues to perform well above the investor expectations and distributed a dividend of 8.8% in 2019, much above the 7%-8% target distribution. With the continued success in Izdihar, the Private Equity Group has crossed over US\$ 1 billion (RO 384.5 million) in assets under management (AUM) in the real estate space, with assets spread across Oman, Kingdom of Saudi Arabia and UAE.

The division delivered strong performance in fixed income asset class too. The Enhanced Fixed Income Plan launched in late FY 2017, has now crossed US\$ 100 million (RO 38.5 million) in assets and distributed 4 dividend payments aggregating in excess of 8.25% for 2019. This compares to a targeted annual distribution of 7-7.5%. The division manages Oman's only money market fund; the fund has seen overwhelming response from investors during FY 2019 with AUM growing to over US\$ 90 million (RO 34.6 million) owing to the attractive returns of over 3.4% p.a. realised by investors. The division has also devised a new product, Al Ghad Savings Plan to encourage savings; the plan seeks to deliver attractive returns by investing in fixed income securities such as bonds and sukuk.

The Asset Management business also registered strong performance in FY 2019 despite the highly volatile and challenging market conditions prevailing regionally and globally. The Bank's flagship Oryx Fund continued to grow its assets and is now the second largest fund in the region. The Fund received the prestigious Refinitiv Lipper Fund award for its exemplary 5 year performance. The Fund has delivered a return of over 15% so far this year; an outperformance of over 8% over the benchmark S&P GCC Composite Index while also coming on top among its peer class.

During the year, the division successfully launched a new product titled Muscat Capital Dividend Growth Fund – a growth fund that invests in Shari'a companies in the MENA region with a strong and growing dividend track record. The Fund was launched in joint collaboration with the bank's wholly owned subsidiary Muscat Capital in Saudi Arabia in line with the bank's focus of increasing cross sell/ cooperation amongst its divisions and has already received strong investor subscriptions.

The Private Equity and Asset Management division is at the forefront of devising unique and innovative investment products and has embarked upon multiple new initiatives to add investments in developed and emerging markets in its quest to offer its clientele a diversified pool of well performing investment solutions.

International Operations

In 2019, the Bank embarked on implementing its revamped strategy and business model vis-à-vis its international branches in Saudi Arabia and Kuwait. The branches focused on consolidating their core business of corporate banking, trade and treasury services and have discontinued retail operations with the objective of enhancing operational efficiencies and cost rationalization. The branches aim to enhance integration with the Head Office functions which is expected to result in improved synergies, especially with regards to IT, credit control and risk management. The branches continue to focus on achieving a healthy growth in their credit portfolio by serving select corporate customers.

The Bank's Singapore and Dubai Representative Offices are located in regional financial hubs and operate as marketing offices as well as assist the Bank in maintaining relationships with banking counterparties.

Muscat Capital

Muscat Capital had another good year during 2019 and closed the year at 5.2 billion Saudi Riyals of AUM against 4.5 billion Saudi Riyals in December 2018 representing an increase of 16%. Muscat Capital is currently managing the Al Masha'ar REIT (Real Estate Investment Traded Fund), which was initially listed on the Saudi Stock Exchange with an AUM of 572 million Saudi Riyals. In 2019, it increased the fund size to 1.07 billion Saudi Riyals by taking a facility of 500 million Saudi Riyals with the objective of acquiring new assets.

Muscat Capital also manages two other Real Estate Funds with a size of 272 million Saudi Riyals and 400 million Saudi Riyals. Its Money Market business amounts to around 2.4 billion Saudi Riyals. With respect to Equity Capital Markets, the firm's client portfolios in emerging markets amounts to 1 billion Saudi Riyals in addition to another 552 million Saudi Riyals of Discretionary Portfolios managed within the Kingdom's equity markets. Muscat Capital is also managing a Money Market Fund which reached its highest AUM level ever of 306 million Saudi Riyals in 2019.

Customer Experience

Bank Muscat considers customer-centricity one of its strategic pillars. The Customer Experience department ensures that the design of the customer experience is underpinned by deep meaningful customer insight and that the Bank's products, services and processes are designed in innovative ways around the customer needs. The Bank's strategy is built on the voice of the customers and Customer Experience department provides best in class support to all the business lines and other functions in the Bank to become customer-centric.

In 2019, the Bank implemented a new customer experience management framework and governance mechanism and it is tracking new customer-centric key performance indicators in order to ensure that customer efforts are reduced, their rights are respected and their satisfaction, engagement and loyalty with the Bank increases. All bank employees received awareness and training sessions about the importance of customer experience. Several initiatives have been implemented in order to make customer-centricity part of the DNA of the bank.

The Bank is aware about the importance of listening to their customers through multiple channels such as: surveys, customer focus groups, feedback management system, contact centre, social media and the website. In 2019, it focused on the top critical end-to-end customer journeys in order to identify the customer pain points and implement the most suitable solutions for them. Bank Muscat engaged with customers to evaluate each touchpoint during their main journeys with the Bank.

These journeys leveraged customer science to make banking pleasant for both customers and employees. The Bank is reimagining customer journeys so that banking adapts to the lifestyle and needs of its customers. Mapping the customer journeys helped the Bank create initiatives to improve the touchpoints which received lower scores. In 2019, the Bank conducted 164 surveys gathering responses from over 24,000 customers, 14 customer focus groups from both individuals and companies, 4 quarterly mystery shopping waves and ensured that a thorough analysis was conducted on all customer complaints.

In April 2019, the Bank implemented a new feedback management system to better capture the enquiries and complaints of customers and address them faster. The customer complaints resolution satisfaction score improved from 72% in 2018 to 78% in 2019. The number of customers recommending Bank Muscat to their family and friends increased in 2019 versus 2018 as the relational net promoting score (NPS) of the Bank improved.

Technology and Project Management

The Bank's Technology Department reinforced and built on its ability to deliver timely, accurate, optimised and high-quality services to customers by implementing cutting edge technologies with continuous innovation and digital transformation.

In 2019, the Bank implemented specific initiatives to provide customers with a seamless experience. The new Internet and Mobile Banking platforms were launched with enhanced features and more user-friendly navigation, and the Bank's cards were enhanced with the "Tap and Pay" feature.

To improve the delivery of services, the loans process was redesigned and implemented using a new workflow system. Robotics Process Automation was also initiated during the year for processing of repetitive transactions.

In 2019, the Bank conducted a comprehensive IT infrastructure review with the help of a leading international consultant giving due consideration to optimisation and technological convergence. A programme was since initiated and implementation of the recommendations began. International Branches infrastructure support was initiated from the Head Office in order to optimise and standardise processes and controls. Bank Muscat also implemented the Royal Oman Police-initiated National ID Switch (Khatm Project).

To stay ahead of the ever changing cyber threats, the Bank has taken extensive efforts to ensure the effectiveness of its cyber security programs and upgraded to the latest sophisticated tools and technologies which has enhanced its cybersecurity defense capabilities. The successful completion of the disaster recovery drill and business continuity exercise affirmed the Bank's adherence to the highest level of business continuity standards. In addition, specific investments have been done in enhancing security posture for access management, information security operations and security monitoring.

Overall, during the year the Bank implemented more than 75 technology projects. A well-defined Project and IT Governance framework is in place to manage and oversee the IT function and the large project portfolio.

Human Resources

Bank Muscat recognises that competent and highly-engaged employees provide the main source of competitive advantage for the organization ahead of all other resources such as finances, technology and infrastructure. It is therefore imperative that the Bank allocates considerable resources to continuously enhance the capabilities of its human resources and empower Omanis to embrace roles of great responsibility across all levels within the bank. Notably, the Bank has achieved about 95% Omanisation by prioritising the development of Omani talent to occupy key positions across all departments.

In 2019, Bank Muscat recruited over 200 talented fresh graduates to support the job creation initiatives of the Government. Furthermore, the Bank also joined hands with Petroleum Development Oman (PDO) to provide scholarships and recruitment opportunities for 50 Bachelor's degree holders to complete an Association of Chartered Certified Accountants (ACCA) programme.

The Bank continued to invest in comprehensive training programmes for its human resources during the year. The Bank's Jadara Academy, which is accredited by the Global Association of Corporate Universities and Academics, organised 634 training programmes in 2019 with a total of 14,405 participants taking part in these training sessions. A total of 11 professional certification programmes were conducted in 2019 and 66 employees benefitted from these. The Bank also offered 104 scholarships inside Oman and 7 scholarships at universities abroad to promising and highly-talented employees in 2019.

The Bank has a formal talent identification process for building its leadership pipeline based on the Bank's philosophy of hiring and grooming young talented Omanis. These best in class leadership programmes are facilitated by leading global business schools. The Bank's Jadara Academy also conducts custom-designed functional development programs for different job roles blending international best practices with the Bank's business know-how.

Being a preferred destination for college students seeking internships, Bank Muscat offered internship opportunities at the Bank to about 1,100 students as part of its social responsibility as a leading corporate citizen.

Risk Management

The Bank considers risk management as an area of core competence and continues to invest in enhancing its risk-management capabilities. It continues to focus on refining and improving its risk-management systems and strengthening its Enterprise-wide Risk Management Framework (ERM).

An independent risk management function ensures that risk is managed through a well-designed architecture as well as through policies and processes approved by the Board of Directors, encompassing independent identification, measurement and management of risks across various businesses of the Bank.

The Bank's risk-management practices are benchmarked to industry best practices. It revises its risk policy and risk appetite statement in line with the evolving economic and regulatory conditions. To reinforce the risk culture in the Bank, which is critical to sound risk management, the risk appetite framed by the Board is cascaded down to business units at a granular level and compliance to the appetite is monitored, reported and suitable corrective action, wherever warranted, is taken.

In line with its position as the sole designated Domestic Systemically Important Bank (DSIB) in Oman, the Bank has in place an updated Board approved Recovery and Resolution Plan (RRP) to formalize a process of self-initiated stable and sustainable recovery in case of an extreme eventuality. The Central Bank of Oman has also issued the resolution framework in 2019 which the Bank supports.

In light of the current economic environment, the Bank closely monitored and reviewed its portfolio and took corrective steps, wherever necessary, to maintain asset quality and support business growth. The Bank maintained additional liquidity buffers during the year to meet any unforeseen stress scenario. To mitigate rising cyber risks, the Bank conducted internal and external awareness campaigns, developed and enhanced security standards and invested in new security enhancement projects. To enhance the effectiveness of its Risk Management practices and to be the best in the industry, the Bank undertook a comprehensive review of its Risk Management practices. The recommendations will be implemented in 2020 and the Bank will continue to invest in new projects to comply with the changing regulatory landscape and remain ever alert to evolving market conditions.

Finance

The Finance department supports the Management Executive Committee (MEXCO) and the Board of Directors in strategic planning and decision-making processes by providing vital information and critical analyses of the Bank's performance. The Bank uses state-of-the-art profitability systems for in-depth analyses of profit contribution from business lines, products and customers. The profitability systems enable the Bank to make sound business decisions based on a thorough understanding of the Bank's profitability dynamics and focus on key business lines in a challenging and competitive environment. Business planning and budgeting function further enhances the performance measurement and accountability across the different line segments of the bank and helps in keeping a track of the key drivers of the Bank's profitability.

The department plays a vital role in capital management, capital supply, funding plans as well as investor relations. The department played a key role in asset liability management and fund raising activities in 2019. Cost management is one of the key focus areas of the Bank and the department plays an active role in cost management initiatives with a view to maximising the Bank's profits and deriving optimum benefits of synergies arising out of various operations.

Awards and Recognition

The Bank's excellent strategic achievements and performance were recognised and endorsed at the local, regional and global levels with the Bank receiving over 25 awards and accolades in 2019. Bank Muscat won the Best Bank in Oman awards from Emeafinance, Euromoney, Global Finance, The Banker/PWM and Oman Economic Review highlighting its outstanding contributions to the financial services sector in Oman. Meethaq won the prestigious Best Islamic Bank in Oman 2019 award as well as Deal of the Year 2019 in Oman and Deal of the Year 2019 in Ijarah from Islamic Finance News.

The year started on a great note with the Bank being awarded the prestigious Sharjah Economic Excellence Network Award for being one of the Top 10 Gulf institutions in promoting corporate governance, quality standards and work ethics as part of its responsibility towards the community as well as promoting sustainable development.

Consistency in performance and strategic investment decisions in challenging market conditions earned Bank Muscat the Best Asset Manager in Oman as well as the Best Investment Bank in Oman awards from EMEA Finance. Meanwhile, the Bank Muscat Oryx Fund won the Lipper Award in the 5 year category, being rated the best performing fund in the MENA region out of 13 funds following a similar investment strategy.

In recognition of its excellence in serving customers, the Bank's Contact Centre won the Insights Middle East Call Centre Award in the banking category. It was also awarded by Global Finance for being the Best Digital Bank in Oman. In recognition of its commitment to providing accurate and updated information to stakeholders, the Bank received Muscat Securities Market's Quality of Disclosure Award for 2019.

Enhancing and strengthening brand equity were highlighted when Bank Muscat won the Oman's Most Trusted Brand award in the banking category from Apex Media for the fourth consecutive year. The Bank was also listed as a Top Brand in Oman (Banks) in a brand survey conducted by Oman Establishment for Press, Publication and Advertising.

Other awards during the year included Most Valuable Company of the Year among all the listed companies on MSM at the ninth edition of the Alam al-Iktisaad Wal A'mal (AIWA) Awards as well as the OER Top 20 Award from Oman Economic Review.

Taking Premier Banking to new levels, the Bank won the Best Private Bank in Oman awards from Global Finance, EMEA Finance and The Banker/PWM while Asalah Priority Banking was felicitated in the Signature Luxury 100 List.

Bank Muscat was recognised by Citibank and JP Morgan Chase for its operational excellence in the field of dollar payments processing for exceeding the stringent straight-through-processing (STP) performance standards in dollar-denominated fund transfers and commercial payments. The Bank also won the Best Trade Finance Bank in Oman from Global Trade Review as well as the Best Foreign Exchange Provider from Global Finance. The Bank was ranked first globally by Metal Bulletin for Forecasting Metal Prices.

Bank Muscat ended the year on a high note after being recognised by Forbes Middle East in its Top 25 Listed Companies in Oman, which was published in December 2019.

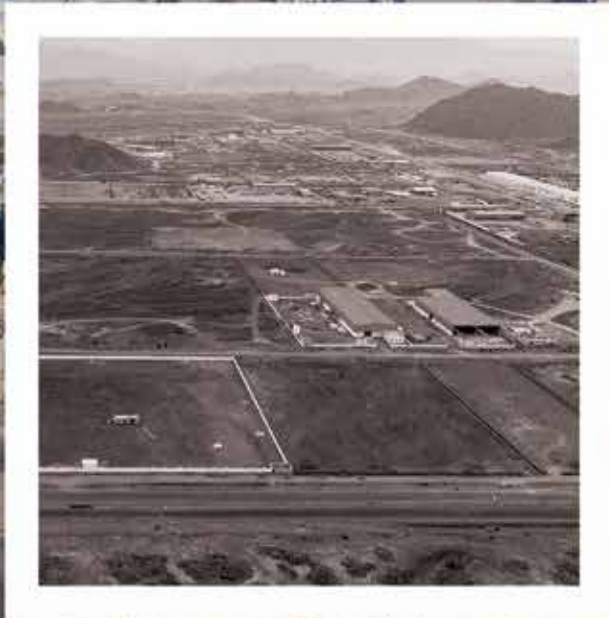
The Year Ahead

On the backdrop of improving economic prospects for the country, the Bank will continue its sharp focus on its customer-centric strategy by developing competent Omanis and adopting state-of-the-art technology. This will help the continuation of 'best in class' services thorough innovative digital channels and products catering to all segments. With around 2 million customers forming the largest banking family in the Sultanate, Bank Muscat will focus on its growth strategy, improved operational efficiencies and new revenue streams while fulfilling its social responsibilities to the nation and the community in the best possible manner.

50 Years of Progress

Foundation to Sustainability

Oman's industrial journey is witnessing progressive positioning with the Sultanate evolving as a regional industrial hub with industrial cities, free and economic zones that aim to secure the needs of local markets.



Corporate Sustainability & Social Responsibility Summary

Financial Inclusion: Access to banking services

As the leading financial institution in the Sultanate, Bank Muscat aims to provide access to its products and services to all segments of the society. The Bank offers a wide range of accounts, loans and cards to individuals from a young age onwards. Bank Muscat provides access to banking services to individuals through 169 branches, 445 ATMs, 110 CDMs, 145 FFM's across the Sultanate, including mobile and Internet banking. Bank Muscat offers also special channels to listen to its customers, i.e., through its WhatsApp and Twitter accounts.

In an effort to spread Financial Literacy, the Bank offers a number of programs and initiatives to accommodate different age groups and segments of the society.

Little Investors

Empowering the community from a young age, the Little Investor program is aimed at developing children's knowledge of finance to equip them with the skills to become future entrepreneurs. Till 2019, Over 21,000 students from the 7th and 8th grades have been trained in financial literacy as part of the Little Investor program in partnership with the Ministry of Education and Injaz Oman.

Irshad

Aimed at providing financial coaching on how to make the most out of earnings, the Bank launched its Irshad Financial Coaching Clinic, which provides financial coaching and guidance to SMEs, startup companies, entrepreneurs, and individuals with respect to managing their finances and future financial planning, including their retirement plans. The Bank provides coaching in areas such as managing financial debt, budgeting, importance of saving, challenges for SMEs and how to raise capital.

Maliyat Financial Literacy Program

Aimed at equipping citizens in financial planning, the Bank launched 'Maliyat', a complimentary online financial literacy program. This program aims to provide general knowledge to help individuals gain essential skills needed to manage their finances according to their age group.

Fraud Awareness Campaign

In an effort to increase awareness amongst the general public, Bank Muscat in partnership with Oman Royal Police launched an anti-fraud awareness campaign. The campaign educates the general public so that they do not fall prey to various cyber frauds that are being perpetrated by fraudsters from all across the globe. The special educational campaign is carried out using various means including print media, radio, television and social media channels.

CSR and Sustainability programs

Bank Muscat delivers on its commitment to the people and the nation through partnership in sustainable development, which is making headway with strategic Corporate Social Responsibility (CSR) programmes covering key segments such as the youth, sports, education and SMEs. The sustainability and CSR strategy pursued by Bank Muscat is focused on long term benefits to the community and the nation, which is derived from its new vision 'To serve you better, everyday'. A detailed review of the Bank's CSR & Sustainability initiatives is available in our Sustainability report 2019, which is issued in the first quarter of every year. However, we hereby provide a brief summary of the CSR program of the Bank.

Green Sports

The Green Sports initiative has proven to be a thoroughly successful model for engaging the local community and establishing a modern sporting infrastructure across different parts of the country. The push to develop modern sports infrastructure across the Sultanate complements the government efforts in building a sporting nation. Making significant contributions to sustainable development, the unique Green Sports CSR initiative aimed at promoting Oman as a sporting nation by greening and developing football fields has supported a total of 108 sports teams across the country to date in the past eight years.

Tadhamun

The Tadhamun initiative is a fine example of the public-private partnership launched by the Bank in association with the Ministry of Social Development to support families under social welfare. Aimed at reaching out to social welfare families across the Sultanate and supporting them with essential household appliances, the program focuses on distribution of basic electronic home appliances such as air conditioners. Since the launch of the annual Tadhamun program, the Bank has distributed electronic home appliances benefiting more than 1200 families.

Al Wathbah Academy

In recognition of the vital role played by the SME sector in the development of Oman, the Bank launched the SME Academy in 2014 to train entrepreneurs and expanded to more locations across the Sultanate due to its popularity and success. More than 90 entrepreneurs have graduated from the SME Academy to date.

Investment in Tourism

With the tourism sector set to play an increasingly central role in the Sultanate's economic future, the Bank joined hands with the Ministry of Tourism to develop the old Misfat village in Misfat Al Abriyeen in Wilayat Al Hamra. The project will create a unique tourism experience centred on the old Misfat village, highlighting the Omani tourism strategy based on a sustainable development model that benefits local communities along with preserving of the environment and cultural heritage.

Green Products

In line with the Sultanate's strategy to adapt and mitigate the effects of climate change, the Bank launched a suite of products aimed at encouraging customers and the public to invest in green homes. Incentives are provided in line with the products for customers looking to have energy efficient homes with options for renewable sources of energy.

Green Space

As a gift to the nation, Bank Muscat, in partnership with Muscat Municipality, is moving forward with the construction of a modern public park, in Al Khoudh. The park is aimed at fostering a sense of belonging and appreciation of the environment among community members.

Fak Kurba

In partnership with the Omani Lawyers Association, Bank Muscat provided financial contributions to release 220 cases of citizens who were serving a prison term or those who have court verdicts issued against them, due to claims in civil, commercial, legitimate and labour cases.

Oman Down's Syndrome Association

Bank Muscat contributed communication training tools to the Oman Down's Syndrome Association to support the children of the Association with essential training, rehabilitation and education courses.

Al Noor Association for the Blind

In an effort to provide banking services to different sections of the society, the Bank launched the first special ATM for blind and visually-impaired people. The ATM, which is located on the premises of the head office of the Al Noor Association for the Blind in Muscat, features a special transaction flow for blind and visually-impaired people.

Bank Muscat Hearts

Voluntary charity work plays an integral role in Bank Muscat's culture. Bank Muscat Hearts (BM Hearts) is a staff volunteer group committed to channeling their passion and goodwill into charity initiatives and activities.

Financial Review 2019

The Group posted a net profit of RO 185.55 million in 2019 compared to RO 179.63 million reported in 2018, an increase of 3.3 per cent. Operating profit of the Group increased from RO 256.39 million in 2018 to RO 276.24 million in 2019, an increase of 7.7 per cent.

Net Interest Income from Conventional Banking and Income from Islamic Financing stood at RO 316.97 million for the year 2019 compared to RO 304.29 million for the same period in 2018, an increase of 4.2 per cent.

Non-interest income at RO 155.20 million was higher by 9.0 per cent compared to RO 142.45 million for the year ended 31 December 2018.

Operating expenses for the year ended 31 December 2019 at RO 195.93 million was higher by 2.9 per cent as compared to RO 190.34 million for the same period in 2018. The cost to income ratio for the year decreased from 42.61 per cent in 2018 to 41.50 per cent in 2019.

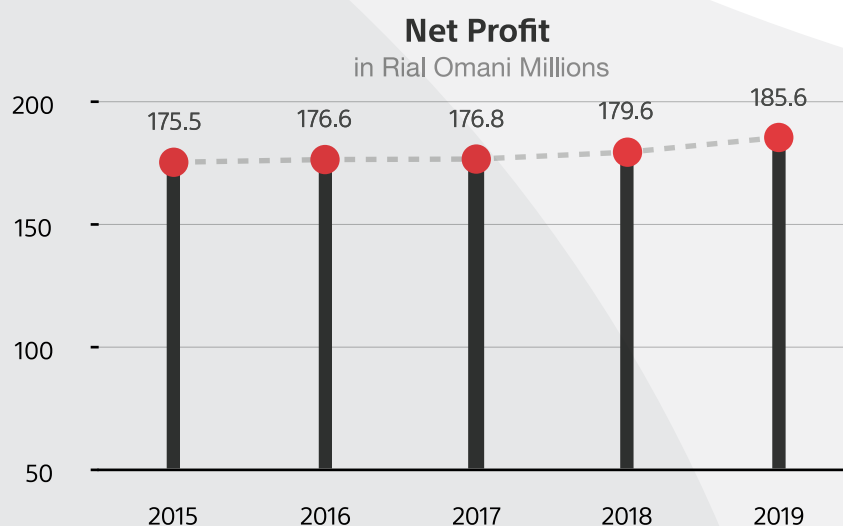
Net Impairment and other losses for the year of 2019 was RO 56.13 million as against RO 43.24 million for the same period in 2018.

Net Loans and advances including Islamic financing receivables decreased by 0.7 per cent to RO 8,878 million as against RO 8,939 million as at 31 December 2018. Customer deposits including Islamic Customer deposits decreased by 5.0 per cent to RO 8,044 million as against RO 8,463 million as at 31 December 2018.

The main reason for decrease in customer deposits in 2019 was due to a substantial increase in large short term deposit that was transit in nature in the last quarter of 2018.

The return on average assets reduced to 1.51 per cent in 2019 from 1.53 per cent in 2018. The return on average equity reduced to 10.73 per cent in 2019 as compared to 10.88 per cent in 2018 mainly due to increase in equity on retention of profits.

The basic earnings per share was RO 0.060 in 2019 compared to RO 0.059 in 2018. The Banks' capital adequacy ratio stood at a healthy level of 19.72 per cent as on 31 December 2019 against the minimum required level of 14.5 per cent as per Basel III regulations issued by the Central Bank of Oman.



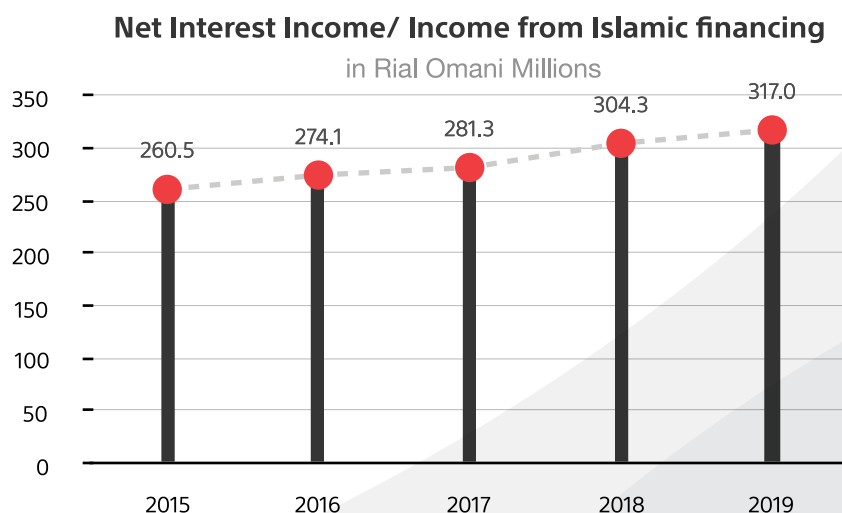
Results of operations

Net interest income

Interest income is the Group's principal source of income. The Group earns interest income on the customer loans and advances made by it, on its portfolio of debt investment securities and on its placement of funds with central banks and other banks. The Group incurs interest expense on its customer, bank and other financial institution deposits, on its unsecured bonds, Sukuk, euro medium term notes and subordinated borrowings.

	2019	2019	2018	2018
	RO '000	(of total %)	RO '000	(of total %)
Net interest income				
Net interest income from conventional	290,880	91.8%	276,729	90.9%
Net income from Islamic financing	26,092	8.2%	27,560	9.1%
Net Interest income and income from Islamic financing/investments	316,972	100%	304,289	100%

The Group's net interest income and income from Islamic financing amounted to RO 316.97 million in 2019 against RO 304.29 million in 2018, an increase of RO 12.68 million or 4.2 per cent. Net interest income from conventional banking for the year ended 2019 was RO 290.88 million as compared to RO 276.73 million in 2018, an increase of RO 14.15 million, or 5.1 per cent. Net income from Islamic financing/investment for the year ended 2019 was RO 26.09 million as compared to RO 27.56 million, a decrease of RO 1.47 million, or 5.3 per cent.



The Group's net interest income reflects the changes in its interest income and Islamic financing income and its interest expense and Islamic financing cost described below.

Interest income and Islamic financing income / investments

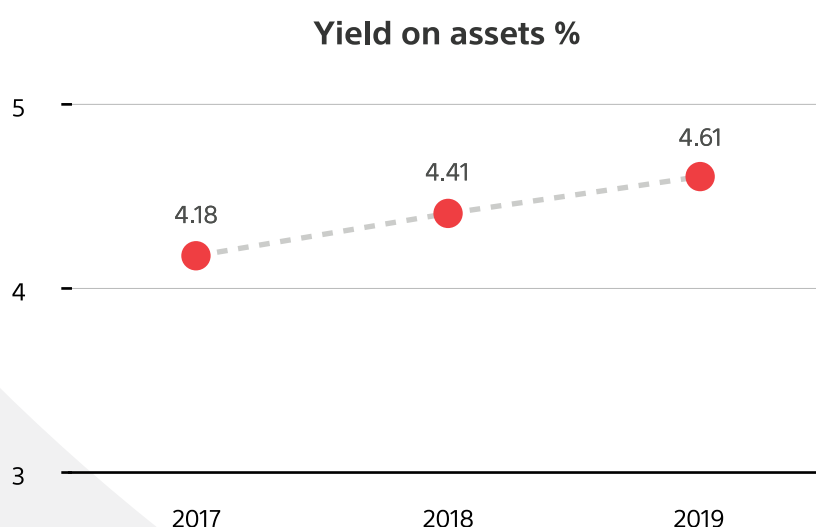
The table below shows a breakdown of the Group's interest income from conventional operations and income from Islamic financing/investments in 2019 and 2018.

	2019	2019	2018	2018
	RO 000's	(of total %)	RO 000's	(of total %)
Interest income				
Loans and advances	401,679	77.5%	375,683	78.5%
Due from banks	19,979	3.9%	19,322	4.1%
Debt investment securities	30,359	5.9%	25,032	5.2%
	452,017	87.3%	420,037	87.8%
Income from Islamic financing/investments				
Financing receivables	61,976	12.0%	55,144	11.5%
Due from banks	1,293	0.2%	863	0.2%
Debt investment securities	2,812	0.5%	2,601	0.5%
	66,081	12.7%	58,608	12.2%
Interest income and income from Islamic financing/Investment	518,098	100%	478,645	100%

The Group's interest income from conventional operations for 2019 amounted to RO 452.02 million compared to RO 420.04 million for 2018. The increase of RO 31.98 million, or 7.6 per cent, in 2019 principally reflected an increase of RO 25.99 million, or 6.9 per cent in interest on loans and advances to customers, increase of RO 5.33 million in interest on debt investment securities and an increase of RO 0.66 million on deposits from banks.

The Group's Islamic financing income for 2019 amounted to RO 66.08 million compared to RO 58.61 million for 2018. The increases of RO 7.47 million, or 12.8 per cent, was mainly on account of growth in profit on Islamic financing receivables of RO 6.83 million, or 12.4 per cent, during the year 2019.

Yield on assets



Yield on assets increased from 4.41 per cent in 2018 to 4.61 per cent in 2019, an increase of 0.20 per cent. The increase was mainly driven by increase in the yield on loans from 4.86 per cent in 2018 to 5.09 per cent in 2019 due to increase in the interest rates on new lending and repricing of loans at higher rates. Yield on due from banks increased from 2.35 per cent in 2018 to 2.58 per cent in 2019 and on debt investments from 2.50 per cent in 2018 to 2.63 per cent in 2019.

Interest expense and Islamic financing cost

The table below shows a breakdown of the Group's interest expense from conventional operations and cost of Islamic depositors for 2019 and 2018.

	2019	2019	2018	2018
	RO 000's	(of total %)	RO 000's	(of total %)
Interest expense				
Customer deposits	117,161	58.2%	95,329	54.7%
Subordinated liabilities/mandatory convertible bonds	1,871	0.9%	6,673	3.8%
Euro medium term notes	17,846	8.9%	18,964	10.9%
Bank borrowings	24,259	12.1%	22,342	12.8%
	161,137	80.1%	143,308	82.2%
Distributions to depositors ⁽¹⁾	39,989	19.9%	31,048	17.8%
	39,989	19.9%	31,048	17.8%
Interest expense and distribution to depositors	201,126	100%	174,356	100%

⁽¹⁾ Comprises distributions on Islamic customer deposits, bank borrowings and Sukuk.

The Group's interest expense from conventional operations for 2019 amounted to RO 161.14 million compared to RO 143.31 million for 2018. The increase of RO 17.83 million, or 12.4 per cent in 2019 principally reflected a RO 21.83 million, or 22.9 per cent increase in interest expense on customer deposits, a RO 1.92 million, or 8.6 per cent, increase in interest expense on amounts owed to banks and other financial institutions, a RO 4.80 million, or 72.0 per cent decrease in interest expense on subordinated liabilities/mandatory convertible bonds and RO 1.12 million or 5.9 per cent decrease in interest expense on Euro Medium Term Notes.

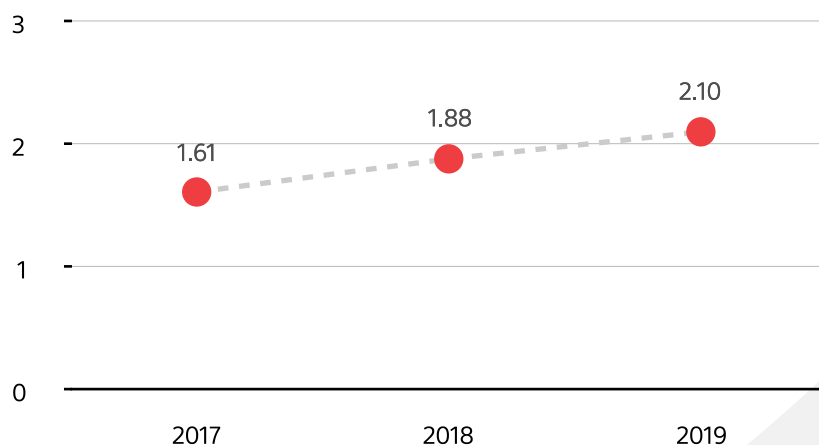
The Group's cost of Islamic banking deposits for 2019 amounted to RO 39.99 million compared to RO 31.05 million for 2018. The increases of RO 8.94 million, or 28.8 per cent, in 2019 principally reflected growth in the volume of the Group's Islamic deposits accepted, new Sukuk issuance of RO 46 million, and higher cost of borrowings during the year.

In 2019, the increase in interest expense on varying borrowings reflected higher effective interest rates. Cost of funds increased from 1.88 per cent in 2018 to 2.10 per cent in 2019, an increase of 0.22 per cent points. Cost of customer deposits increased from 1.53 per cent in 2018 to 1.80 per cent in 2019 due to increase in cost of fixed deposits. Cost on deposit from banks increased from

2.74 per cent in 2018 to 3.03 per cent in 2019, a decrease on Euro Medium Term notes / Sukuk from 4.86 per cent in 2018 to 4.72 per cent in 2019.

Cost of funds

Cost of funds %



Fees and other operating income

The Group earns fees and commissions on its deposit accounts, on customer loans advanced by it, on other credit facilities (such as commitments to lend made by it and letters of credit and guarantees issued by it), on other banking services provided by it, including treasury, investment banking, asset management, syndication and card-related fees amongst others. The Group's other operating income principally includes foreign exchange income, realized and unrealized gains/losses on investments, dividend income and other income.

The table below shows a breakdown of the Group's fees and other operating income for 2019 and 2018.

	2019	2019	2018	2018
	RO '000	(of total %)	RO '000	(of total %)
Commission and fee income (net)	102,284	66.0%	96,470	67.7%
Foreign exchange	39,734	25.6%	35,946	25.2%
Changes in fair value of financial assets measured at FVTPL	1,589	1.0%	(2,159)	-1.5%
Net gain (loss) from sale of investments measured at fair value	1,366	0.9%	69	0.0%
Dividend income	6,579	4.2%	7,003	4.9%
Other income	3,647	2.3%	5,118	3.6%
	52,915	34.0%	45,977	32.3%
Fees and other operating income	155,199	100%	142,447	100%

	2019	2018
Fee income to total income ratio	32.9%	31.9%

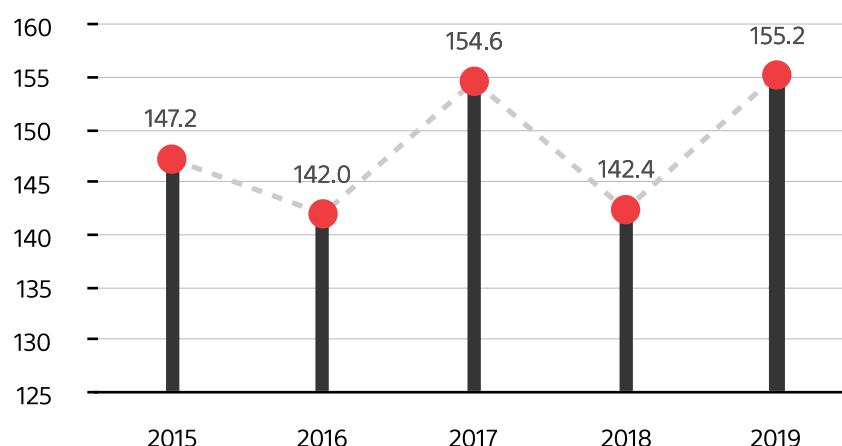
The Group's net fee and commission income for 2019 amounted to RO 102.28 million compared to RO 96.47 million for 2018, an increase of RO 5.81 million, or 6.0 per cent.

The Group's other operating income amounted to RO 52.92 million for 2019 compared to RO 45.98 million for 2018. The increase of RO 6.94 million, or 15.1 per cent, in 2019 principally reflected a RO 3.79 million increase in foreign exchange income, RO 3.75 million in unrealised mark to market gain on FVPL investments and RO 1.30 million in realised gain on investments measured at fair value. Partially the above increase was offset by a decrease in other income by RO 1.47 million.

Fee income to total income ratio at 32.9 per cent increased by 1.0 per cent points in 2019 due to the reasons mentioned above.

Fees and other income

in Rial Omani Millions



Operating expenses

The table below shows a breakdown of the Group's operating expenses and cost income ratio in 2019 and 2018.

	2019	2019	2018	2018
	RO 000's	(of total %)	RO 000's	(of total %)
Staff expenses	104,848	53.6%	103,794	54.5%
Administrative expenses	59,934	30.6%	55,894	29.4%
Occupancy costs	10,480	5.3%	17,296	9.1%
Depreciation	20,669	10.5%	13,359	7.0%
Operating expenses	195,931	100%	190,343	100%

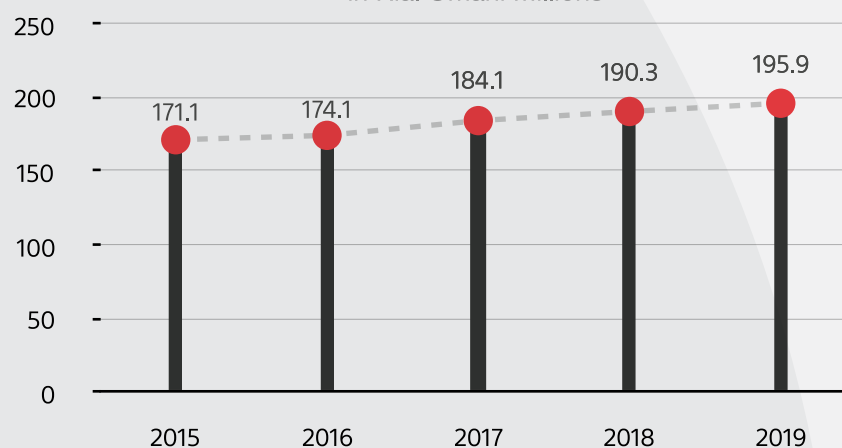
	2019	2018
Cost to income ratio	41.5%	42.6%

The Group's total operating expenses amounted to RO 195.93 million for 2019 compared to RO 190.34 million for 2018. The increase of RO 5.59 million, or 2.9 per cent, in 2019 principally reflected an increase of RO 4.04 million in other administrative expenses, or 7.2 per cent and RO 1.05 million or 1.0 per cent increase in staff expenses. Depreciation increased by RO 7.31 million, or 54.7 per cent in 2019 mainly due to depreciation on right-of-use assets on implementation of accounting standard IFRS 16 Leases. This has also resulted in a decrease in occupancy costs by RO 6.82 million or 39.4 per cent in 2019.

The cost to income ratio was at a decent level of 41.5 per cent showing a decrease of 1.1 per cent points over 2018.

Operating expenses

in Rial Omani Millions



Net impairment losses

The Group makes provision for credit losses promptly in line with the applicable accounting standards following the conservative provisioning norms it has set for itself.

The table below shows details of the Group's net impairment losses for 2019 and 2018.

	2019	2018
	RO '000	RO '000
Impairment on loans, financial guarantees and commitments	92,727	85,903
- Stage 3	111,770	75,701
- Stage 1 and 2	(19,043)	10,202
Impairment for placements	117	(2,141)
Impairment for investments	500	(613)
	93,344	83,149
Recoveries from provision for credit losses	37,217	39,907
Net impairment loss	56,127	43,242

Net impairment loss at RO 56.13 million in 2019 compared to RO 43.24 million in 2018 mainly due to increase in net impairment losses in overseas operations by RO 4.09 million, in consumer banking by RO 4.04 million, in wholesale banking by RO 3.29 million and corporate banking by RO 1.02 million. The increase in net impairment losses is mainly due to increase in the impaired assets. Gross impairment charges including increase of RO 36.07 million in stage 3, which is offset by a decrease of RO 29.25 million in stage 1 & 2. Recoveries from provision for credit losses have decreased from RO 39.91 million in 2018 to RO 37.22 million in 2019.

Impairment on placements increased by RO 2.26 million in 2019 and impairment on investments increased by RO 1.11 million in 2019.

The table below shows the impaired loans and loan loss coverage ratio of the Group for 2019 and 2018

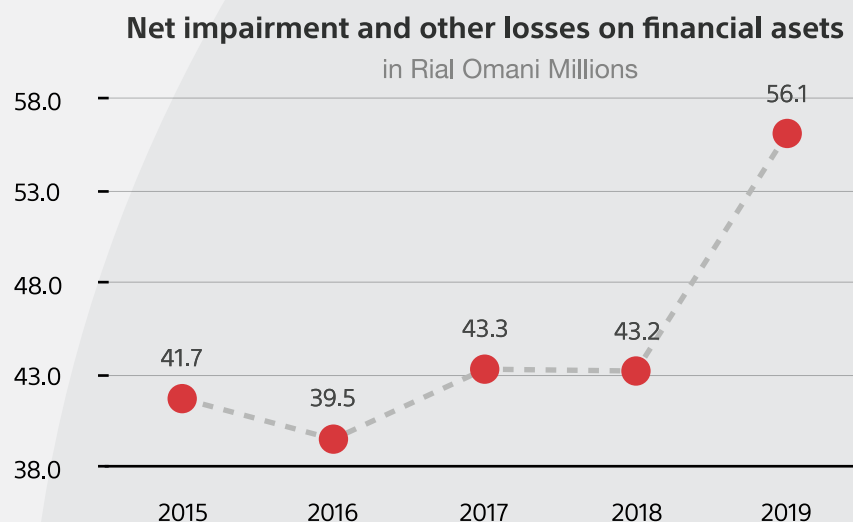
	2019	2018
	RO 000's	RO 000's
Impaired loans	298,547	286,784
Impaired loans ratio ⁽¹⁾	3.25%	3.09%
Loan loss coverage ratio ⁽²⁾	127.2%	128.8%

⁽¹⁾ Impaired loans as a percentage of total gross loans.

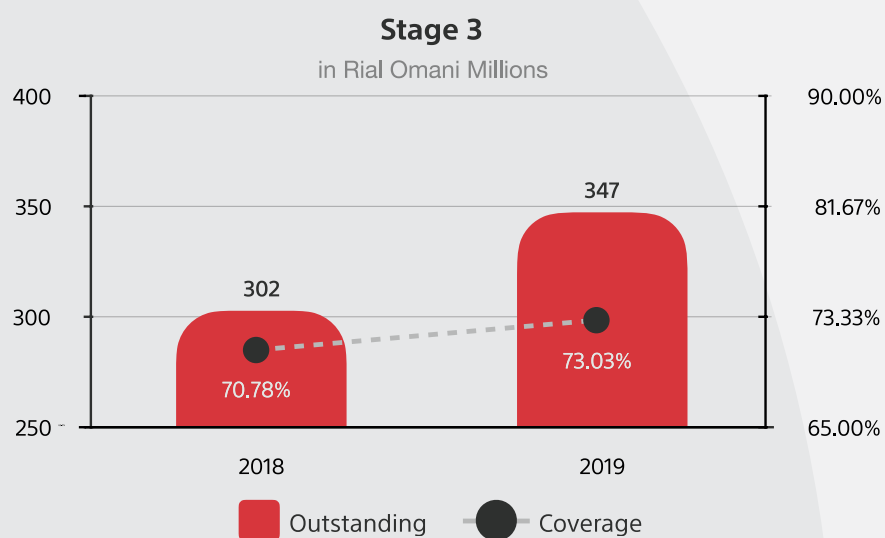
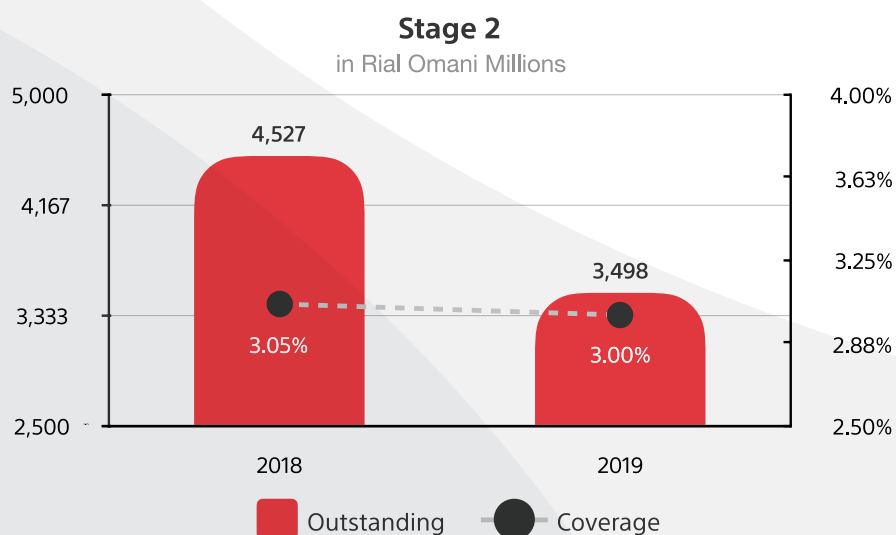
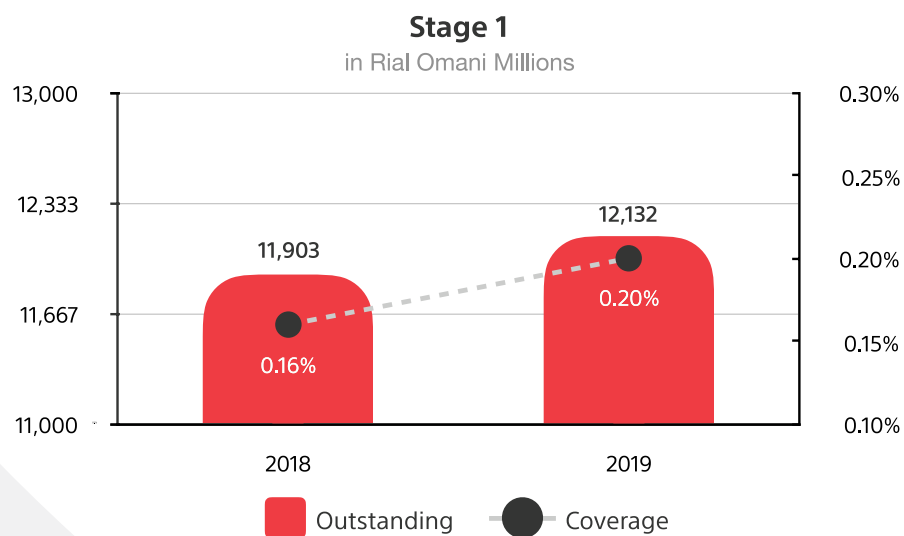
⁽²⁾ Loan loss provisions as a percentage of impaired loans. Loan loss provisions include loans and advances, financial guarantees, acceptances, undrawn commitments and utilised limits.

Impaired loans increased from RO 286.78 million as at 31 December 2018 to RO 298.55 million as at 31 December 2019, an increase of RO 11.76 million or 4.1 per cent.

Impaired loans to gross loans ratio increased from 3.09 per cent as at 31 December 2018 to 3.25 per cent as at 31 December 2019. Coverage ratio decreased from 128.8 per cent as at 31 December 2018 to 127.2 per cent as at 31 December 2019.



Stage-wise total funded and non-funded gross exposure and coverage ratios.



Liquidity and funding

Overview

The Group's liquidity needs arise primarily from making loans, advances and Islamic finance available to customers, the payment of expenses and its investments in securities. To date, the Group's liquidity needs have been funded principally through deposits and operating cash flow, including interest and profit income received on its customer loan portfolio and its portfolio of debt investment securities.

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for 2019 and 2018.

	2019	2018
	RO 000's	RO 000's
Net cash from/(used in) operating activities	(116,488)	569,076
Net cash from/(used in) investing activities	(204,771)	(140,272)
Net cash from/(used in) financing activities	(123,399)	(170,521)
Cash and short-term funds at the beginning of the year	1,426,843	1,168,560
Cash and short-term funds at the end of the year	982,185	1,426,843

Operating activities

Net cash used in operating activities in 2019 was RO 116 million compared to inflow of RO 569 million in 2018. The changes in the Group's net cash from operating activities principally reflects its net profit for the year (as adjusted for net impairments, investment income, depreciation and any other non-operating, non-cash income/expenses) and cash generated from (used in) operating asset and liabilities during the year.

The decrease in cash from operating activities in 2019 was mainly due to the decrease in customer deposits and Islamic customer deposits by RO 419 million in 2019 compared to a cash inflow of RO 1,043 million in 2018. This decrease was partly offset by an increase in cash inflow due to the decreases in loans and advances and Islamic financing receivables by RO 30 million in 2019 compared to a cash outflow of RO 618 million in 2018.

Investing activities

Net cash used in investing activities in 2019 was RO 205 million compared to a usage of RO 140 million in 2018.

In 2019, the Group invested a net amount of RO 203 million in investment securities as compared to a net investment of RO 137 million in 2018. The gross purchases of investment securities at RO 238 million in 2019 was higher compared to RO 158 million in 2018. The sale/redemption proceeds received in 2019 at RO 35 million was also higher compared to that of RO 21 million in 2018. In 2019, net purchases of property, equipment and software amounted to RO 9 million which was lower than that of RO 11 million in 2018. Besides, the group also received dividend income of RO 6.6 million in 2019 compared to a RO 7 million received in 2018 from its investment portfolio.

Financing activities

Net cash used in financing activities in 2019 was lower at RO 123 million, compared to a net cash usage of RO 171 million in 2018. This is principally reflected in the repayment of subordinated loans of RO 13 million in 2019 compared to RO 82 million in 2018. However, dividend payment of RO 103 million was higher compared to RO 81 million in 2018.

The table below shows the liquid assets ratio of the Group for 2019 and 2018:

	As at 31 December	
	2019	2018
Liquid assets to total assets ratio	19.98%	21.07%
Liquid assets to total deposits ratio	26.26%	27.13%

The liquid assets comprise of cash and balances with central banks, treasury bills, government securities and placements with banks. The liquid assets to total assets ratio and liquid assets to total deposits ratio decreased by 1.09 per cent points and 0.87 per cent points respectively due to lower cash generation from operating activities as explained above.

The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) ratios as of December 2019 and requirements going forward are as below:

	As at 31-Dec-2019	As at 31-Dec-2018	Requirement 2020	Requirement 2021
LCR	215%	298%	100%	100%
NSFR	117%	107%	100%	100%

Funding

The Group's principal sources of funding are its customer deposits, interbank deposits, subordinated loans, euro-medium term notes and Sukuk. The Group also has access to a pool of unencumbered and liquid securities in the form of treasury bills and bonds as well as listed securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Group's customer deposits from conventional operations and Islamic customer deposits were RO 8,044 million, or 78.2 per cent of its total liabilities, as at 31 December 2019, as compared to RO 8,463 million, or 81.7 per cent of its total liabilities, as at 31 December 2018. Deposits from Ministries and other Government organisations represent 31.7 per cent of the total customer deposits.

The table below shows the Group's funding mix as at 31 December in 2019 and 2018

	2019	2019	2018	2018
	RO '000	(of total %)	RO '000	(of total %)
Customers' deposits ⁽¹⁾	8,043,666	82.7%	8,462,685	85.6%
Deposits from banks	1,173,479	12.1%	951,878	9.6%
Sukuk	90,205	0.9%	44,608	0.5%
Euro medium term notes	385,410	4.0%	385,000	3.9%
Subordinated liabilities	26,180	0.3%	39,270	0.4%
Total	9,718,940	100%	9,883,441	100%

⁽¹⁾ including Islamic customer deposits

The table below shows the Group's product mix of customers' deposits and Islamic customers' deposits as at 31 December in 2019 and 2018

	2019	2019	2018	2018
	RO 000's	(of total %)	RO 000's	(of total %)
Current, call and margin accounts	2,226,058	27.7%	2,210,447	26.1%
Saving accounts	2,796,131	34.7%	2,579,442	30.5%
Time deposits	3,021,477	37.6%	3,672,796	43.4%
Total customer deposits	8,043,666	100%	8,462,685	100%

Current, call and margin accounts from conventional and Islamic operations are mostly non-interest / non-profit bearing and are available to depositors on demand basis. Saving accounts from conventional operations are mostly non-interest bearing but eligible for prize draws. Saving accounts from Islamic operations are eligible for profit distribution. Some saving accounts are also eligible for a prize draw. Time deposit from conventional operations are interest bearing and have a fixed maturity date. Similarly, time deposits from Islamic operations are eligible for profit distribution and have a fixed maturity date.

Current, call and margin account balances have increased from RO 2,210 million as at 31 December 2018 to RO 2,226 million as at 31 December 2019, an increase of RO 16 million or 0.7 per cent during the year. Saving accounts have increased from RO 2,579 million as at 31 December 2018 to RO 2,796 million as at 31 December 2019, an increase of RO 217 million or 8.4 per cent during the year. Time deposits have decreased from RO 3,673 million as at 31 December 2018 to RO 3,021 million as at 31 December 2019, a decrease of RO 651 million or 17.7 per cent during the year. The main reason for decrease in customer deposits in 2019 was due to a substantial increase in large short term deposit that was transit in nature in last quarter of 2018.

The share of demand deposits, comprising current, call, margin and saving accounts, to total customer deposits have increased to 62.4 per cent as at 31 December 2019 from 56.6 per cent as at 31 December 2018. The share of time deposits to total customer deposits have decreased from 43.4 per cent as at 31 December 2018 to 37.6 per cent as at 31 December 2019 for the reasons mentioned above.

The deposits from banks increased by RO 222 million or 23.3 per cent mainly due to increase in inter bank borrowings by RO 249 million during the year.

Subordinated deposits decreased from RO 39 million as at 31 December 2018 to RO 26 million as at 31 December 2019, a decrease of RO 13 million or 33.3 per cent due to repayment of subordinated deposits of RO 13 million during the year.

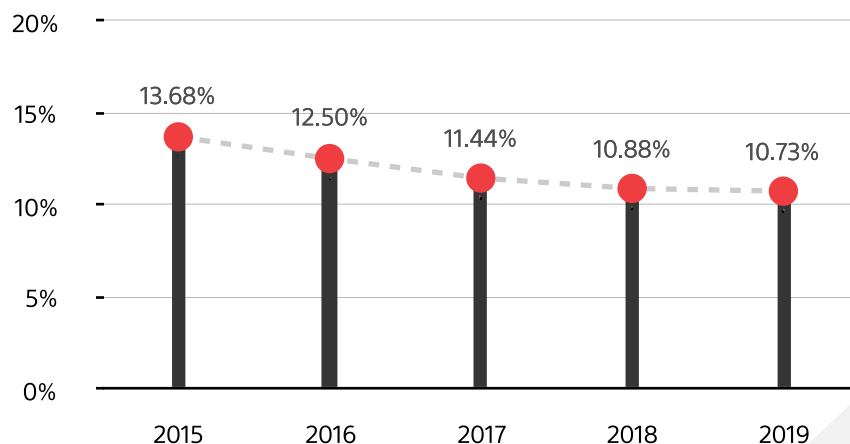
Equity funding

The Group's equity funding portfolio comprises of mainly ordinary share capital, share premium, legal and general and other reserves, Perpetual tier I capital and retained profit. Equity of the Group increased from RO 1,928 million as at 31 December 2018 to RO 2,003 million as at 31 December 2019, an increase of 3.9 per cent.

The Group's profit for the year 2019 was RO 185.55 million. For 2018, the Group also paid a cash dividend of 35 per cent of paid-up share capital, equating to RO 103.16 million. In addition, the Group paid bonus shares in the proportion of 1 share for every 20 ordinary shares, equating to RO 14.74 million. The increase in retained profit after distribution of cash dividends significantly contributed to the increase in equity in 2019.

The return on average shareholders' funds of the Group decreased from 10.88 per cent in 2018 to 10.73 per cent in 2019 primarily due to an increase of 4.2 per cent in Group's shareholders' funds compared to a lower rate of profit generation (3.3 per cent) during 2019.

Return on Average Equity

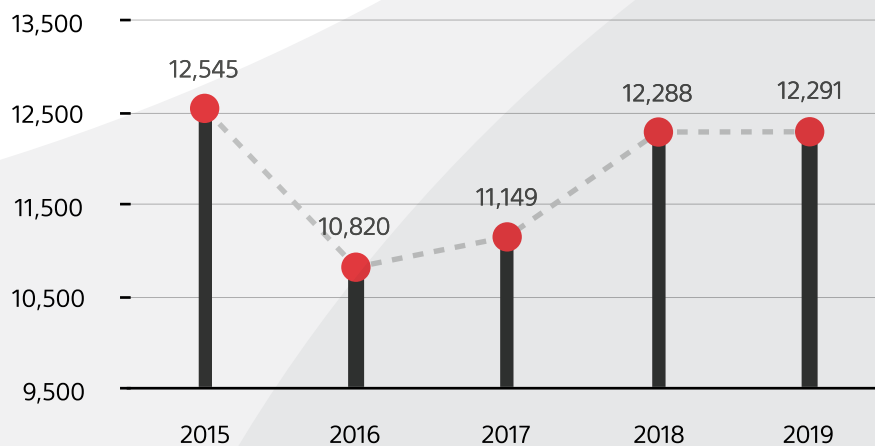


Assets

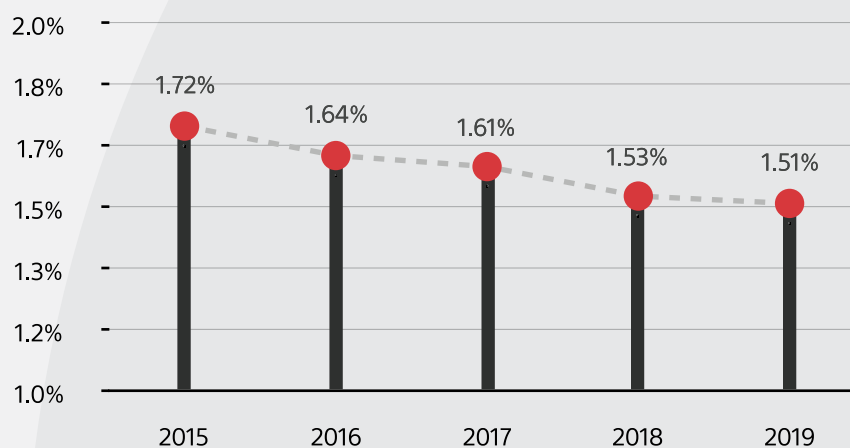
Total assets increased marginally by RO 3 million to reach RO 12,291 million as at 31 December 2019. The increase in total assets was mainly contributed by an increase placements with banks of RO 394 million and investments securities of RO 175 million during the year. This increase was offset by a decrease of RO 525 million in cash and balances with Central Banks and a decrease of RO 61 million in net loans and Islamic financing portfolio.

Total Assets

in Rial Omani Millions



Return on Average Assets



Leading

The Group's net loans and Islamic financing portfolio decreased by RO 61 million during the year to reach RO 8,878 million as at 31 December 2019 as compared to RO 8,939 million as at 31 December 2018.

The table below shows the Group's customer loan portfolio, provisions and loan to deposit ratios as at 31 December in 2019 and 2018.

	As at 31 December	
	2019	2018
	RO 000's	RO 000's
Gross loans ⁽¹⁾	9,192,827	9,268,026
Less: Impairment allowance	(314,786)	(329,111)
Net loans ⁽²⁾	8,878,041	8,938,915
Net loans/customer deposits	110.4%	105.6%
Net loans/total deposits ⁽³⁾	96.3%	94.9%

⁽¹⁾ Gross loans comprises total loans, advances and Islamic financing provided to customers disregarding impairment.

⁽²⁾ Net loans comprise gross loans less provisions for impairment.

⁽³⁾ Total deposits comprises customer deposits and due to banks.

The Group's customer loan portfolio is principally denominated in Omani rials, although loans are also made in U.S. dollars, Saudi rials and Kuwaiti dinar, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts, such as forward foreign exchange contracts, cross currency swaps and currency options.

The Group may also, from time to time, enter into forward contracts and cross currency interest rate swaps to manage its interest rate exposure.

As at 31 December 2019, the Bank's exposure to personal and housing loans accounted for 42.0 per cent of its total exposure compared to 40.2 per cent as at 31 December 2018. These loans are all backed by salary assignments and/or mortgages as collateral. In accordance with CBO regulations, conventional personal and housing loans are capped at 35 per cent and 15 per cent, respectively, of total conventional banking loans. Islamic banks or windows were permitted a combined maximum housing and non-housing personal finance exposure of 50 per cent of total finance as at 31 December 2019. Islamic banks or windows operations are required to reduce exposure to housing finance to 35 per cent of total finance by 31 December 2021.

As at 31 December 2019, the Bank's funded exposure to corporate and other loans accounted for 58.0 per cent of its total funded exposure compared to 59.8 per cent as at 31 December 2018. Of this, the service sector constituted 8.8 per cent of the Group's total gross loans and advances as at 31 December 2019 compared to 7.7 per cent as at 31 December 2018. Similarly, the transport sector accounted for 8.3 per cent of the Group's total gross loans and advances as at 31 December 2019 compared to 9.2 per cent as at 31 December 2018. The manufacturing sector, the utilities sector and the mining and quarrying sector accounted for 7.8 per cent, 7.1 per cent and 5.6 per cent, respectively, compared to 8.0 per cent, 6.9 per cent and 4.5 per cent., respectively, as at 31 December 2018.

Capital adequacy

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximize the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

The Group determines regulatory capital as recommended by the Basel III capital accord and in line with the guidelines of Central Bank of Oman. The Group has adopted Standardised approach for Credit and Market Risk and Basic Indicator approach for Operational Risk.

The Bank's regulator, the Central Bank of Oman (CBO) sets and monitors capital requirements for the Banks in the Sultanate of Oman. The Common Equity Tier 1 (CET1) minimum of 7 per cent in common equity and 10.5 per cent in Tier 1 capital.

Minimum capital adequacy ratio requirement of the Bank is as below

	1-Jan-19 onwards
Common Equity Capital Ratio	7.000%
Capital Conservation Buffer	2.500%
D-SIB*	1.000%
Additional Tier I -Restricted to Max	2.000%
Tier 1 Capital Ratio	12.500%
Tier 2 Capital Ratio -Restricted to Max	2.000%
Total Capital Ratio	14.500%

* The Bank has been identified as a domestic systemically important bank (D-SIB) in Oman. Accordingly it will be required to maintain incremental capital of 1 per cent.

The table below shows the capital adequacy ratios of the Group for 2019 and 2018

	As at 31 December	
	2019	2018
Tier 1 capital adequacy ratio	18.8%	18.0%
Total capital adequacy ratio	19.7%	19.2%

Bank's capital adequacy ratio at 19.7 per cent is well above the regulatory requirement of 14.5 per cent for 2019. It is mainly comprised of Tier 1 capital of 18.8 percent and Tier 2 capital of 0.9 per cent. The Bank's strong healthy capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. It also helps promote financial stability and confidence of the stakeholders and creditors.

Contingent liabilities and commitments

The Group has contingent liabilities in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. It also has commitments in respect of the purchase of property and equipment and partly paid investments. The table below shows these contingent liabilities and commitments as at 31 December in 2019 and 2018.

	2019	2018
	RO 000's	RO 000's
Irrevocable commitments to extend credit	323,180	561,930
Guarantees	1,979,184	2,277,886
Letters of credit	343,773	398,549
Acceptances	123,462	107,488
Commitments to purchase of property and equipment	1,031	962
Unpaid amount on partly paid investments	3,844	1,788
	<u>2,774,474</u>	<u>3,348,603</u>

Credit Rating

It is the Bank's philosophy to provide transparent and meaningful disclosures in its financial statements. The rating agencies and industry analysts appreciate the Bank's disclosures in its financial statements. The Bank values the comments and concerns of the rating agencies, and it is one of the Bank's objectives to maintain and enhance the credit ratings assigned by them.

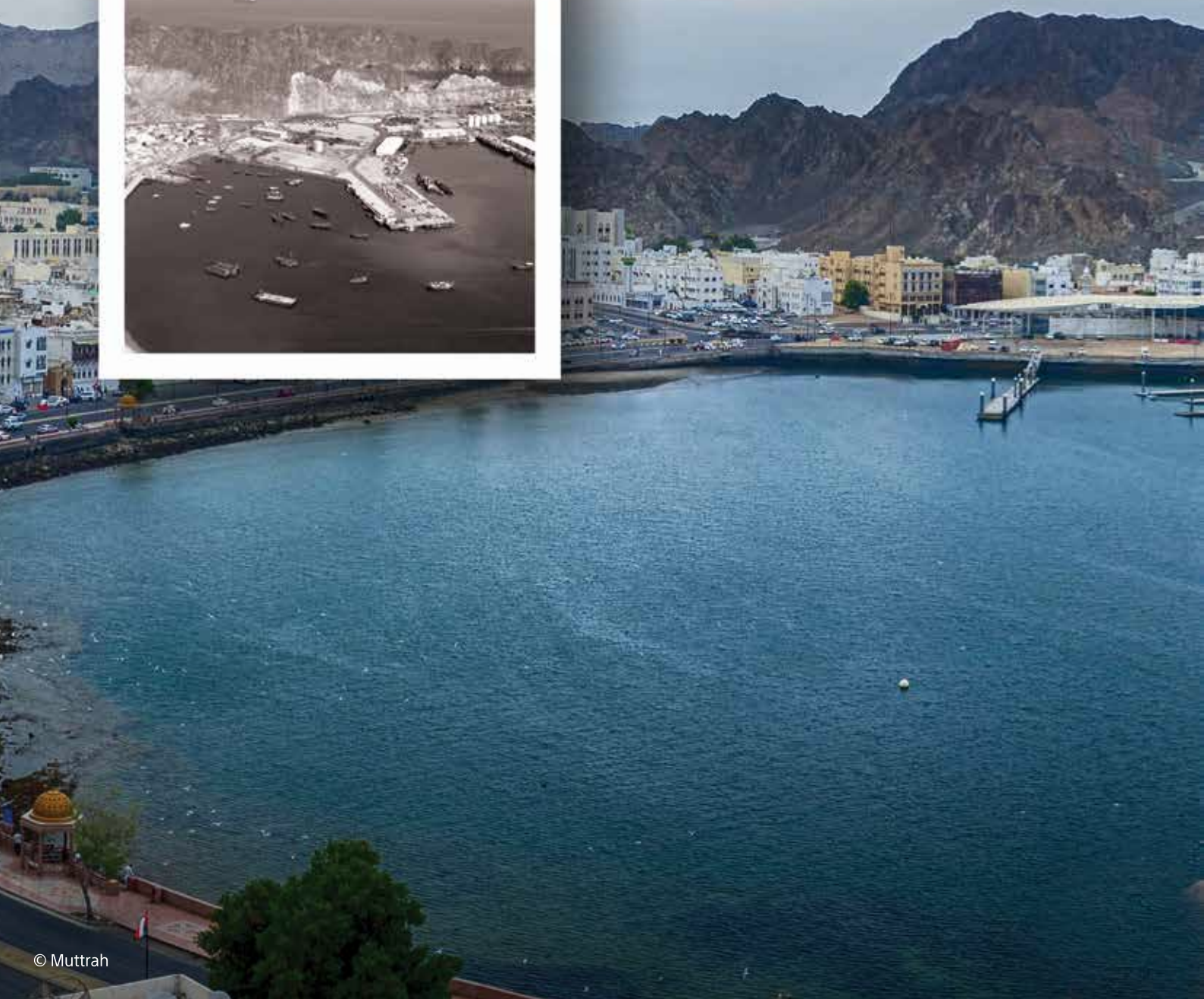
Four leading international rating agencies, Standard and Poor's, Moody's, and Fitch rated the Bank during the year. The recent rating of the Bank are as follows

Rating Agency	Long Term	Short Term	Outlook
Moody's	Ba1	Prime-3	Negative
Standard & Poor's	BB	B	Negative
Fitch Ratings	BB+	B	Stable

50 Years of Progress

Beauty Has an Address

Boasting of serene beauty, Oman identified tourism as an economic boost for the nation. Today, more than 3.2 million tourists visit the Sultanate every year from all around the world.



Meethaq

Financial Review 2019

The Islamic window operations of Bank Muscat "Meethaq" posted a net profit of RO 10.846 million for the period compared to RO 10.744 million reported during the same period in 2018, increase of 0.9%.

Operating profit of Meethaq reduced from RO 16.834 million in 2018 to RO 16.809 in 2019, a decrease of 0.1%.

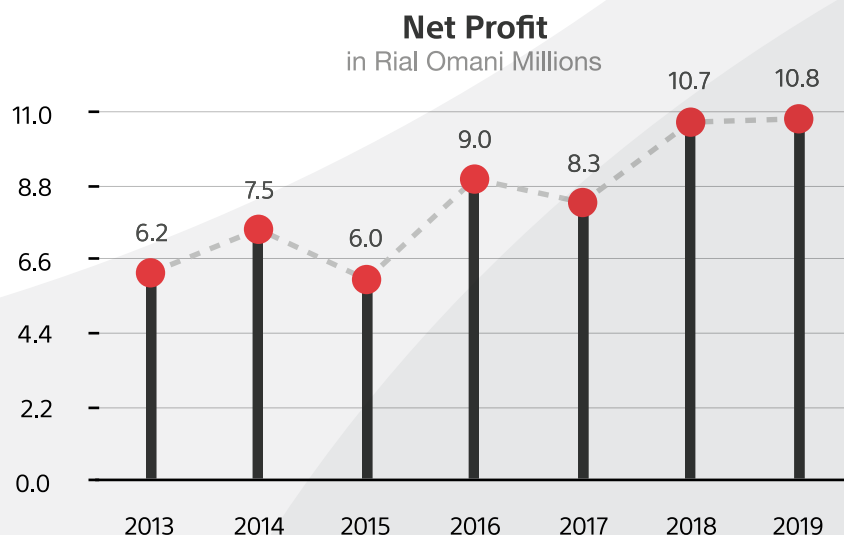
Operating expenses for the year ended 31 December 2019 at RO 13.119 million was lower by 3.1% as compared to RO 13.538 million for the same period in 2018. The cost to income ratio for the year decreased from 44.6% in 2018 to 43.8% 2019.

Impairment for credit losses for the year 2019 was RO 7.489 million as against RO 7.341 million for the same period in 2018. Recoveries from impairment for credit loss was RO 3.082 million for the year of 2019 as against RO 3.325 million for the same period in 2018.

Net Islamic financing receivables amounted to RO 1,165.8 million as at 31 December 2019 compared to RO 1,110.4 million as at 31 December 2018. Customer deposits amounted to RO 1,034.9 million as at 31 December 2019 compared to RO 960.5 million as at 31 December 2018.

The return on average assets decreased to 0.77% in 2019 from 0.84% in 2018. The return on average equity decreased to 8.86% in 2019 as compared to 9.77% 2018.

The capital adequacy ratio stood at a healthy level of 14.33% as on 31 December 2019 against the minimum required level of 11% as per the Central Bank of Oman.



Results of operations

Net income from Islamic finance and investments

Income from Islamic finance is Meethaq's principal source of income. Meethaq earns income on the Islamic finance made by it, on its portfolio of investment securities and on its placements with other Islamic banks. The Bank incurs expense in the form of return paid to investment account holders (IAH) and Sukuk holders i.e. Islamic deposits and on deposits from banks and other financial institutions.

Meethaq's net income from Islamic financing and investment after deducting return on IAH, Sukuk holders and deposits from banks amounted to RO 26.770 million in 2019 against RO 28.307 million in 2018, a decrease of 5.4%.

Income from Islamic finance and Investments

The table below shows a breakdown of the income from Islamic financing and Investments in 2019 and 2018.

	2019		2018	
	RO '000	(% of total)	RO '000	(% of total)
Financing receivables	62,451	94.7	55,144	94.3
Investment securities	3,495	5.3	3,348	5.7
	65,946	100	58,492	100

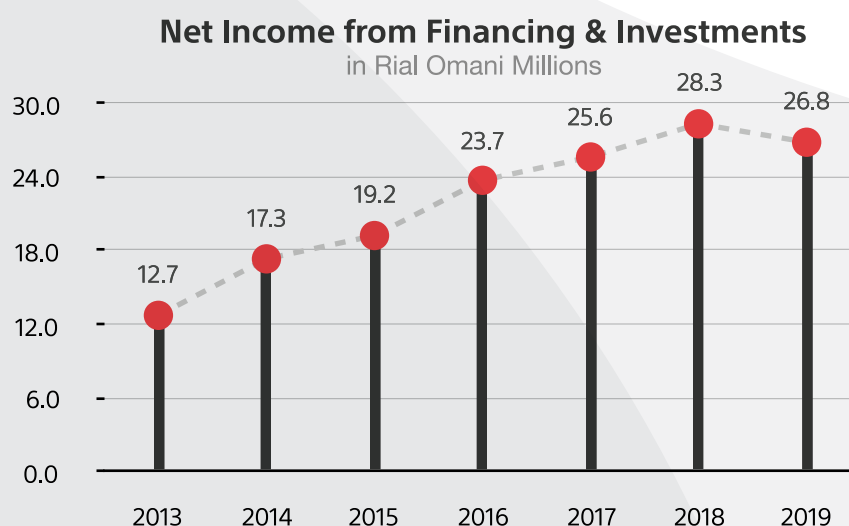
Meethaq's total financing/investment income for 2019 amounted to RO 65.946 million compared to RO 58.492 million for 2018. The increase of RO 7.464 million, or 12.7% in 2019 principally reflected growth in net Islamic financing receivables of RO 55.4 million or 5.0%.

Return paid on IAH, Sukuk holders and Deposits from banks

The table below shows a breakdown of the return paid on IAH and deposits from banks for 2019 and 2018.

	2019		2018	
	RO '000	(% of total)	RO '000	(% of total)
Return paid on IAH	29,531	75.4	25,308	83.8
Return paid on Sukuk holders	3,893	9.9	2,317	7.7
Net return paid on bank deposits	5,752	14.7	2,560	8.5
	39,176	100	30,185	100

Meethaq's total return paid on IAH, Sukuk holders and deposits from bank for 2019 amounted to RO 39.176 million compared to RO 30.185 million for 2018. The increase of RO 8.991 million, or 29.81% in 2019 principally reflected higher growth in customer deposits, bank deposits and new issuance of Sukuk during the year.



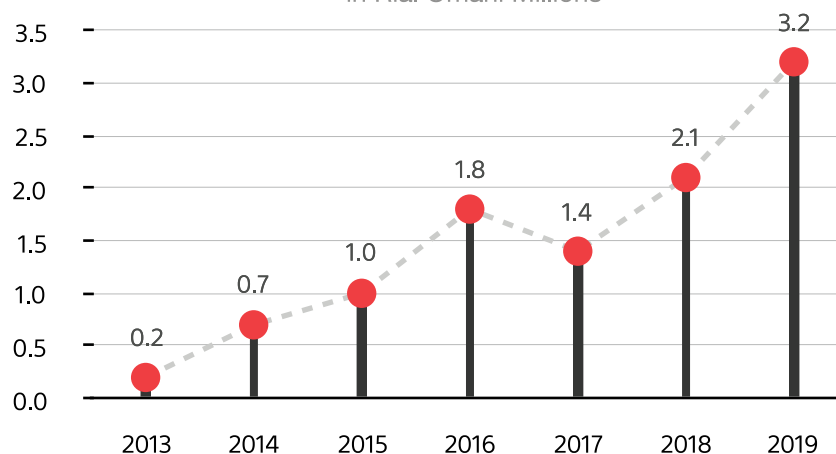
Net fees/commissions and other operating income

Meethaq earns fees and commissions on Islamic Financing (where allowed by Shari'a) and letters of credit and guarantees issued by it, and on other bank services provided by it, including account servicing and syndication fees and Ujra card-related income. Other operating income principally includes foreign exchange gain or loss, service charges and other miscellaneous income.

Net fee/commission and other operating income for 2019 amounted to RO 3.158 million compared to RO 2.065 million for 2018. The increase of RO 1.093 million, or 52.9% in 2019 principally reflected increase in foreign exchange gain, service fees and commissions.

Net Fee/Commission & Other Operating Income

in Rial Omani Millions



Operating expenses

Meethaq's operating expenses comprise staff costs, occupancy costs, other administrative expenses and depreciation. The table below shows a breakdown of the operating expenses in 2019 and 2018.

	2019		2018	
	RO '000	(% of total)	RO '000	(% of total)
Staff expenses	5,952	45.4	6,315	46.6
Occupancy costs	1,379	10.5	1,555	11.5
Other administrative costs	4,566	34.8	4,452	32.9
Depreciation	1,222	9.3	1,216	9.0
Total operating expenses	13,119	100.0	13,538	100.0

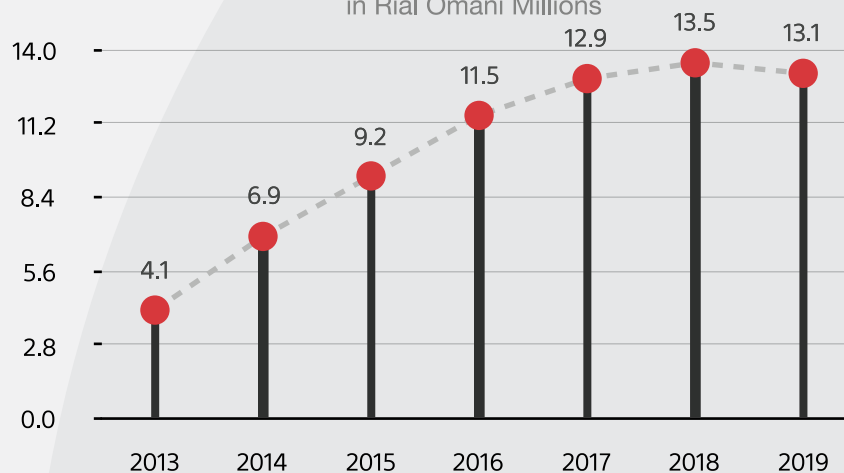
	2019	2018
Cost to income ratio	43.8	44.6

⁽¹⁾ Operating expenses divided by operating income.

Meethaq's total operating expenses amounted to RO 13.119 million for 2019 compared to RO 13.538 million for 2018. The decrease of RO 0.419 million, or 3.1% in 2019 principally reflected a RO 0.363 million, or 5.7 % decrease in staff expenses and RO 0.176 million or 11.3% decrease in occupancy cost. The decrease in the operating expenses is in line with the cost control measures taken by Meethaq and the improvement of the efficiency of the operational processes to keep the operating cost at minimum in 2019 given the challenging operating environment.

Operating Expenses

in Rial Omani Millions



Provision charges and impairment losses

Meethaq makes provision for impairment for Islamic finance promptly when required in line with the conservative provisioning norms it has set for itself. Meethaq makes adequate provision against non-performing credit exposures.

The table below shows details of the Meethaq's provision charges and impairment losses for 2019 and 2018.

	For the year ended	
	2019	2018
	RO '000	
Provision charge for credit losses		
Specific / Stage 3	5,845	5,671
Non-specific / Stage 1 and 2	1,644	1,670
Total provision charge for Financing losses	7,489	7,341
Recoveries from impairment for financing loss	3,082	3,325
Total	4,407	4,016
Net impairment provision/net Islamic financing	0.38%	0.36%

Meethaq's net provision charge for impaired financing losses amounted to RO 4.407 million for 2019 compared to RO 4.016 million for 2018. The increase of RO 0.39 million or 9.7% in net provision is principally on account of stage 3 impairment for financing loss.

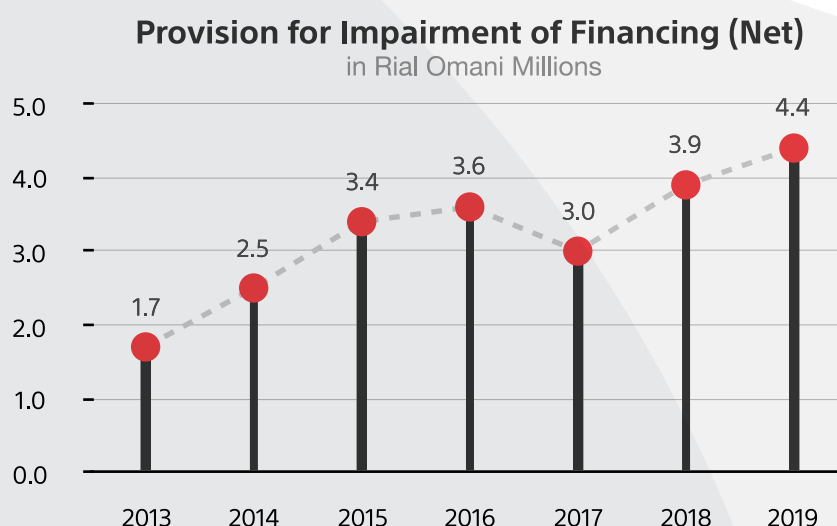
The net impairment losses cost percentages of Islamic financing for the year ended 31 December 2019 is 0.38% as against 0.36% for the year ended 31 December 2018.

The table below shows the impaired Islamic finance and coverage ratio of Meethaq for 2019 and 2018.

	As at 31 December	
	2019	2018
Impaired Islamic Finance (RO'000)	14,918	10,815
Impaired Islamic Financing ratio ⁽¹⁾	1.25%	0.96%
Financing loss coverage ratio ⁽²⁾	175%	194%

⁽¹⁾ Impaired financing as a percentage of total gross financing.

⁽²⁾ Impairment provisions as a percentage of impaired financing.



Liquidity and funding

Overview

Meethaq's liquidity needs arise primarily from making Islamic Financing, the payment of expenses and its investments in securities. To date, Meethaq's liquidity needs have been funded principally through Islamic deposits (IAH), Sukuk and operating cash flow, including income received on its financing portfolio and its portfolio of investment securities.

Liquidity

The table below shows Meethaq's cash flow from operating activities, investing activities and financing activities for 2019 and 2018.

	2019	2018
	RO '000	RO '000
Net cash from/(used in) operating activities	615	(137,429)
Net cash from/(used in) investing activities	(59,953)	(6,661)
Net cash from/(used in) financing activities	159,953	34,960
Cash and short-term funds at the beginning of the year	(14,390)	94,740
Cash and short-term funds at the end of the year	86,225	(14,390)

Operating activities

Net cash generated from operating activities for 2019 was RO 0.615 million compared to RO 137.5 million used in for 2018. For both 2019 and 2018, Meethaq's net cash from operating activities before changes in operating assets and liabilities principally reflected its profit for the year adjusted to reflect its net impairment for financing, impairment charges for investments and due from banks, profit on sale of investments, dividend income and depreciation.

Investing activities

Net cash used in investing activities for 2019 was RO 59.9 million compared to RO 6.6 million in 2018. In each period, the principal investment activities were the purchase and sale or redemption of investment securities and the purchase of property and equipment. In 2019, Meethaq spent a net RO 59.7 million on investment securities compared to RO 12.6 million in 2018 and RO 1.2 million on property and equipment compared to RO 0.8 million in 2018.

Financing activities

Net cash inflow from financing activities for 2019 was RO 159.9 million compared to RO 34.9 million in 2018, principally reflecting the increase in cash flow from Sukuk issuance to RO 45.6 million and customer deposits of RO 114.3 million.

The table below shows the liquid assets ratio of Meethaq for 2019 and 2018.

	As at 31 December	
	2019	2018
Liquid assets to total assets ratio	13.95%	11.64%
Liquid assets to total deposits ratio ⁽¹⁾	19.44%	16.67%

⁽¹⁾ Total deposits include current accounts and IAH

Funding

Meethaq's principal sources of funding are its Islamic deposits (IAH), Sukuk and interbank deposits. Meethaq also has access to a pool of unencumbered and liquid securities in the form of Sukuk as well as quoted available for sale securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The table below shows Meethaq's composition of funding as at 31 December in 2019 and 2018.

	As at 31 December			
	2019		2018	
	RO '000	(% of total)	RO '000	(% of total)
Deposits from banks	161,150	12.5	196,350	16.3
Current accounts	135,019	10.5	175,443	14.6
Sukuk	90,205	7.0	44,608	3.7
Equity of IAH	899,881	70.0	785,036	65.4
Total	1,286,255	100.0	1,201,437	100.0

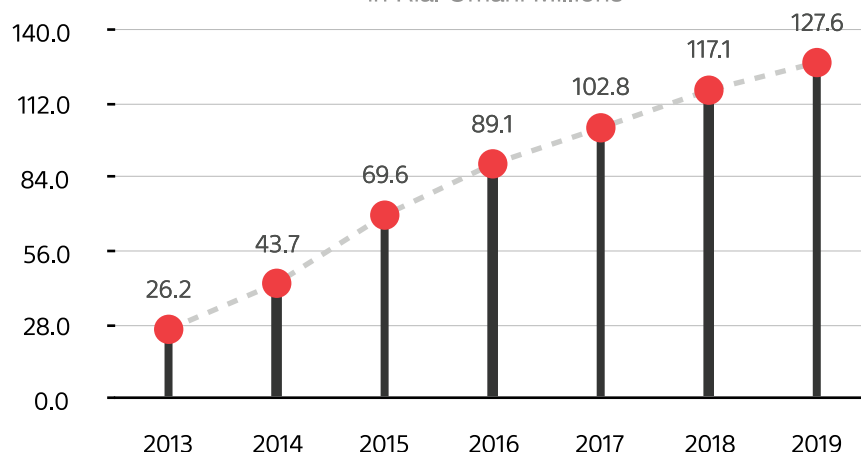
Meethaq's current accounts comprise of current, and margin accounts. Current and margin accounts are mostly non-profit bearing. Equity of IAHs has two types of accounts; savings account and time deposits which are eligible for profit distribution. Equity from IAH is accepted on Mudarabah basis. In 2019, Deposits from banks decreased by RO 35.2 million or 17.9%, current account decreased by RO 40.4 million or 23.0%, Sukuk increased by RO 45.6 million or 102.2% and equity of IAH increased by RO 114.8 million or 14.6% as compared to 2018.

Equity funding

Meethaq's equity funding portfolio comprises of mainly capital assigned by head office and retained profits. Equity of Meethaq increased from RO 117.1 million as at 31 December 2018 to RO 127.6 million as at 31 December 2019, an increase of 9.0%.

Meethaq's profit for the year was RO 10.846 million which significantly contributed to the increase in the equity in 2019. The total assigned capital for Meethaq is RO 70 million.

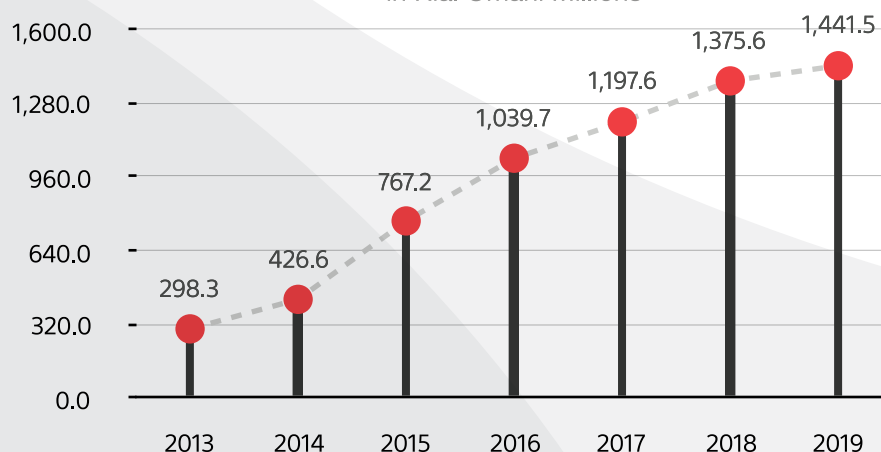
Meethaq's Equity in Rial Omani Millions



Assets

Total assets increased from RO 1,375.6 million in 2018 to RO 1,441.5 million in 2019, an increase of RO 65.9 million or 4.8%. The increase in assets was mainly on account of Islamic financing by RO 55.4 million and investment by RO 59.0 million. This was partially offset by a reduction in balance with Central Bank of Oman by RO 72.8 million.

Total Assets in Rial Omani Millions



Islamic Financing

Meethaq's total Islamic Financing portfolio (net of provisions) was RO 1,165.8 million as at 31 December 2019.

The table below shows Meethaq's financing portfolio, provisions and certain ratios as at 31 December in 2019 and 2018.

	As at 31 December	
	2019	2018
	RO '000	RO '000
Gross Islamic Financing ⁽¹⁾	1,191,932	1,131,809
Less: provisions	(26,084)	(21,379)
Net financing ⁽²⁾	1,165,848	1,110,430
Net financing/current accounts and IAH	112.7%	115.6%
Net financing/total deposits ⁽³⁾	90.6%	92.4%

⁽¹⁾ Gross financing comprises total financing made under various modes allowed by Shari's.

⁽²⁾ Net financing comprise gross financing less provisions for impairment.

⁽³⁾ Total deposits comprises current accounts, equity of IAH, Sukuk and deposits from banks.

Meethaq's Islamic financing portfolio is principally denominated in Omani Rial, although financing is also made in U.S. dollars. Meethaq believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms.

These financing consist of personal / housing finance and corporate finance. Personal/housing finance are mainly backed by salary assignments and as per CBO regulations, these finance are capped at 50% of a Meethaq's total finance.

In corporate finance, Meethaq's major sector of financing exposure is the transport and communication sector, which accounted for 12.25% of Meethaq's total gross financing as at 31 December 2019. The Construction sector and services sector, accounted 14.92% and 10.99% respectively of total gross financing portfolio as at 31 December 2019.

Capital adequacy

Capital adequacy indicates the ability of Meethaq in meeting any contingency without compromising the interest of the IAH and other depositors and to provide financing across the business cycles. Sufficient capital in relation to the risk profile of Meethaq's assets helps promote financial stability and confidence of the stakeholders and customers. Meethaq aims to maximize the shareholder's value through an optimal capital structure that protects the stakeholder's interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. Meethaq has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

Meethaq determines regulatory capital as recommended by the Basel II & III capital accord and in line with the guidelines of Central Bank of Oman. Meethaq has adopted Standardised approach for credit and Market Risk and Basic Indicator approach for Operational Risk.

The Bank's regulator, the Central Bank of Oman (CBO) sets and monitors capital requirements for the Banks in the Sultanate of Oman. CBO requires Islamic Windows to maintain a minimum ratio of 11% of total capital to risk-weighted assets. The capital adequacy ratio requirement is as below:

Common Equity Capital Ratio	7.00%
Additional Tier I -Restricted to Max	2.00%
Tier 1 Capital Ratio	9.00%
Tier 2 Capital Ratio -Restricted to Max	2.00%
Total Capital Ratio	11.00%

The Basel III liquidity coverage ratio (LCR) was set at 60% for 2015 and was increased by 10% annually until it reaches 100% in 2019. The CBO has issued guidelines on the net stable funding ratio (NSFR) in Oct 2016, the same is being reported to the CBO. The NSFR ratio was applicable from 2018 at 100% and thereafter.

Basel III Liquidity Norms: The LCR and NSFR ratios as of 31 December 2019 and requirements going forward are as below.

	As at 31 December 2019	Requirement 2019
LCR	215%	100%
NSFR	143%	100%

The table below shows the capital adequacy ratios of the Meethaq for 2019 and 2018.

	As at 31 December	
	2019	2018
Tier 1 capital adequacy ratio	13.45%	13.04%
Total capital adequacy ratio	14.33%	13.98%

In accordance with Basel III regulatory norms.

Contingent liabilities and commitments

Meethaq has contingent liabilities in respect of funding commitments it has made as well as in relation to letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at 31 December in 2019 and 2018.

	As at 31 December	
	2019	2018
	RO '000	RO '000
Letters of credit	24,264	38,899
Guarantees	7,015	22,093
Total	31,279	60,992

Ten-year Summary

Balance sheet	Amounts in RO'000's									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
ASSETS										
Cash and balances with Central Bank	781,755	1,306,756	934,745	1,041,572	2,412,052	836,944	582,310	663,366	825,863	726,055
Due From banks	869,804	476,043	592,026	526,615	991,491	1,038,826	866,981	726,050	869,101	550,349
Loans and advances	7,712,193	7,828,485	7,358,603	7,102,323	6,695,486	6,385,625	5,863,533	5,600,952	4,819,432	4,007,926
Islamic financing receivable	1,165,848	1,110,430	970,113	855,007	634,729	400,290	279,313	-	-	-
Investment securities	1,444,832	1,269,582	1,027,176	1,009,924	1,518,384	740,770	562,040	605,373	342,853	267,027
Investment in Associates			-	48,074	47,746	47,449	36,547	45,941	49,595	54,917
Other assets	236,694	227,242	194,440	162,323	168,020	206,550	229,075	202,724	249,365	170,066
Property, equipment and software	79,482	69,501	72,119	74,232	76,621	71,864	66,651	69,263	71,792	74,788
Total Assets	12,290,608	12,288,039	11,149,222	10,820,070	12,544,529	9,728,318	8,486,450	7,913,669	7,228,001	5,851,128
LIABILITIES AND EQUITY										
Liabilities										
Deposits from banks	1,173,479	951,878	910,125	831,792	2,859,563	888,819	668,857	750,754	730,927	759,886
Customers' deposits	7,011,266	7,504,219	6,459,410	6,694,808	6,738,315	6,299,350	5,552,913	5,324,016	4,749,489	3,526,953
Islamic customer's deposits	1,032,400	958,466	959,902	762,919	625,133	282,759	92,957	-	-	-
Certificates of deposit	-	-	-	-	-	46,000	47,000	53,600	101,000	154,600
Unsecured bonds\ Sukuk	90,205	44,608	44,608	-	-	-	29,803	54,803	54,803	54,803
Euro medium term notes	385,410	385,000	384,508	383,595	191,185	189,979	188,102	-	5,775	15,400
Mandatory convertible bonds			32,416	64,380	94,655	62,239	46,432	16,157	32,314	32,314
Other liabilities	521,864	433,349	375,646	337,356	369,699	377,811	369,323	371,279	344,177	327,450
Taxation	47,168	43,507	42,914	33,030	28,570	28,844	31,902	26,896	36,715	32,142
Subordinated liabilities	26,180	39,270	121,360	165,450	240,450	240,450	246,867	259,700	334,533	183,500
	10,287,972	10,360,297	9,330,889	9,273,330	11,147,570	8,416,251	7,274,156	6,857,205	6,389,733	5,087,048
TOTAL EQUITY										
Share capital	309,478	294,741	270,936	249,625	229,183	218,269	215,226	203,851	154,838	134,641
Share premium	531,535	531,535	509,377	486,242	464,951	464,951	451,837	388,137	301,505	301,505
General reserve	384,078	370,988	288,898	244,808	169,808	169,808	163,392	150,558	67,725	61,308
Non distributable reserves	123,760	121,730	183,272	185,203	220,299	196,501	165,613	132,212	162,041	128,938
Cash flow hedge reserve	(34)	437	(186)	(301)	(718)	(576)	384	(2,398)	-	-
Cumulative changes in fair value	(372)	(5,023)	16,813	19,234	19,264	21,639	16,440	8,112	1,245	9,340
Foreign currency translation reserve	(2,296)	(2,068)	(1,323)	(1,966)	(1,820)	(925)	(3,589)	(2,544)	(2,106)	(503)
Retained profit	526,487	485,402	420,546	363,895	295,992	242,400	202,774	178,345	152,786	128,585
	1,872,636	1,797,742	1,688,333	1,546,740	1,396,959	1,312,067	1,212,077	1,056,273	838,034	763,814
Perpetual Tier I capital	130,000	130,000	130,000	-	-	-	-	-	-	-
Non -controlling interest in equity	-	-	-	-	-	-	217	191	234	266
Total Equity	2,002,636	1,927,742	1,818,333	1,546,740	1,396,959	1,312,067	1,212,294	1,056,464	838,268	764,080
TOTAL LIABILITIES AND EQUITY	12,290,608	12,288,039	11,149,222	10,820,070	12,544,529	9,728,318	8,486,450	7,913,669	7,228,001	5,851,128
Contingent liabilities and commitments	2,322,957	2,676,435	2,860,070	2,988,489	3,186,412	2,497,661	2,108,576	1,804,455	1,340,866	1,241,515
Operating cost to income	41.50%	42.61%	42.22%	41.83%	41.95%	41.21%	42.24%	41.59%	41.08%	38.76%
Return on average assets	1.51%	1.53%	1.61%	1.64%	1.72%	1.79%	1.86%	1.84%	1.8%	1.74%
Return on average shareholders funds	10.73%	10.88%	11.44%	12.50%	13.68%	13.89%	14.49%	15.69%	15.37%	14.71%
Basic Earnings Per Share (RO)	0.060	0.059	0.061	0.064	0.067	0.071	0.072	0.073	0.065	0.066
Share price (RO)	0.434	0.410	0.394	0.472	0.472	0.582	0.636	0.572	0.766	0.962
BIS Capital adequacy ratio	19.72%	19.22%	18.45%	16.90%	16.10%	15.92%	16.42%	16.32%	15.93%	14.78%

Balance sheet	Amounts in US\$ 000's									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
ASSETS										
Cash and balances with Central Bank	2,030,533	3,394,172	2,427,909	2,705,382	6,265,070	2,173,881	1,512,494	1,723,029	2,145,099	1,885,857
Due From banks	2,259,230	1,236,475	1,537,730	1,367,831	2,575,300	2,698,249	2,251,898	1,885,844	2,257,405	1,429,478
Loans and advances	20,031,670	20,333,727	19,113,255	18,447,593	17,390,872	16,586,039	15,229,957	14,547,928	12,518,005	10,410,197
Islamic financing receivable	3,028,176	2,884,233	2,519,775	2,220,797	1,648,648	1,039,714	725,489	-	-	-
Investment securities	3,752,811	3,297,615	2,667,990	2,623,179	3,943,854	1,924,078	1,459,843	1,572,397	890,528	693,576
Investment in Associates	-	-	-	124,868	124,016	123,244	94,925	119,327	128,818	142,641
Other assets	614,789	590,239	505,039	421,618	436,416	536,494	595,000	526,554	647,701	441,730
Property, equipment and software	206,447	180,522	187,322	192,810	199,016	186,660	173,119	179,904	186,473	194,255
Total Assets	31,923,656	31,916,983	28,959,020	28,104,078	32,583,192	25,268,359	22,042,725	20,554,983	18,774,029	15,197,734
LIABILITIES AND EQUITY										
Liabilities										
Deposits from banks	3,047,997	2,472,411	2,363,961	2,160,499	7,427,436	2,308,621	1,737,291	1,950,010	1,898,512	1,973,730
Customers' deposits	18,211,081	19,491,477	16,777,688	17,389,112	17,502,118	16,361,948	14,423,150	13,828,612	12,336,335	9,160,917
Islamic customer's deposits	2,681,558	2,489,523	2,493,253	1,981,608	1,623,722	734,439	241,448	-	-	-
Certificates of deposit	-	-	-	-	-	119,481	122,078	139,221	262,338	401,558
Unsecured bonds\ Sukuk	234,299	115,865	115,865	-	-	-	77,410	142,345	142,345	142,345
Euro medium term notes	1,001,065	1,000,000	998,722	996,351	496,584	493,452	488,575	-	15,000	40,000
Mandatory convertible bonds	-	-	84,198	167,221	245,857	161,660	120,602	41,966	83,933	83,933
Other liabilities	1,355,490	1,125,581	975,704	876,248	960,257	981,327	959,279	964,361	893,966	850,518
Taxation	122,514	113,005	111,465	85,792	74,208	74,919	82,862	69,860	95,364	83,486
Subordinated liabilities	68,000	102,000	315,221	429,740	624,545	624,545	641,213	674,545	868,916	476,623
	26,722,004	26,909,862	24,236,077	24,086,571	28,954,727	21,860,392	18,893,908	17,810,920	16,596,709	13,213,110
TOTAL EQUITY										
Share capital	803,839	765,561	703,730	648,377	595,281	566,933	559,029	529,483	402,177	349,717
Share premium	1,380,610	1,380,610	1,323,057	1,262,966	1,207,665	1,207,665	1,173,603	1,008,147	783,130	783,130
General reserve	997,605	963,605	750,384	635,865	441,060	441,060	424,395	391,060	175,909	159,242
Non distributable reserves	321,455	316,182	476,032	481,047	572,205	510,393	430,164	343,409	420,886	334,904
Cash flow hedge reserve	(88)	1,135	(483)	(782)	(1,865)	(1,496)	997	(6,229)	-	-
Cumulative changes in fair value	(966)	(13,047)	43,670	49,958	50,036	56,205	42,701	21,070	3,234	24,260
Foreign currency translation reserve	(5,964)	(5,371)	(3,436)	(5,106)	(4,727)	(2,403)	(9,322)	(6,608)	(5,470)	(1,307)
Retained profit	1,367,499	1,260,784	1,092,327	945,182	768,810	629,610	526,686	463,235	396,847	333,987
	4,863,990	4,669,459	4,385,281	4,017,507	3,628,465	3,407,967	3,148,253	2,743,567	2,176,713	1,983,933
Perpetual Tier I capital	337,662	337,662	337,662	-	-	-	-	-	-	-
Non -controlling interest in equity	-	-	-	-	-	-	564	496	607	691
Total Equity	5,201,652	5,007,121	4,722,943	4,017,507	3,628,465	3,407,967	3,148,817	2,744,063	2,177,320	1,984,624
TOTAL LIABILITIES AND EQUITY	31,923,656	31,916,983	28,959,020	28,104,078	32,583,192	25,268,359	22,042,725	20,554,983	18,774,029	15,197,734
Contingent liabilities and commitments	6,033,655	6,951,780	7,428,754	7,762,310	8,276,395	6,487,431	5,476,821	4,686,896	3,482,769	3,224,714
Operating cost to income	41.50%	42.61%	42.22%	41.83%	41.95%	41.21%	42.24%	41.59%	41.08%	38.76%
Return on average assets	1.51%	1.53%	1.61%	1.64%	1.72%	1.79%	1.86%	1.84%	1.80%	1.74%
Return on average shareholders funds	10.73%	10.88%	11.44%	12.50%	13.68%	13.89%	14.49%	15.69%	15.37%	14.71%
Basic Earnings Per Share (USD)	0.16	0.15	0.16	0.17	0.19	0.18	0.19	0.19	0.17	0.17
Share price (USD)	1.13	1.06	1.02	1.23	1.23	1.51	1.65	1.49	1.99	2.50
BIS Capital adequacy ratio	19.72%	19.22%	18.45%	16.90%	16.10%	15.92%	16.42%	16.32%	15.93%	14.78%

Income statement	Amounts in RO'000									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Interest income	452,017	420,037	378,298	356,178	332,514	324,576	319,524	320,468	286,958	275,195
Interest expense	(161,137)	(143,308)	(121,615)	(105,612)	(90,661)	(97,660)	(96,878)	(90,063)	(74,839)	(88,000)
Net interest income	290,880	276,729	256,683	250,566	241,853	226,916	222,646	230,405	212,119	187,195
Income from Islamic financing	66,081	58,608	46,097	37,004	25,842	20,381	14,435	-	-	-
Distribution to depositors	(39,989)	(31,048)	(21,434)	(13,422)	(7,184)	(3,659)	(1,759)	-	-	-
Net income from Islamic financing	26,092	27,560	24,663	23,582	18,658	16,722	12,676	-	-	-
Net interest income and income from Islamic financing	316,972	304,289	281,346	274,148	260,511	243,638	235,322	230,405	212,119	187,195
Other operating income	155,199	142,447	154,620	142,027	147,225	139,472	104,834	93,247	82,125	78,301
Operating income	472,171	446,736	435,966	416,175	407,736	383,110	340,156	323,652	294,244	265,496
Operating expenses										
Other operating expenses	(175,262)	(176,984)	(170,857)	(161,357)	(159,871)	(146,686)	(132,687)	(123,401)	(109,734)	(94,149)
Depreciation and amortisation	(20,669)	(13,359)	(13,222)	(12,721)	(11,185)	(11,204)	(10,997)	(11,207)	(11,156)	(8,754)
	(195,931)	(190,343)	(184,079)	(174,078)	(171,056)	(157,890)	(143,684)	(134,608)	(120,890)	(102,903)
Net Impairment losses on financial assets	(56,127)	(43,242)	(43,279)	(39,451)	(41,723)	(40,465)	(22,883)	(28,871)	(33,616)	(32,156)
Share of results from associates	-	-	2,438	1,727	2,561	1,515	1,304	(3,418)	(3,529)	(12,637)
Profit before taxation	220,113	213,151	211,046	204,373	197,518	186,270	174,893	156,755	136,209	117,800
Tax expense	(34,563)	(33,518)	(34,228)	(27,813)	(22,067)	(23,043)	(22,701)	(17,549)	(18,663)	(16,205)
Profit for the year	185,550	179,633	176,818	176,560	175,451	163,227	152,192	139,206	117,546	101,595

Income statement	Amounts in US\$ 000's									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Interest income	1,174,072	1,091,006	982,593	925,139	863,673	843,055	829,932	832,384	745,345	714,792
Interest expense	(418,538)	(372,229)	(315,884)	(274,317)	(235,483)	(253,662)	(251,632)	(233,930)	(194,387)	(228,571)
Net interest income	755,534	718,777	666,709	650,822	628,190	589,393	578,300	598,454	550,958	486,221
Income from Islamic financing	171,639	152,229	119,732	96,114	67,122	52,938	37,494	-	-	-
Distribution to depositors	(103,868)	(80,644)	(55,673)	(34,863)	(18,660)	(9,504)	(4,569)	-	-	-
Net income from Islamic financing	67,771	71,585	64,059	61,251	48,462	43,434	32,925	-	-	-
Net interest income and income from Islamic financing	823,305	790,362	730,768	712,073	676,652	632,827	611,225	598,454	550,958	486,221
Other operating income	403,114	369,992	401,610	368,901	382,403	362,265	272,296	242,199	213,312	203,380
Operating income	1,226,419	1,160,354	1,132,378	1,080,974	1,059,055	995,092	883,521	840,653	764,270	689,601
Operating expenses										
Other operating expenses	(455,225)	(459,698)	(443,785)	(419,110)	(415,249)	(381,003)	(344,641)	(320,522)	(285,023)	(244,543)
Depreciation and amortisation	(53,686)	(34,699)	(34,343)	(33,042)	(29,052)	(29,101)	(28,564)	(29,109)	(28,977)	(22,738)
	(508,911)	(494,397)	(478,128)	(452,152)	(444,301)	(410,104)	(373,205)	(349,631)	(314,000)	(267,281)
Net Impairment losses on financial assets	(145,784)	(112,317)	(112,413)	(102,469)	(108,372)	(105,104)	(59,437)	(74,988)	(87,314)	(83,522)
Share of results from associates	-	-	6,332	4,486	6,652	3,935	3,387	(8,878)	(9,166)	(32,823)
Profit before taxation	571,724	553,640	548,169	530,839	513,034	483,819	454,266	407,156	353,790	305,975
Tax expense	(89,774)	(87,060)	(88,904)	(72,242)	(57,317)	(59,852)	(58,964)	(45,582)	(48,475)	(42,091)
Profit for the year	481,950	466,580	459,265	458,597	455,717	423,967	395,302	361,574	305,315	263,884



Independent auditor's report to the shareholders of bank muscat SAOG

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of bank muscat SAOG ("the Bank") and its subsidiary (together, the "Group") as at 31 December 2019, and the consolidated financial performance and the consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The consolidated financial statements of the Group comprise :

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Independent auditor's report to the shareholders of bank muscat SAOG (continued)

Our audit approach

Overview

Key Audit Matter

- Impairment of loans and advances and Islamic financing receivables

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Independent auditor's report to the shareholders of bank muscat SAOG (continued)

Our audit approach (continued)

Key audit matters	How our audit addressed the Key audit matter
Impairment of loans and advances and Islamic financing receivables At 31 December 2019, gross loans and advances and Islamic financing receivables were RO 8,001 million and RO 1,192 million, respectively against which a credit impairment provision of RO 289 million and RO 26 million, respectively, was maintained Impairment allowances represent the directors' best estimate of the losses within the loans and advances and Islamic financing receivables portfolios at the balance sheet date. As described in the notes to the financial statements, the impairment losses have been determined in accordance with International Financial Reporting Standard 9 Financial Instruments (IFRS 9). We focused on this area because the directors make complex and subjective judgements over both timing of recognition of impairment losses and the estimation of the size of any impairment loss, such as: ○ Determining criteria for significant increase in credit risk (SICR); ○ Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD); ○ Assessing the recoverability of Stage 3 financial assets; ○ Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; ○ Establishing portfolios of similar financial assets for the purposes of measuring ECL; and ○ Determining disclosure requirements in accordance with International Financial Reporting Standards. Information on credit risk and the Group's credit risk management is provided in note 42.2. Disclosure of the impairment allowance and net impairment charge is provided in note 42.2.	We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances. We performed the following substantive procedures: ○ Reviewed the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; ○ Obtained an understanding of and tested the completeness and accuracy of the historical and current datasets used for ECL calculation including where applicable the relevant interface to the expected credit loss model; ○ For similar financial assets grouped in portfolios for the purposes of measuring ECL, we obtained an understanding of and tested that grouping; ○ Tested a sample of loans to determine the appropriateness and application of the staging criteria; ○ Obtained an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and tested a sample of credit exposures against the methodology; and ○ Assessed the related financial statement disclosures to determine if they are in accordance with the requirements of International financial Reporting Standards. We involved our specialists in areas that required specific expertise including: ○ Testing the implementation of IFRS 9 methodology for the ECL calculation; ○ Testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used; ○ Assessing the appropriateness of the definition of default and testing the application of the default criteria; ○ Assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; ○ Assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; and ○ Testing and assessing the reasonableness of the Group's use of scenarios, weightings and discount rates.

Independent auditor's report to the shareholders of bank muscat SAOG (continued)

Other information

The directors are responsible for the other information. The other information comprises the Chairman's Report, Corporate Governance Statement, Pillar III Disclosures, Meethaq Pillar III Disclosures, Management Discussion and Analysis, Corporate Sustainability and CSR Vision, Financial Review, Meethaq Financial Review and Ten-Year Summary (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with these consolidated 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 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 the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.

Independent auditor's report to the shareholders of bank muscat SAOG (continued)

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

- 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 the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

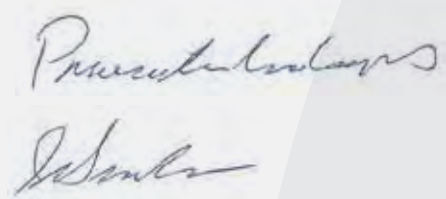
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors 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 the directors, we determine those matters that were of most significance in the audit of the consolidated 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

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the consolidated financial statements have been prepared and comply, in all material respects, with those requirements and provisions.



Stuart Scoular
Muscat, Sultanate of Oman

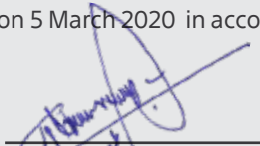
5 March 2020

Financial Statements

Bank Muscat SAOG
Consolidated statement of financial position
As at 31 December 2019

2018	2019		Notes	2019	2018
US\$ 000's	US\$ 000's			RO 000's	RO 000's
		ASSETS			
3,394,172	2,030,533	Cash and balances with Central Banks	5	781,755	1,306,756
1,236,475	2,259,230	Due from banks	6	869,804	476,043
20,333,727	20,031,670	Loans and advances	7	7,712,193	7,828,485
2,884,233	3,028,176	Islamic financing receivables	7	1,165,848	1,110,430
3,297,615	3,752,811	Investment securities	9	1,444,832	1,269,582
590,239	614,789	Other assets	8	236,694	227,242
180,522	206,447	Property, equipment and software	11	79,482	69,501
31,916,983	31,923,656	Total assets		12,290,608	12,288,039
		LIABILITIES AND EQUITY			
		LIABILITIES			
2,472,411	3,047,997	Deposits from banks	14	1,173,479	951,878
19,491,477	18,211,081	Customers' deposits	15	7,011,266	7,504,219
2,489,523	2,681,558	Islamic customers' deposits	15	1,032,400	958,466
115,865	234,299	Sukuk	16	90,205	44,608
1,000,000	1,001,065	Euro medium term notes	17	385,410	385,000
1,125,581	1,355,490	Other liabilities	19	521,864	433,349
113,005	122,514	Taxation	20	47,168	43,507
102,000	68,000	Subordinated liabilities	21	26,180	39,270
26,909,862	26,722,004	Total liabilities		10,287,972	10,360,297
		EQUITY			
		Equity attributable to equity holders of parent			
765,561	803,839	Share capital	22	309,478	294,741
1,380,610	1,380,610	Share premium	23	531,535	531,535
963,605	997,605	General reserve	24	384,078	370,988
255,187	267,948	Legal reserve	24	103,160	98,247
14,987	12,738	Revaluation reserve	12	4,904	5,770
34,000	34,000	Subordinated loan reserve	24	13,090	13,090
1,135	(88)	Cash flow hedge reserve	38	(34)	437
(13,047)	(966)	Cumulative changes in fair value		(372)	(5,023)
(5,371)	(5,964)	Foreign currency translation reserve		(2,296)	(2,068)
12,008	6,769	Impairment reserve / reserve for restructured loans	24	2,606	4,623
1,260,784	1,367,499	Retained profit		526,487	485,402
4,669,459	4,863,990	Total equity attributable to the equity holders		1,872,636	1,797,742
337,662	337,662	Perpetual Tier I capital	25	130,000	130,000
5,007,121	5,201,652	Total equity		2,002,636	1,927,742
31,916,983	31,923,656	Total liabilities and equity		12,290,608	12,288,039
US\$ 1.58	US\$ 1.57	Net assets per share	27	RO 0.605	RO 0.610
6,951,780	6,033,655	Contingent liabilities and commitments	28	2,322,957	2,676,435

These consolidated financial statements along with notes and other explanatory information on pages 127 to 220 were authorised for issue on 5 March 2020 in accordance with the resolution of the Board of Directors.


Chairman


Director


Chief Executive Officer

The notes and other explanatory information on pages 127 to 220 form an integral part of these consolidated financial statements.

Bank Muscat SAOG
Consolidated statement of comprehensive income
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
US\$ 000's	US\$ 000's			RO 000's	RO 000's
1,091,006	1,174,072	Interest income	29	452,017	420,037
(372,229)	(418,538)	Interest expense	30	(161,137)	(143,308)
718,777	755,534	Net interest income		290,880	276,729
152,229	171,639	Income from Islamic financing/investments	29	66,081	58,608
(80,644)	(103,868)	Distribution to depositors	30	(39,989)	(31,048)
71,585	67,771	Net income from Islamic financing		26,092	27,560
790,362	823,305	Net interest income and income from Islamic financing		316,972	304,289
250,571	265,673	Commission and fee income (net)	31	102,284	96,470
119,421	137,441	Other operating income	32	52,915	45,977
1,160,354	1,226,419	Operating income		472,171	446,736
		Operating expenses			
(459,698)	(455,225)	Other operating expenses	33	(175,262)	(176,984)
(34,699)	(53,686)	Depreciation	11	(20,669)	(13,359)
(494,397)	(508,911)			(195,931)	(190,343)
(112,317)	(145,784)	Net impairment losses on financial assets	42	(56,127)	(43,242)
(606,714)	(654,695)			(252,058)	(233,585)
553,640	571,724	Profit before taxation		220,113	213,151
(87,060)	(89,774)	Tax expense	20	(34,563)	(33,518)
466,580	481,950	Profit for the year		185,550	179,633
		Other comprehensive (expense) income			
		Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods			
(1,935)	(592)	Translation of net investments in foreign operations		(228)	(745)
(4,322)	12,154	Change in fair value of FVOCI Debt	20	4,679	(1,664)
1,618	(1,223)	Change in fair value of cash flow hedge	20	(471)	623
(4,639)	10,339			3,980	(1,786)
		Net other comprehensive income (expense) not to be reclassified to profit or loss in subsequent periods			
(22,719)	(73)	Change in fair value of FVOCI Equity	20	(28)	(8,747)
(805)	(8,917)	Realised gain / (loss) on FVOCI Equity	20	(3,433)	(310)
-	(2,249)	Tax impact on revaluation reserve	11	(866)	-
(28,163)	(900)	Other comprehensive expense for the year		(347)	(10,843)
438,417	481,050	Total comprehensive income for the year		185,203	168,790
		Total comprehensive income attributable to:			
438,417	481,050	Equity holders of Parent Company		185,203	168,790
		Profit attributable to:			
466,580	481,950	Equity holders of Parent Company		185,550	179,633
		Earnings per share:			
US\$ 0.15	US\$ 0.16	Basic and diluted	35	RO 0.060	RO 0.059

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 20.

Bank Muscat SAOG
Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributable to equity holders of parent						
	Notes	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January 2019		294,741	531,535	370,988	98,247	5,770	13,090
Profit for the year		-	-	-	-	-	-
Transfer from restructured loan reserve to retained profits		-	-	-	-	-	-
Transfer within equity upon disposal of FVOCI equity instruments	20	-	-	-	-	-	-
Other comprehensive (expense) income		-	-	-	-	(866)	-
Total comprehensive income		-	-	-	-	(866)	-
Dividends paid	26	-	-	-	-	-	-
Issue of bonus shares	26	14,737	-	-	-	-	-
Transfer to legal reserve	24	-	-	-	4,913	-	-
Transfer from subordinated loan reserve	24	-	-	13,090	-	-	(13,090)
Transfer to subordinated loan reserve	24	-	-	-	-	-	13,090
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-
Balance at 31 December 2019		309,478	531,535	384,078	103,160	4,904	13,090
Balance At 31 December 2019 (US\$' 000)		803,839	1,380,610	997,605	267,948	12,738	34,000

	Attributable to equity holders of parent						
	Notes	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January 2018		270,936	509,377	288,898	90,312	5,770	82,090
Impact of adopting IFRS 9 at 1 January 2018		-	-	-	-	-	-
Restated Balance as at 1 January 2018		270,936	509,377	288,898	90,312	5,770	82,090
Profit for the year		-	-	-	-	-	-
Transfer from restructured loan reserve to retained profit		-	-	-	-	-	-
Transfer within equity upon disposal of FVOCI equity instruments	20	-	-	-	-	-	-
Other comprehensive (expense) income		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-
Dividends paid	26	-	-	-	-	-	-
Issue of bonus shares		13,547	-	-	-	-	-
Transfer to legal reserve	24	-	-	-	7,935	-	-
Conversion of mandatory convertible bonds	18	10,258	22,158	-	-	-	-
Transfer from subordinated loan reserve	24	-	-	82,090	-	-	(82,090)
Transfer to subordinated loan reserve	24	-	-	-	-	-	13,090
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-
Balance at 31 December 2018		294,741	531,535	370,988	98,247	5,770	13,090
Balance at 31 December 2018 (US\$' 000)		765,561	1,380,610	963,605	255,187	14,987	34,000

The notes and other explanatory information on pages 127 to 220 form an integral part of these consolidated financial statements.

Attributable to equity holders of parent							
Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Impairment reserve / reserve for restructured loans	Retained profit	Total	Perpetual Tier I capital	Total
RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
437	(5,023)	(2,068)	4,623	485,402	1,797,742	130,000	1,927,742
-	-	-	-	185,550	185,550	-	185,550
-	-	-	(2,017)	2,017	-	-	-
-	3,433	-	-	(3,433)	-	-	-
(471)	1,218	(228)	-	-	(347)	-	(347)
(471)	4,651	(228)	(2,017)	184,134	185,203	-	185,203
-	-	-	-	(103,159)	(103,159)	-	(103,159)
-	-	-	-	(14,737)	-	-	-
-	-	-	-	(4,913)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	(13,090)	-	-	-
-	-	-	-	(7,150)	(7,150)	-	(7,150)
(34)	(372)	(2,296)	2,606	526,487	1,872,636	130,000	2,002,636
(88)	(966)	(5,964)	6,769	1,367,499	4,863,990	337,662	5,201,652

Attributable to equity holders of parent							
Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Impairment reserve / reserve for restructured loans	Retained profit	Total	Perpetual Tier I capital	Total
RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
(186)	16,813	(1,323)	5,100	420,546	1,688,333	130,000	1,818,333
-	(11,425)	-	-	8,059	(3,366)	-	(3,366)
(186)	5,388	(1,323)	5,100	428,605	1,684,967	130,000	1,814,967
-	-	-	-	179,633	179,633	-	179,633
-	-	-	(477)	477	-	-	-
-	310	-	-	(310)	-	-	-
623	(10,721)	(745)	-	-	(10,843)	-	(10,843)
623	(10,411)	(745)	(477)	179,800	168,790	-	168,790
-	-	-	-	(81,281)	(81,281)	-	(81,281)
-	-	-	-	(13,547)	-	-	-
-	-	-	-	(7,935)	-	-	-
-	-	-	-	-	32,416	-	32,416
-	-	-	-	-	-	-	-
-	-	-	-	(13,090)	-	-	-
-	-	-	-	(7,150)	(7,150)	-	(7,150)
437	(5,023)	(2,068)	4,623	485,402	1,797,742	130,000	1,927,742
1,135	(13,047)	(5,371)	12,008	1,260,784	4,669,459	337,662	5,007,121

Bank Muscat SAOG
Consolidated statement of cash flows
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
US\$ 000's	US\$ 000's			RO 000's	RO 000's
		Cash flows from operating activities			
553,640	571,724	Profit for the year before taxation		220,113	213,151
		Adjustments for :			
34,699	53,686	Depreciation	11	20,669	13,359
112,317	145,784	Net impairment on financial assets	42	56,127	43,242
-	65	Loss on sale of property and equipment	11	25	-
5,429	(7,675)	Profit (loss) on sale of investments	32	(2,955)	2,090
(18,190)	(17,088)	Dividend income	32	(6,579)	(7,003)
687,895	746,496	Operating profit before working capital changes		287,400	264,839
(17,613)	(123,940)	Due from banks		(47,717)	(6,781)
(1,230,691)	234,208	Loans and advances		90,170	(473,816)
(373,218)	(155,605)	Islamic financing receivables		(59,908)	(143,689)
(83,970)	(30,887)	Other assets		(11,891)	(32,328)
(184,361)	(26,906)	Deposits from banks		(10,359)	(70,979)
2,713,790	(1,280,398)	Customers' deposits		(492,953)	1,044,809
(3,730)	192,036	Islamic Customer deposits		73,934	(1,436)
-	118,434	Sukuk		45,597	-
58,947	104,324	Other liabilities		40,165	22,695
1,567,049	(222,238)	Cash (used in) from operations		(85,562)	603,314
(88,930)	(80,327)	Income taxes paid		(30,926)	(34,238)
1,478,119	(302,565)	Net cash (used in) generated from operating activities		(116,488)	569,076
		Cash flows from investing activities			
18,190	17,088	Dividend income		6,579	7,003
(409,789)	(618,588)	Purchase of investments		(238,156)	(157,769)
55,151	91,612	Proceeds from sale of investments		35,271	21,233
(27,894)	(22,044)	Purchase of property and equipment	11	(8,487)	(10,739)
-	57	Proceeds from sale of property and equipment	11	22	-
(364,342)	(531,875)	Net cash (used in) investing activities		(204,771)	(140,272)
		Cash flows from financing activities			
(211,119)	(267,945)	Dividends paid		(103,159)	(81,281)
(18,571)	(18,571)	Interest on Perpetual Tier I capital		(7,150)	(7,150)
(213,221)	(34,000)	Subordinated loan paid		(13,090)	(82,090)
(442,911)	(320,516)	Net cash from/(used in) financing activities		(123,399)	(170,521)
670,866	(1,154,956)	Net change in cash and Cash equivalents		(444,658)	258,283
3,035,220	3,706,086	Cash and cash equivalents at 1 January		1,426,843	1,168,560
3,706,086	2,551,130	Cash and cash equivalents at 31 December	34	982,185	1,426,843

The notes and other explanatory information on pages 127 to 220 form an integral part of these consolidated financial statements.

1. Legal status and principal activities

Bank Muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 169 branches (2018 - 169 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in United Arab Emirates, Singapore and Iran. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in 6 countries (2018 - 6 countries) and employed 3,818 employees as of 31 December 2019 (2018: 3,779).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes and undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2019, Meethaq has 20 branches (2018 - 20 branches) in the Sultanate of Oman.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the applicable regulations of the CBO, the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting for financial reporting differences, if any, between AAOIFI and IFRS.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the application of fair value measurements that are required or allowed by relevant accounting standards. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

For the ease of users, relevant balances of Meethaq are separately presented in these consolidated financial statements wherever applicable. A complete set of carve out financial statements of Meethaq, prepared under AAOIFI, is included in the Group's annual report.

Capital Market Authority (CMA) of the Sultanate of Oman requires all Public Joint Stock Companies to disclose the financials of the Parent Company in a separate column in the consolidated financial statements vide Circular E/2/2007 dated 21 January 2007. The Group has one subsidiary, Muscat Capital Company, which has been consolidated for the years ended 31 December 2019 and 31 December 2018. Details of subsidiary are given in note 10.

The size, operations, and financial statements of the subsidiary are not material to the financial statements of the Group. Hence, financials statements of the Parent Company has not been provided in a separate column in the consolidated financial statements.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Rial Omani, which is the entity's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 New Standards, implementations and amendments in existing standards

a. New and amended standards and interpretations to IFRS relevant to the Group

For the year ended 31 December 2019, the Group has adopted all of the 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.

The following new standards and amendments became effective as of 1 January 2019:

- IFRS 16 Leases.
- Prepayment Features with Negative Compensation – Amendments to IFRS 9.
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28.
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle.
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.
- Interpretation 23 Uncertainty over Income Tax Treatments.
- Definition of Material – Amendments to IAS 1 and IAS 8.

Group also elected to adopt the following amendments early:

- Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7.

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but has not restated comparatives for the 2018 reporting period. This is disclosed in note 3.18. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 3.18.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.0%.

i. Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following permitted practical expedients:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying IAS 17 and Interpretation 4 determining whether an arrangement contains a lease.

ii. Measurement of lease liabilities

	RO 000's	US\$ 000's
Operating lease commitments As at 31 December 2018	18,006	46,769
(Less): short-term leases not recognized as a liability	(3,301)	(8,574)
Gross lease liability as at 1 January 2019	14,705	38,195
Discounted Lease liability as at 1 January 2019	13,118	34,073
Less: Prepayments	(3,111)	(8,081)
Discounted Lease liability (net of prepayments)	10,007	25,992
Of which are :		
Current lease liabilities	2,563	6,657
Non-current lease liabilities	7,444	19,335

iii. Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position As at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

iv. Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019.

- Right-of-use assets – increase by RO 44,996 thousand.
 - o Leases previously classified as operating leases of RO 13,118 thousand.
 - o Leases previously classified as finance leases of RO 31,878 thousand reclassified on transition from property, equipment and software.
- Lease liabilities – increase by RO 51,641 thousand.
 - o Leases previously classified as operating leases of RO 13,118 thousand.
 - o Leases previously classified as finance leases of RO 38,523 thousand reclassified on transition from Finance lease liabilities.
- There was no impact on opening retained earnings.

Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. This is expected to impact current risk management strategy and possibly accounting for certain financial instruments. There is currently uncertainty around the timing and precise nature of these changes.

The Group has Loans and Advances and Due from Banks of RO 2,031 million, Due to Banks of RO 953 million, Subordinated liabilities of RO 26 million, Interest rate swaps of RO 229 million which are exposed to the impact of LIBOR.

The Group has early adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019. The amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The relief provided by the amendments that apply to the Group are:

- When considering the 'highly probable' requirement, the Group has assumed that the USD LIBOR interest rate on which hedged debts are based does not change as a result of reform.
- In assessing the hedge effectiveness on a forward-looking basis, it has assumed that USD LIBOR interest rate on which the cash flows of the hedged asset / liability and the interest rate swap that hedges it are based are not altered by the reform.
- It will not discontinue hedge accounting during the period of uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range.
- It has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

Disclosures related to the derivatives held for hedging purposes and its carrying amount, notional amount and notional amounts by term to maturity are given in Note 38.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.5 Consolidation

a. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary As at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee that significantly affect their returns).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive
- Income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

b. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the Group in transactions where the non-controlling interests are acquired or sold without loss of control.

When the Group ceases to have control or significant influence, any retained interest in the entity is measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

c. Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment is recognised in the profit or loss.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

3. Significant accounting policies

3.1 Application of accounting policies

Except for note 3.18, the Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

3.2 Revenue from Contracts with Customers

Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Specifically, the standard introduces a 5 step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The products and services of the Group covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue Recognition
Transactional services	The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.	The Group recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract.
Trade services	The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions. Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Income is recognised on service completion basis or time proportionate basis over the period of contract.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue Recognition
Syndication and other loan related services	The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	The Group recognises revenue on completion of service basis or on time proportion basis.
Advisory and asset management services	Advisory services include advising for debt syndications, fund raising, financial structuring etc. This also includes business restructuring services like advising for mergers and acquisitions, joint ventures, bid process etc. Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract. Asset management services cover: a) Portfolio management services including managing investment portfolios primarily for institutional clients for investing into local, regional and international listed equities, fixed income securities, commodities, currencies, derivatives, structured products b) Fund Management includes structuring, setting up and ongoing management of fund and its investments either in Oman or in other jurisdictions as per business requirements and activities c) Ancillary services including custody services, trade executions etc. Private Equity business cover structuring of funds, mobilization of capital for Funds and investment management of funds. Fees for asset management services and private equity are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Advisory income is recognised on satisfaction of performance obligation at a point in time or over a period of time or on achievement of agreed milestones as per contract. Asset management income is recognised on time proportion basis or on completion of performance obligations as per the terms of the contract.

3.3 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 amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised 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.
- (iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3.4 Revenue and expense recognition

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

3.4.1 Interest

Effective interest rate (EIR)

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.6.

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include::

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

3.4.2 Fees and commission

Fees integral to the effective interest rate (EIR) are included in the EIR calculation, and are recognised over the life of the financial instrument. This include fees integral to the origination of a financial instrument (fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability) and commitment fees (if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination). The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis or based on a right to receive. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3.4.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in 'Other operating income', when the Group's right to receive the dividend is established.

3.4.4 Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.5 Financial assets and liabilities

3.5.1 Recognition and initial measurement

The Group 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 Group 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.

Transaction cost of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

3.5.2 Classification

The Group classifies its financial assets in the following measurement categories:

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets 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 on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group 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 Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group 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 Group'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.
- 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and 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 Group 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 Group considers:

- Contingent events that would change the amount and timing of cash flows.
- Leverage features.
- Prepayment and extension terms.
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

a. Loans and advances

'Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.
- Loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss.
- Finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

b. Investment securities

The 'investment securities' caption in the statement of financial position includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.
- 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.

- Debt securities measured at FVOCI.
- Equity investment securities designated as at FVOCI.

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 amortised 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.

The Group elects to present in OCI 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 OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3.5.3 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 Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge).
- Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).
- Hedges of a net investment in a foreign operation (net investment hedge).

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Group 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'.

(a) Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which the Group 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 entity 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 on-going 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.

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.

3.5.4 Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3.5.5 Derecognition

(i) 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 when:

- The rights to receive cash flows from the asset have expired
- The Group 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 either:
 - The Group has transferred substantially all the risks and rewards of the asset; or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group 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 Group 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 Group could be required to repay.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

(ii) 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.5.6 Modifications of financial assets and financial liabilities

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. 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 are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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.

3.5.7 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Group of similar transactions.

3.5.8 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.5.9 Fair value measurement

A number of the Group'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 43.

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 Group.

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

The Group also compares each of 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 Group 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.

Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Fair value measurement of derivatives

The fair value of forward contracts/options and others are estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate/cross currency swaps are arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instrument at measurement date.

The fair value of options is determined based on its intrinsic values, term to maturity and implied volatility.

3.6 Identification and measurement of impairment of financial assets

Loss allowances are recognised for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments.
- Financial guarantee contracts issued.
- Loan commitments issued.

No impairment loss is recognised on equity investments. Loss allowances are measured at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

See also Credit risk note 42.2

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 derecognised 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 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.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised 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 Group on terms that the Group would not consider otherwise.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- 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, any loan that is overdue for 90 days or more is considered impaired.

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 amortised cost: as a deduction from the gross carrying amount of the assets.
- Loan commitments and financial guarantee contracts: generally, as a provision under other liabilities.
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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.
- 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.

Write-off

- 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 Group 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, certain financial assets that are technically written off and held through memorandum accounts could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.7 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and bank balances, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.8 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3.9 Property, equipment and software

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Computer software costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of 5-10 years. Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Items	Years
Buildings	20 - 50
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amount and are recognised within 'Other operating income' in the statement of comprehensive income.

Repairs and renewals are charged to the statement of comprehensive income 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 the statement of comprehensive income as an expense as incurred.

3.10 Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the outstanding amount of the related loans and advances or the fair value of the collateral held. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

3.11 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

3.12 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

3.13 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet 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 the 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.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.14 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3.15 Acceptances

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

3.16 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.17 Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.18 Leases

Policies applicable from 1 January 2019

As explained in note 3 and 2.4 above, the Bank has changed its accounting policy for leases where the Bank is a lessee.

(i) The Group's leasing activities and how these are accounted for

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments are included in the measurement of the liability if the Group has enforceable rights and is reasonably certain to exercise extension options. The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group uses the rate which approximates to the risk free rate adjusted for its credit risk, lease tenure and collateral if any.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to profit or loss in other operating expenses as "finance charges on lease" over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability .
- Any lease payments made at or before the commencement date less any lease incentives received .
- Any initial direct costs.
- Any restoration costs.

The right-of-use assets are depreciated over the lease term on a straight-line basis, unless the lease term is higher than the asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. The Group does not have any significant low-value assets as of the respective reporting date.

(ii) Extension and termination options

Extension and termination options are included in a number of leases across the Group. The majority of extension and termination options held are exercisable by the Group and by the respective lessor. Extension options are not included in the lease term only if the lease is reasonably certain to be extended (or not terminated). The Group considers several factors to determine the lease term, as mentioned in note 4 (d).

Policies applicable before 1 January 2019

Until the year 2018, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, were capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3.19 Employee end of service benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani end of service benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3.20 Earnings per share

The Group 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 of the Group 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.

3.21 Share Capital

Ordinary shares with discretionary dividends and other eligible shares / instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3.22 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.23 Dividend on ordinary shares

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

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

3.24 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. These costs are recorded as expenses in the period in which they are incurred.

4. Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in this note. Specific fair value estimates are disclosed in note 43.

The Group's significant accounting estimates were on:

(a) Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 42.2.8.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk.
- Choosing appropriate models and assumptions for the measurement of ECL.
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.
- Establishing groups of similar financial assets for the purposes of measuring ECL.

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	At 31 December 2019		At 31 December 2018	
	ECL RO 000's	Impact on ECL RO 000's	ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired loans under IFRS9	128,703		157,252	
Simulations				
Upside case - 100% weighted	112,438	(16,265)	139,103	(18,149)
Base case - 100% weighted	128,569	(134)	158,116	864
Downside scenario - 100% weighted	145,146	16,443	174,248	16,996

For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% & 30% respectively. For further information on the key indicators, refer to note 42.2.8.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses expected cash flow analysis for various financial assets that are not traded in active markets.

The sensitivity analysis of the fair value of derivatives and other financial instruments is shown in note 43, fair value information.

(c) Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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.

A table showing the impact of change in tax is as follows:

Sensitivity of assumptions used in the tax calculations	At 31 December 2019		At 31 December 2018	
	% of change (+/-)	Change (+/-)	% of change (+/-)	Change (+/-)
		RO 000's		RO 000's
Change in tax expense	5%	1,728	5%	1,676

Accordingly, the table showing the impact of change in deferred tax by 5 per cent is as follows:

Deferred tax asset/ liability (net)	At 31 December 2019		At 31 December 2018	
	% of change (+/-)	Change (+/-)	% of change (+/-)	Change (+/-)
		RO 000's		RO 000's
Impact of change	5%	258	5%	387

(d) Determination of lease term

In determining the lease term, the Group considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Group may contain an extension option, where the Group has not considered extension options after analysing above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the financial year, the Group has not revised its assessment of lease term as no significant events or changes occurred.

5. Cash and balances with Central Banks

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
405,626	431,499	Cash	166,127	156,166
1,299	1,299	Capital deposit with Central Banks	500	500
2,009,044	348,517	Certificate of deposits with Central Banks	134,179	773,482
978,203	1,249,218	Other balances with Central Banks	480,949	376,608
<u>3,394,172</u>	<u>2,030,533</u>		<u>781,755</u>	<u>1,306,756</u>

The capital deposit with the Central Banks cannot be withdrawn without the approval of the respective Central Bank. During 2019, the average minimum balance to be kept with Central Banks as statutory reserves was RO 272.1 million (2018: RO 256.0 million).

6. Due from banks

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		At amortised cost / FVOCI		
294,800	301,618	Nostro balances	116,123	113,498
737,966	1,580,057	Inter-bank placements	608,322	284,117
155,392	252,909	Loans to banks	97,370	59,826
1,188,158	2,134,584		821,815	457,441
(1,683)	(1,990)	Less: impairment loss allowance	(766)	(648)
1,186,475	2,132,594		821,049	456,793
		At FVTPL		
50,000	126,636	Inter-bank placements	48,755	19,250
<u>1,236,475</u>	<u>2,259,230</u>		<u>869,804</u>	<u>476,043</u>

The movement in impairment loss allowance is analysed below:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
6,622	1,683	At 1 January	648	2,550
622	-	Remeasurement on transition to IFRS9	-	239
7,244	1,683	At 1 January (post transition)	648	2,789
(5,561)	304	Provided (reversed) during the year	117	(2,141)
-	3	Others	1	-
<u>1,683</u>	<u>1,990</u>	At 31 December	<u>766</u>	<u>648</u>

7. Loans and advances/ Islamic financing receivables

Loans and advances - conventional

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
18,781,167	18,393,927	Loans	7,081,662	7,230,749
726,317	810,569	Overdrafts and credit cards	312,069	279,632
570,171	483,210	Loans against trust receipts	186,036	219,516
162,875	242,366	Bills purchased and discounted	93,311	62,707
892,501	851,473	Other advances	327,817	343,613
21,133,031	20,781,545		8,000,895	8,136,217
(799,304)	(749,875)	Less: impairment loss allowance	(288,702)	(307,732)
<u>20,333,727</u>	<u>20,031,670</u>		<u>7,712,193</u>	<u>7,828,485</u>

Islamic financing receivables

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
1,258,974	1,272,834	Housing finance	490,041	484,705
113,506	115,462	Consumer finance	44,453	43,700
<u>1,567,283</u>	<u>1,707,631</u>	Corporate finance	<u>657,438</u>	<u>603,404</u>
2,939,763	3,095,927		1,191,932	1,131,809
(55,530)	(67,751)	Less: impairment loss allowance	(26,084)	(21,379)
<u>2,884,233</u>	<u>3,028,176</u>		<u>1,165,848</u>	<u>1,110,430</u>

The movement in impairment loss allowance is analysed below:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
851,387	854,834	At 1 January	329,111	327,784
(85,317)	-	Remeasurement on transition to IFRS 9	-	(32,847)
766,070	854,834	At 1 January (post transition)	329,111	294,937
204,842	176,179	Impairment for credit losses	67,829	78,864
26,130	41,148	Interest reserved during the year	15,842	10,060
(95,340)	(93,366)	Recoveries from impairment for credit losses	(35,946)	(36,706)
(14,481)	(12,764)	Reserve interest recovered during the year	(4,914)	(5,575)
(19,778)	(6,293)	Written off during the year	(2,423)	(7,614)
(12,171)	(142,078)	Transfer to memorandum portfolio	(54,700)	(4,686)
(75)	21	Foreign currency translation difference	8	(29)
(49)	-	Transfer to collateral pending sale	-	(19)
(314)	(55)	Other movements	(21)	(121)
<u>854,834</u>	<u>817,626</u>	At 31 December	<u>314,786</u>	<u>329,111</u>

As of 31 December 2019, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 298.5 million (2018: RO 286.8 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

8. Other assets

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
279,190	320,681	Acceptances (note 19)	123,462	107,488
(236)	(377)	Less: impairment loss allowance	(145)	(91)
278,954	320,304	Net Acceptances	123,317	107,397
97,425	115,747	Other debtors and prepaid expenses	44,563	37,509
47,873	57,855	Positive fair value of derivatives (note 38)	22,274	18,431
88,413	94,291	Accrued interest	36,302	34,039
20,086	15,644	Deferred tax asset (note 20)	6,023	7,733
52,787	6,247	Others	2,405	20,323
4,701	4,701	Collateral pending sale (net)	1,810	1,810
<u>590,239</u>	<u>614,789</u>		<u>236,694</u>	<u>227,242</u>

During 2019, the Parent company has not acquired any collateral towards loan settlement. No collateral has been disposed during the year (2018: RO 5.59 million). In accordance with the CBO requirements, the Bank has retained the existing impairment provision of RO 4.84 million (2018: RO 4.84 million) till all the properties are disposed.

9. Investment securities

As at 31 December 2019	FVTPL	FVOCI	Amortised Cost	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Quoted Equities:				
Foreign securities	7,518	65,761	-	73,279
Other services sector	-	7,616	-	7,616
Unit funds	9,014	-	-	9,014
Financial services sector	608	6,451	-	7,059
Industrial sector	-	1,369	-	1,369
Unquoted Equities:				
Foreign securities	870	1,672	-	2,542
Local securities	7,533	1,855	-	9,388
Unit funds	391	-	-	391
Equity investments	<u>25,934</u>	<u>84,724</u>	<u>-</u>	<u>110,658</u>
Quoted Debt:				
Government Bonds	-	-	702,652	702,652
Foreign Bonds	-	32,811	5,012	37,823
Local Bonds	-	22,503	91,415	113,918
Unquoted Debt:				
Treasury Bills	-	-	461,819	461,819
Local Bonds	-	5,475	14,100	19,575
Gross debt investments	<u>-</u>	<u>60,789</u>	<u>1,274,998</u>	<u>1,335,787</u>
Less: impairment loss allowance	<u>-</u>	<u>(1,311)</u>	<u>(302)</u>	<u>(1,613)</u>
Debt investments	<u>-</u>	<u>59,478</u>	<u>1,274,696</u>	<u>1,334,174</u>
Investments securities	<u>25,934</u>	<u>144,202</u>	<u>1,274,696</u>	<u>1,444,832</u>
US\$'000	<u>67,361</u>	<u>374,551</u>	<u>3,310,899</u>	<u>3,752,811</u>

The Group has designated some investments in equity instruments at FVOCI as these are investments that the Group plans to hold in the long-term for strategic reasons.

As at 31 December 2018	FVTPL	FVOCI	Amortised Cost	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Quoted Equities:				
Foreign securities	9,347	61,977	-	71,324
Other services sector	-	10,293	-	10,293
Unit funds	11,350	-	-	11,350
Financial services sector	610	7,408	-	8,018
Industrial sector	-	2,069	-	2,069
Unquoted Equities:				
Foreign securities	1,155	1,615	-	2,770
Local securities	7,232	9,147	-	16,379
Unit funds	425	-	-	425
Equity investments	<u>30,119</u>	<u>92,509</u>	<u>-</u>	<u>122,628</u>
Quoted Debt:				
Government Bonds	-	-	501,241	501,241
Foreign Bonds	-	34,036	2,018	36,054
Local Bonds	-	20,143	71,896	92,039
Unquoted Debt:				
Treasury Bills	-	-	495,677	495,677
Local Bonds	-	8,700	14,356	23,056
Gross debt investments	-	62,879	1,085,188	1,148,067
Less: impairment loss allowance	-	(932)	(181)	(1,113)
Debt investments	<u>-</u>	<u>61,947</u>	<u>1,085,007</u>	<u>1,146,954</u>
Investments securities	<u>30,119</u>	<u>154,456</u>	<u>1,085,007</u>	<u>1,269,582</u>
US\$'000	<u>78,231</u>	<u>401,184</u>	<u>2,818,200</u>	<u>3,297,615</u>

The movement in impairment of debt investments is summarised as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
38,891	2,891	At 1 January	1,113	14,973
(34,408)	-	Reclassification on transition to IFRS 9	-	(13,247)
4,483	2,891	At 1 January (post transition)	1,113	1,726
(1,592)	1,299	Provided / (Reversed) during the year	500	(613)
<u>2,891</u>	<u>4,190</u>	At 31 December	<u>1,613</u>	<u>1,113</u>

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments	FVOCI Equity investments	Amortised cost	FVTPL	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2019	61,947	92,509	1,085,007	30,119	1,269,582
Exchange differences	40	(234)	3,413	(7)	3,212
Additions	4,587	8,942	3,936,843	1,839	3,952,211
Disposals and redemption	(11,361)	(14,938)	(3,749,820)	(8,972)	(3,785,091)
Gain from change in fair value	4,779	1,879	-	1,589	8,247
Provision for impairment losses	(379)	-	(121)	-	(500)
Amortisation of discount / premium	(118)	-	(626)	-	(744)
Realised gains / (loss) on sale	(17)	(3,434)	-	1,366	(2,085)
At 31 December 2019	59,478	84,724	1,274,696	25,934	1,444,832
US\$'000	154,489	220,062	3,310,899	67,361	3,752,811

	FVOCI Debt instruments	FVOCI Equity investments	Amortised cost	FVTPL	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2018	253,404	114,822	607,955	50,995	1,027,176
Reclassification on transition to IFRS 9	(207,734)	(28,836)	256,838	(23,149)	(2,881)
At 1 January	45,670	85,986	864,793	27,846	1,024,295
Exchange differences	(1)	(727)	(6,367)	(36)	(7,131)
Additions	26,987	18,137	3,361,494	16,615	3,423,233
Disposals and redemption	(8,685)	(332)	(3,135,128)	(12,216)	(3,156,361)
Loss from change in fair value	(2,143)	(10,245)	-	(2,159)	(14,547)
Reversal of impairment losses	162	-	451	-	613
Amortisation of discount / premium	(43)	-	(236)	-	(279)
Realised gains (loss) on sale	-	(310)	-	69	(241)
At 31 December 2018	61,947	92,509	1,085,007	30,119	1,269,582
US\$'000	160,901	240,283	2,818,200	78,231	3,297,615

10. Investment in a subsidiary

Details regarding the Parent company's investment in a significant subsidiary are set out below:

Company name	Country of incorporation	Proportion held	
		2019	2018
Muscat Capital Company	Kingdom of Saudi Arabia (KSA)	100%	100%

The key balance sheet and income statement items of the subsidiary are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
30,797	30,486	Total assets	11,737	11,857
10,751	9,075	Total liabilities	3,494	4,139
16,000	16,000	Authorised & issued share capital	6,160	6,160
6,608	5,278	Operating income	2,032	2,544
5,000	3,995	Total expenses	1,538	1,925
1,608	1,283	Net profit after tax	494	619

11. Property, equipment and software

	Property, equipment and software	Right-of-use assets (note 12)	Total
	RO 000's	RO 000's	RO 000's
At 31 December 2019			
Gross book value	168,314	60,387	228,701
Accumulated Depreciation	(134,812)	(14,407)	(149,219)
Net book value	<u>33,502</u>	<u>45,980</u>	<u>79,482</u>
Net book value (US\$ 000's)	<u>87,018</u>	<u>119,429</u>	<u>206,447</u>
Depreciation charge for the year	<u>12,561</u>	<u>8,108</u>	<u>20,669</u>

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation:				
At 1 January 2019	50,455	149,370	1,194	201,019
Reclassification on transition to IFRS 16	(38,177)	-	-	(38,177)
Transfer	(549)	549	-	-
Additions during the year	28	8,409	50	8,487
Disposals	(964)	(2,052)	-	(3,016)
Translation Adjustment	-	1	-	1
At 31 December 2019	<u>10,793</u>	<u>156,277</u>	<u>1,244</u>	<u>168,314</u>
Accumulated Depreciation:				
At 1 January 2019	12,776	117,790	952	131,518
Reclassification on transition to IFRS 16	(6,299)	-	-	(6,299)
Transfer	(517)	517	-	-
Charge for the year	21	12,420	120	12,561
Relating to disposals	(949)	(2,020)	-	(2,969)
Translation Adjustment	-	1	-	1
At 31 December 2019	<u>5,032</u>	<u>128,708</u>	<u>1,072</u>	<u>134,812</u>
Net book value:				
At 31 December 2019	<u>5,761</u>	<u>27,569</u>	<u>172</u>	<u>33,502</u>
At 31 December 2019 (US\$'000's)	<u>14,963</u>	<u>71,608</u>	<u>447</u>	<u>87,018</u>

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation:				
At 1 January 2018	50,452	138,802	1,173	190,427
Additions during the year	4	10,714	21	10,739
Disposals	-	(142)	-	(142)
Translation Adjustment	(1)	(4)	-	(5)
At 31 December 2018	<u>50,455</u>	<u>149,370</u>	<u>1,194</u>	<u>201,019</u>
Accumulated Depreciation:				
At 1 January 2018	11,992	105,498	818	118,308
Charge for the year	785	12,440	134	13,359
Relating to disposals	-	(142)	-	(142)
Translation Adjustment	(1)	(6)	-	(7)
At 31 December 2018	<u>12,776</u>	<u>117,790</u>	<u>952</u>	<u>131,518</u>
Net book value:				
At 31 December 2018	<u>37,679</u>	<u>31,580</u>	<u>242</u>	<u>69,501</u>
At 31 December 2018 (US\$'000)	<u>97,867</u>	<u>82,026</u>	<u>629</u>	<u>180,522</u>

Cost of furniture, fixtures and equipment above includes acquired software of RO 61.264 million (2018: RO 56.666 million). Accumulated depreciation of the same is RO 44.322 million (2018: RO 37.948 million).

The Bank has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the Bank's policy, the owned land and buildings were revalued during 2017 by independent professional valuers on an open market basis. Had the freehold land and buildings been carried at cost less depreciation, the carrying amount would have been RO 2.862 million (2018: RO 2.891 million). The revaluation reserve is not available for distribution until the related asset is disposed.

In 2019, the Parent Company has recognised cumulative deferred tax liability on the outstanding balance of revaluation reserve of RO 0.866 million in other comprehensive income.

12. Right of use assets

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation :				
At 1 January 2019	-	-	-	-
Transition impact of IFRS 16	9,008	3,722	388	13,118
Reclassification on transition to IFRS 16	38,177	-	-	38,177
Additions during the year	<u>7,650</u>	<u>322</u>	<u>1,120</u>	<u>9,092</u>
At 31 December 2019	<u>54,835</u>	<u>4,044</u>	<u>1,508</u>	<u>60,387</u>
Accumulated depreciation:				
At 1 January 2019	-	-	-	-
Transition impact of IFRS 16	-	-	-	-
Reclassification on transition to IFRS 16	6,299	-	-	6,299
Charge for the year	<u>6,541</u>	<u>1,070</u>	<u>497</u>	<u>8,108</u>
At 31 December 2019	<u>12,840</u>	<u>1,070</u>	<u>497</u>	<u>14,407</u>
Net book value:				
At 31 December 2019	<u>41,995</u>	<u>2,974</u>	<u>1,011</u>	<u>45,980</u>
At 31 December 2019 (US\$ 000's)	<u>109,078</u>	<u>7,725</u>	<u>2,626</u>	<u>119,429</u>

13. Lease liabilities

On transition to IFRS 16, the lease liabilities are presented as below:

	2019
	RO 000's
Transition impact of IFRS 16	13,118
Reclassification from other liabilities on transition to IFRS 16 on 1 January 2019	38,523
Additions during the year	8,981
Finance charges on lease (note 33)	3,651
Lease payments	(10,491)
At 31 December 2019	53,782
Less: Prepaid expenses	(3,377)
Lease liabilities (note 19)	<u>50,405</u>
Lease liabilities	
Current	3,296
Non current	<u>47,109</u>
	<u>50,405</u>
Expense relating to short-term leases	837

The following table shows the maturity analysis of lease liabilities:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As at 31 December 2019					
Total minimum lease payments	10,017	6,855	12,064	119,665	148,601
Less: Amounts representing finance charges	(3,344)	(3,087)	(8,661)	(79,727)	(94,819)
Lease liabilities	<u>6,673</u>	<u>3,768</u>	<u>3,403</u>	<u>39,938</u>	<u>53,782</u>
US\$ 000's	<u>17,332</u>	<u>9,787</u>	<u>8,839</u>	<u>103,735</u>	<u>139,693</u>

Finance lease liabilities (applicable upto 2018)

The Group had entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to this the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

The minimum lease payments and total liability in respect of these leases relating to future periods As at 31 December 2018 are as follows:

2018		2018
US\$ 000's		RO 000's
(148)	Current	(57)
100,208	Non-current	38,580
100,060	Total (note 19)	<u>38,523</u>
	Represented by:	
349,961	Gross finance lease payment due	134,735
(249,901)	Less: future finance charges	(96,212)
100,060	Net lease liability/ present value recognised as property	<u>38,523</u>

The following table shows the maturity analysis of finance lease payable:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As at 31 December 2018					
Total minimum lease payments	2,697	2,697	8,091	121,250	134,735
Less: Amounts representing finance charges	(2,754)	(2,758)	(8,303)	(82,397)	(96,212)
Finance lease liability	(57)	(61)	(212)	38,853	38,523
US\$ 000's	(148)	(159)	(550)	100,917	100,060

14. Deposits from banks

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
1,654,915	2,301,522	Inter bank borrowings	886,086	637,142
292,496	201,475	Vostro balances	77,568	112,611
525,000	545,000	Other money market deposits	209,825	202,125
2,472,411	3,047,997		1,173,479	951,878

15. Customers' deposits

Customers' deposits - Conventional

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
8,005,352	6,216,195	Deposit accounts	2,393,235	3,082,061
6,322,094	6,702,579	Savings accounts	2,580,493	2,434,006
4,286,756	4,326,491	Current accounts	1,665,699	1,650,401
732,584	816,104	Call accounts	314,200	282,045
144,691	149,712	Margin accounts	57,639	55,706
19,491,477	18,211,081		7,011,266	7,504,219

Customers' deposits - Islamic

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
1,534,377	1,631,797	Deposit accounts	628,242	590,735
377,756	560,099	Savings accounts	215,638	145,436
258,865	289,553	Current accounts	111,478	99,663
-	96	Call accounts	37	-
318,525	200,013	Margin accounts	77,005	122,632
2,489,523	2,681,558		1,032,400	958,466

16. Sukuk

In June 2017, the Parent Company issued Sukuk Al Musharaka Certificates. A special purpose vehicle (SPV) was formed for this purpose (Meethaq Sukuk Company LLC) which is the issuer and trustee of Sukuk program.

As part of the program, the first series of certificates was issued in June 2017 amounting to RO 44.6 Million (face value RO 1.000 per certificate) and has a tenor of five years through a Shari'a compliant financing arrangement. The second series of certificates was issued in May 2019 amounting to RO 45.6 million (face value RO 1.000 per certificate) and has a tenor of five years. The profit on Sukuk is payable bi-annually and it is listed in Muscat Securities Market.

Details of Sukuk issuance is as follows:

Particulars	Expected Annual Profit rate	Maturity	2019	2018
			RO 000's	RO 000's
First Issuance	5.00%	June-2022	44,608	44,608
Second Issuance	5.50%	May-2024	45,597	-
			90,205	44,608
(US\$ 000's)			234,299	115,865

17. Euro medium term notes

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Irish Stock Exchange. During 2018, notes amounting to RO 192.5 million were issued and RO 192.5 million matured. The Parent Company has entered into interest rate swaps, which is designated as 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 is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

18. Mandatory convertible bonds

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
84,198	-	At 1 January	-	32,416
(84,198)	-	Conversion during the year	-	(32,416)
-	-	At 31 December	-	-

During March 2018, the Bank converted a portion of its mandatory convertible bonds (MCBs) issued in 2015 into share capital as per the terms of MCBs. The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

Based on the terms of prospectus, conversion price was calculated at RO 0.316 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2018. The Bank issued 102,582,789 shares on account of conversion.

19. Other liabilities

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
357,583	424,192	Other liabilities and accrued expenses	163,314	137,670
279,190	320,681	Acceptances (note 8)	123,462	107,488
77,455	140,629	Impairment on financial guarantees	54,142	29,820
26,543	27,909	Impairment on undrawn commitments and unutilised limits	10,745	10,219
192,105	219,462	Accrued interest	84,493	73,961
100,060	-	Finance lease (note 13)	-	38,523
-	130,922	Lease liabilities (note 13)	50,405	-
50,535	48,506	Negative fair value of derivatives (note 38)	18,675	19,456
25,029	22,743	Unearned discount and interest	8,756	9,636
17,081	18,197	Employees' end of service benefits	7,006	6,576
-	2,249	Deferred tax liability (note 20)	866	-
1,125,581	1,355,490		521,864	433,349

The charge for the year and amounts paid in respect of employee end of service benefits were RO 1.120 million (2018: RO 1.058 million) and RO 0.690 million (2018: RO 0.470 million), respectively.

The movements in impairment loss allowance on financial guarantees / undrawn commitments and unutilised limits are analysed below:

Impairment on financial guarantees

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
-	77,455	At 1 January	29,820	-
52,450	-	Remeasurement on transition to IFRS9	-	20,193
52,450	77,455	At 1 January (post transition)	29,820	20,193
25,010	63,164	Provided during the year	24,318	9,629
(5)	10	Exchange differences	4	(2)
<u>77,455</u>	<u>140,629</u>	At 31 December	<u>54,142</u>	<u>29,820</u>

Undrawn commitments and utilised limits

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
-	26,543	At 1 January	10,219	-
33,343	-	Remeasurement on transition to IFRS9	-	12,837
33,343	26,543	At 1 January (post transition)	10,219	12,837
(6,800)	1,366	Provided (reversed) during the year	526	(2,618)
<u>26,543</u>	<u>27,909</u>	At 31 December	<u>10,745</u>	<u>10,219</u>

20. Taxation

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		Current liability:		
91,028	90,073	Current year	34,678	35,046
21,977	32,441	Prior years	12,490	8,461
<u>113,005</u>	<u>122,514</u>		<u>47,168</u>	<u>43,507</u>

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		Consolidated statement of comprehensive income:		
91,029	90,073	Current year	34,678	35,046
(1,024)	-	Prior years	-	(394)
90,005	90,073		34,678	34,652
(2,946)	(299)	Relating to origination and reversal of temporary differences	(115)	(1,134)
<u>87,060</u>	<u>89,774</u>		<u>34,563</u>	<u>33,518</u>

(i) The tax rate applicable to the Parent Company is 15% (2018: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.70% (2018: 15.73%).

The difference between the applicable tax rate of 15% (2018: 15%) and effective tax rate of 15.70 % (2018: 15.73%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 220.113 million (2018: RO 213.151 million)

and the taxation charge in the consolidated financial statements is as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
83,047	85,758	Tax charge at 15% (2018:15%) on accounting profit before tax	33,017	31,973
		Add tax effect of:		
(511)	(1,376)	Income not taxable	(530)	(197)
7,849	5,174	Expenses not deductible or deferred	1,992	3,022
514	236	Foreign taxes on foreign-sourced income	91	198
130	281	Tax relating to subsidiary	108	50
(2,946)	(299)	Relating to origination and reversal of temporary differences	(115)	(1,134)
(1,023)	-	Reversal of provision for prior years	-	(394)
87,060	89,774	Tax charge as per consolidated statement of comprehensive income	34,563	33,518

(iii) The deferred tax asset / liability has been recognised at the effective tax rate of 15% (2018 - 15%).

Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, change in fair value of FVOCI investment, accelerated depreciation and changes in fair value hedge.

Deferred Tax Asset	At 1 January 2019	Reversal/ (charged) to consolidated statement of comprehensive income	Reversal/ (charged) to consolidated statement of other comprehensive income	31 December 2019
	RO 000's	RO 000's	RO 000's	RO 000's
Asset:				
Tax effect of provisions	3,105	(214)	-	2,891
Tax effect of right-of-use assets	-	142	-	142
Change in fair value of investments	6,213	-	(1,907)	4,306
Change in fair value of hedge	(77)	-	83	6
Liability:				
Tax effect of accelerated tax depreciation	(1,508)	186	-	(1,322)
	7,733	114	(1,824)	6,023

Deferred Tax Asset	At 1 January 2018	Reversal/ (charged) to consolidated statement of comprehensive income	Reversal/ (charged) to consolidated statement of other comprehensive income	31 December 2018
	RO 000's	RO 000's	RO 000's	RO 000's
Asset:				
Tax effect of provisions	1,713	1,392	-	3,105
Change in fair value of investments	5,613	-	600	6,213
Change in fair value of hedge	32	-	(109)	(77)
Liability:				
Tax effect of accelerated tax depreciation	(1,250)	(258)	-	(1,508)
	6,108	1,134	491	7,733

During the year, the Group credited deferred tax asset through comprehensive income of RO 0.028 million (2018: RO 1.134 million) relating to provisions, right-of-use assets and depreciation. The deferred tax (charge) / reversal is disclosed under comprehensive income.

During the year, the Group credited deferred tax asset through other comprehensive income of RO 1.824 million (2018: RO 0.491 million) relating to fair value changes of FVOCI investments and changes in fair value of hedge. The deferred tax charged / (reversal) is disclosed under other comprehensive income.

Deferred Tax Liability	1 January 2019	Tax (charge)/ credit	31 December 2019	1 January 2018	Tax (charge)/ credit	31 December 2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Revaluation reserve	-	866	866	-	-	-
Change in fair value of investments				1,345	(1,345)	-
	-	866	866	1,345	(1,345)	-

Deferred Tax Liability	1 January 2019	Tax (charge)/ credit	31 December 2019	1 January 2018	Tax (charge)/ credit	31 December 2018
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Revaluation reserve	-	2,249	2,249	-	-	-
Change in fair value of investments				3,494	(3,494)	-
	-	2,249	2,249	3,494	(3,494)	-

During the year, the Group charged deferred tax liability of RO 0.866 million (2018: RO 1.345 million tax credit) relating to revaluation reserve, which may be taxable in the future. The deferred tax charge is disclosed under other comprehensive income. The tax (charge) / credit relating to components of other comprehensive income is as follows:

	31 December 2019			31 December 2018		
	Before Tax	Tax (charge)/ credit	After Tax	Before tax	Tax (charge)/ credit	After tax
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Translation of net investments in foreign operations	(228)	-	(228)	(745)	-	(745)
Change in fair value of hedge	(554)	83	(471)	732	(109)	623
Change in fair value of investments	6,558	(1,907)	4,651	(9,976)	(435)	(10,411)
Impact of revaluation reserve	-	(866)	(866)	-	-	-
Realised gain or loss on FVOCI equity investments	(3,433)	-	(3,433)	(310)	-	(310)
Total	2,343	(2,690)	(347)	(10,299)	(544)	(10,843)

	31 December 2019			31 December 2018		
	Before Tax	Tax (charge)/ credit	After Tax	Before tax	Tax (charge)/ credit	After tax
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Translation of net investments in foreign operations	(592)	-	(592)	(1,935)	-	(1,935)
Change in fair value of hedge	(1,439)	216	(1,223)	1,901	(283)	1,618
Change in fair value of investments	17,034	(4,953)	12,081	(25,911)	(1,130)	(27,041)
Impact of revaluation reserve	-	(2,249)	(2,249)	-	-	-
Realised gain or loss on FVOCI equity investments	(8,917)	-	(8,917)	(805)	-	(805)
Total	6,086	(6,986)	(900)	(26,750)	(1,413)	(28,163)

The Group's tax assessments have been completed by the tax authorities up to tax year 2014.

21. Subordinated liabilities

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
315,221	102,000	At 1 January	39,270	121,360
(213,221)	(34,000)	Less: Matured during the year	(13,090)	(82,090)
102,000	68,000		26,180	39,270

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

22. Share capital

Share capital

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2018: 3,500,000,000 of RO 0.100 each). At 31 December 2019, 3,094,783,371 shares of RO 0.100 each (2018: 2,947,412,735 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed in Muscat Securities Market, Bahrain Stock Exchange and London Stock Exchange. Listing in London Stock Exchange is through Global Depositary Receipts issued by the Bank.

During March 2018, the Bank converted the mandatory convertible bonds issued in 2015 into shares (note 18).

Significant shareholders

The following shareholders held 10 percent or more of the Parent Company's capital, either individually or together with other Group companies:

2018			2019	
No. of shares	holding %		No. of shares	holding %
696,343,070	23.63%	Royal Court Affairs	731,160,223	23.63%
346,807,639	11.77%	Dubai Financial Group	364,148,020	11.77%

23. Share Premium

During March 2018, the Bank converted a portion of its mandatory convertible bonds issued in 2015 into shares. (note 18). The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

24. Legal and general reserves

(i) Legal reserve

In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10 percent of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year, RO 4.913 million (2018: RO 7.935 million) was transferred from profits to the legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

(ii) General reserve

The general reserve is established to support the operations and the capital structure of the Group.

(iii) Impairment reserve / reserve for restructured loans

a) Impairment Reserve:

As per the CBO circular BM 1149, in the year of adoption, if IFRS 9 based provision for impairment is lower than the provision for impairment as per regulatory guidelines, the excess, shall be transferred as an appropriation from net profit after taxes to a regulatory reserve "Impairment reserve" under Parent Company's equity. In subsequent years, if IFRS 9 based provision for impairment (i.e. charge to the profit and loss) is lower than provision for impairment as per regulatory guidelines, the excess, shall be transferred as an appropriation from net profit after taxes to aforementioned Impairment reserve.

The regulatory impairment reserve cannot be used by the Bank for capital adequacy calculation or for declaration of any dividends. Utilization of the Impairment reserve created above would require prior approval of the Central Bank of Oman.

b) Reserve for restructured loans:

The Parent Company has created a reserve for restructured accounts in accordance with the regulations of the Central Bank of Oman. This reserve represents provisions on performing but restructured. This reserve is not available for regulatory capital or distribution of dividends. The reserve will be released to retained earnings on satisfactory performance of these accounts as per regulatory guidelines.

(iv) Subordinated loan reserve

The subordinated loan reserve is created in accordance with the guidelines given by the BIS and the Central Bank of Oman. During the year, the Parent Company transferred RO 13.090 million (2018: RO 13.090 million) to subordinated loan reserve from retained profit.

A subordinated loan of RO 13.090 million was repaid during the year (2018: RO 82.090 million). On maturity, the reserve of RO 13.090 million (2018: RO 82.090 million) related to this loan was thus transferred to general reserve.

25. Perpetual Tier I Capital

In April 2017, the Bank issued Additional Equity Tier 1 (AET1) capital deposit amounting to RO 130 million. The AET1 capital constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AET 1 capital does not have a fixed or final redemption date. It is first callable by the Bank after a minimum of 5 years from the instrument date and thereafter in accordance with the terms of the agreement and subject to prior approval of Central Bank of Oman.

The AET1 capital bears interest on its nominal amount from the issue date to the first call date at a fixed annual rate of 5.5 percent. Thereafter the interest rate will be reset as per the terms of the agreement. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest will be paid exclusively out of the distributable profits of the Bank, and shall not be cumulative, and any interest which is not paid will not accumulate or compound. The depositor will have no right to receive such unpaid interest in the future, even if interest is paid in respect of any subsequent period. The Instrument meets all the requirements of AET 1 issuance as mandated by Basel and Central Bank of Oman norms.

26. Proposed dividends

For 2019, the Board of Directors has proposed a dividend of 40%; 35% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 108.317 million on the Bank's existing share capital. In addition, they would receive bonus shares in the proportion of 1 share for every 20 ordinary shares aggregating to 154,739,168 shares of RO 0.100 each amounting to RO 15.474 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For 2018, the Board of Directors had proposed a dividend of 40%; 35% in the form of cash and 5% in the form of bonus shares which was approved by the Parent Company shareholders in its Annual General Meeting held on 25 March 2019. Thus shareholders received cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 103.159 million on the Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 147,370,636 shares of RO 0.100 each amounting to RO 14.737 million.

27. Net assets per share

The calculation of net assets per share is based on net assets as at 31 December 2019 attributable to ordinary shareholders of RO 1,872.636 million (2018: RO 1,797.742 million) and on 3,094,783,371 ordinary shares (2018 - 2,947,412,735 ordinary shares) being the number of shares outstanding as at 31 December 2019.

28. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Parent Company as of 31 December 2019. Management is of the view that these claims are not probable or material.

(b) Credit related commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Parent Company'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 obligations.

Standby letters of credit and guarantees commit the Parent Company to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Irrevocable commitments to extend credit at the reporting date amounted to RO 323.2 million (2018: RO 561.9 million).

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
US\$ 000's	US\$ 000's		RO 000's	RO 000's
1,035,193	892,917	Letters of credit	343,773	398,549
5,916,587	5,140,738	Guarantees	1,979,184	2,277,886
6,951,780	6,033,655		2,322,957	2,676,435

(c) Capital commitments

As of the reporting date, capital commitments were as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
2,499	2,678	Purchase of property and equipment	1,031	962

(d) As of the reporting date, the Group has not pledged any of its assets as security (2018: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid investments in shares held by the Group was RO 3.8 million (2018: RO 1.8 million).

29. Interest income / income from Islamic financing / investments

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
975,801	1,043,323	Loans and advances	401,679	375,683
50,187	51,894	Due from banks	19,979	19,322
65,018	78,855	Investments	30,359	25,032
1,091,006	1,174,072		452,017	420,037
143,231	160,977	Islamic financing receivables	61,976	55,144
2,242	3,358	Islamic due from banks	1,293	863
6,756	7,304	Islamic investment	2,812	2,601
152,229	171,639		66,081	58,608
1,243,235	1,345,711		518,098	478,645

Effective annual rates on yielding assets are provided in note 42.4.4.

30. Interest expense / distribution to depositors

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
247,609	304,315	Customers' deposits	117,161	95,329
17,332	4,860	Subordinated liabilities	1,871	6,673
58,031	63,010	Bank borrowings	24,259	22,342
49,257	46,353	Euro medium term notes	17,846	18,964
372,229	418,538		161,137	143,308
65,735	76,704	Islamic customers' deposits	29,531	25,308
6,018	10,112	Sukuk	3,893	2,317
8,891	17,052	Islamic bank borrowings	6,565	3,423
80,644	103,868		39,989	31,048
452,873	522,406		201,126	174,356

Interest expense on customers deposits include cost of prize schemes of RO 10 million (2018: RO 10 million) offered by the Bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

31. Commission and fee income (net)

The commission and fee income shown in the statement of consolidated comprehensive income is net of commission and fee paid of RO 1.113 million (2018: RO 1.277 million).

32. Other operating income

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
93,366	103,205	Foreign exchange	39,734	35,946
(5,608)	4,127	Changes in fair value of financial assets	1,589	(2,159)
179	3,548	Net realised gain on sale of fair value investments	1,366	69
18,190	17,088	Dividend income	6,579	7,003
13,294	9,473	Other income	3,647	5,118
<u>119,421</u>	<u>137,441</u>		<u>52,915</u>	<u>45,977</u>

Dividend income recognised on FVOCI investments during the year ended 31 December 2019 is RO 5.341 million (2018: RO 5.845 million), out of which RO 688 thousand (2018: RO 17 thousand) pertains to investments sold during the year.

33. Other operating expenses

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
174,838	177,008	Employees' salaries	68,148	67,313
77,857	77,917	Other staff costs	29,998	29,975
14,151	14,499	Contribution to social insurance schemes	5,582	5,448
<u>2,748</u>	<u>2,909</u>	Employees end of service benefits	<u>1,120</u>	<u>1,058</u>
269,594	272,333		104,848	103,794
144,660	155,152	Administrative expenses	59,734	55,694
44,925	17,738	Occupancy costs	6,829	17,296
-	9,483	Finance charges on lease (note 13)	3,651	-
<u>519</u>	<u>519</u>	Directors' remuneration	<u>200</u>	<u>200</u>
<u>459,698</u>	<u>455,225</u>		<u>175,262</u>	<u>176,984</u>

34. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
685,197	1,584,317	Due from banks	609,962	263,801
3,392,873	2,029,234	Cash and balances with Central Banks	781,255	1,306,256
1,287,473	1,199,530	Treasury bills	461,819	495,677
<u>(1,659,457)</u>	<u>(2,261,951)</u>	Deposits from banks	<u>(870,851)</u>	<u>(638,891)</u>
<u>3,706,086</u>	<u>2,551,130</u>		<u>982,185</u>	<u>1,426,843</u>

35. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2019	2018
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	185,550	179,633
Interest on convertible bonds, net of taxation (RO 000's)	-	206
	<u>185,550</u>	<u>179,839</u>
Weighted average number of ordinary shares adjusted for effect of dilution (in 000's)	3,094,784	3,072,581
Basic earnings per share (RO)	<u>0.060</u>	<u>0.059</u>
Basic earnings per share (US\$)	<u>0.16</u>	<u>0.15</u>

There are no instruments that are dilutive in nature, hence the basic and diluted earnings per share are same for both the years.

The weighted number of ordinary shares (in 000's) have been calculated as follows:

	2019	2018
At 1 January	2,947,413	2,709,362
Effect of shares issued in conversion of convertible bonds	-	80,380
Effect of bonus shares issued in 2019	147,371	147,371
Effect of bonus shares issued in 2018	-	135,468
Weighted average number of ordinary shares	<u>3,094,784</u>	<u>3,072,581</u>

36. Related party transactions

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The Group engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management. The balances in respect of related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		a) Directors and senior management		
6,642	7,177	Loans and advances	2,763	2,557
4,374	2,530	Current, deposit and other accounts	974	1,684
		b) Major shareholders and others		
171,491	200,904	Loans and advances	77,348	66,024
147,392	70,740	Current, deposit and other accounts	27,235	56,746
18,278	19,961	Customers' liabilities under documentary credits, guarantees and other commitments	7,685	7,037

The income and expenses in respect of the related parties included in the consolidated financial statements are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		a) Directors and senior management		
387	338	Interest income	130	149
52	112	Interest expenditure	43	20
299	317	Directors' remuneration	122	115
221	203	Directors' sitting fees	78	85
		b) Major shareholders and others		
7,112	8,665	Interest income	3,336	2,738
4,447	2,618	Interest expenditure	1,008	1,712

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10 % or more of the Bank's shares, or their family members, less all provisions and write-offs, are further analysed as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
102,473	109,120	Royal Court Affairs	42,011	39,452
87,403	112,135	H.E.Sheikh Mustahail Ahmed Al Mashani group companies	43,172	33,650
6,535	6,787	Others	2,613	2,516
<u>196,411</u>	<u>228,042</u>		<u>87,796</u>	<u>75,618</u>

During 2017, the Group entered into a settlement agreement with its related party Dubai Group LLC ('the borrower') on their exposure with the Bank. As on 31 December 2017, the Group carried 100% provision towards this exposure. Under the agreement, the Group received RO 2.520 million as full and final settlement from the borrower in March 2018 against an exposure of RO 8.755 million. The settlement and the balance write-off is approved by the Board of directors and has necessary regulatory approval. Accordingly, in 2018, the Group has recovered RO 2.520 million and has written off RO 6.235 million in the books of account.

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10% or more of the Bank's shares, or their family members, during the year can be further analysed as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
2,839	1,070	Royal Court Affairs	412	1,093
1,608	1,574	H.E.Sheikh Mustahail Ahmed Al Mashani group companies	606	619
52	86	Others	33	20
<u>4,499</u>	<u>2,730</u>		<u>1,051</u>	<u>1,732</u>

Key management compensation:

Key management comprises of 7 members (2018 : 5 member) of the management executive committee in the year 2019. The Bank considers the members of Management Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

In the ordinary course of business, the Group conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
2,714	3,229	Loans and advances	1,243	1,045
3,260	2,465	Current, deposit and other accounts	949	1,255

The income and expenses in respect of these related parties included in the consolidated financial statements are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
234	135	Interest income	52	90
44	112	Interest expense	43	17
15,044	10,117	Salaries and other short-term benefits	3,895	5,792
143	151	Post-employment benefits	58	55

The amounts disclosed in the table are the amounts accrued / paid and recognised as an expense during the reporting period related to key management personnel. Certain components of key management compensation are on deferral basis and are disclosed accordingly. The previous year figures are revised considering the actual payment wherever applicable.

37. Fiduciary activities

The Group's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
<u>2,897,286</u>	<u>3,074,694</u>	Funds under management	<u>1,183,757</u>	<u>1,115,455</u>

Involvement with unconsolidated structured entities

The Group's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals.

The following table describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
<u>335,132</u>	<u>402,665</u>	Funds under management	<u>155,026</u>	<u>129,026</u>

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
<u>35,644</u>	<u>29,909</u>	Carrying amount of funds invested	<u>11,515</u>	<u>13,723</u>

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The following table sets out information in respect of structured entities that the Group sponsors, but in which the Group does not have an interest.

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
<u>471,748</u>	<u>377,722</u>	Funds under management	<u>145,423</u>	<u>181,623</u>
<u>1,532</u>	<u>1,478</u>	Commission and fees	<u>569</u>	<u>590</u>

38. Derivatives

In the ordinary course of business, the Group enters into various types of transactions 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. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains and losses are either recognised in profit and loss or in other comprehensive income. The Group uses the following derivative financial instruments:

Derivative product types

Forwards and futures 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. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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 Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Parent Company has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk movement on Euro medium term notes and certain of its customer deposits. Further, the Group has also entered into interest rate swaps that are designated as cash flow hedges for hedging the cash flow volatility risk on its subordinated liabilities. The cumulative change in the fair value of the hedged liabilities attributable to the risk hedged is recorded as part of their respective carrying values and are accordingly presented in statement of financial position.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional 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	Positive Fair value (Note 8)	Negative Fair value (Note 19)	Notional amount total	Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Fair value hedges	410	16	202,333	9,833	-	192,500
Cash flow hedges	-	40	26,180	-	-	26,180
Interest rate swaps	9,907	9,773	840,428	-	198,749	641,679
Commodities purchase contracts	4,695	1,605	119,427	70,261	46,598	2,568
Commodities sale contracts	1,694	4,569	119,426	70,260	46,598	2,568
Forward purchase contracts	848	1,144	1,749,425	945,799	633,216	170,410
Forward sales contracts	4,720	1,528	1,742,584	943,912	630,008	168,664
Total	22,274	18,675	4,799,803	2,040,065	1,555,169	1,204,569
Total US\$ 000's	57,855	48,506	12,467,021	5,298,870	4,039,400	3,128,751

31 December 2018	Positive Fair value (Note 8)	Negative Fair value (Note 19)	Notional amount total	Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Fair value hedges	-	301	29,637	-	-	29,637
Cash flow hedges	514	-	39,270	-	-	39,270
Interest rate swaps	6,553	6,533	701,597	8,767	-	692,830
Currency options bought	3	-	321	321	-	-
Currency options sold	-	3	321	321	-	-
Commodities purchase contracts	758	5,187	115,315	64,965	45,905	4,445
Commodities sale contracts	5,333	738	115,315	64,965	45,905	4,445
Forward purchase contracts	434	1,830	1,661,242	1,058,525	491,319	111,398
Forward sales contracts	4,836	4,864	1,658,214	1,060,506	487,200	110,508
Total	18,431	19,456	4,321,232	2,258,370	1,070,329	992,533
Total US\$ 000's	47,873	50,535	11,223,979	5,865,896	2,780,075	2,578,008

39. Repurchase agreements

The Group did not have any repurchase transactions outstanding as of the reporting date (2018: nil).

40. Geographical distribution of assets and liabilities

The geographical distribution of assets and liabilities was as follows:

At 31 December 2019	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	639,341	142,414	-	-	-	781,755
Due from banks	86,323	569,399	39,774	60,538	113,770	869,804
Loans and advances	8,561,277	263,061	103	-	53,600	8,878,041
Investments	965,517	111,713	1,502	415	365,685	1,444,832
Property and equipment and other assets	290,344	25,832	-	-	-	316,176
Total assets	10,542,802	1,112,419	41,379	60,953	533,055	12,290,608
Deposits from banks	60,630	611,090	244,351	3,850	253,558	1,173,479
Customers' deposits	7,524,601	484,075	1,944	955	32,091	8,043,666
Euro medium term notes / Sukuk	90,205	-	385,410	-	-	475,615
Other liabilities and taxation	517,806	51,200	10	-	16	569,032
Subordinated liabilities	-	-	-	26,180	-	26,180
Shareholders' funds	2,002,636	-	-	-	-	2,002,636
Total liabilities and equity	10,195,878	1,146,365	631,715	30,985	285,665	12,290,608

At 31 December 2019	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Cash and balances with Central Banks	1,660,627	369,906	-	-	-	2,030,533
Due from banks	224,215	1,478,958	103,309	157,242	295,506	2,259,230
Loans and advances	22,237,083	683,274	268	-	139,221	23,059,846
Investments	2,507,837	290,164	3,901	1,078	949,831	3,752,811
Property and equipment and other assets	754,140	67,096	-	-	-	821,236
Total assets	27,383,902	2,889,398	107,478	158,320	1,384,558	31,923,656
Deposits from banks	157,480	1,587,247	634,678	10,000	658,592	3,047,997
Customers' deposits	19,544,418	1,257,338	5,049	2,481	83,353	20,892,639
Euro medium term notes / Sukuk	234,299	-	1,001,065	-	-	1,235,364
Other liabilities and taxation	1,344,949	132,987	26	-	42	1,478,004
Subordinated liabilities	-	-	-	68,000	-	68,000
Shareholders' funds	5,201,652	-	-	-	-	5,201,652
Total liabilities and equity	26,482,798	2,977,572	1,640,818	80,481	741,987	31,923,656

At 31 December 2018	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	1,207,473	99,283	-	-	-	1,306,756
Due from banks	5,497	154,140	124,240	57,742	134,424	476,043
Loans and advances	8,484,035	403,619	2,701	-	48,560	8,938,915
Investments	759,478	128,827	114,139	-	267,138	1,269,582
Property and equipment and other assets	287,401	9,342	-	-	-	296,743
Total assets	10,743,884	795,211	241,080	57,742	450,122	12,288,039
Deposits from banks	19,421	485,502	48,608	7	398,340	951,878
Customers' deposits	7,884,400	549,985	1,888	971	25,441	8,462,685
Euro medium term notes / Sukuk	44,608	-	385,000	-	-	429,608
Other liabilities and taxation	455,201	21,578	-	-	77	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	1,927,742	-	-	-	-	1,927,742
Total liabilities and equity	10,331,372	1,057,065	435,496	40,248	423,858	12,288,039

At 31 December 2018	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Cash and balances with Central Banks	3,136,294	257,878	-	-	-	3,394,172
Due from banks	14,278	400,364	322,701	149,979	349,153	1,236,475
Loans and advances	22,036,454	1,048,360	7,016	-	126,130	23,217,960
Investments	1,972,669	334,616	296,465	-	693,865	3,297,615
Property and equipment and other assets	746,496	24,265	-	-	-	770,761
Total assets	27,906,191	2,065,483	626,182	149,979	1,169,148	31,916,983
Deposits from banks	50,445	1,261,044	126,255	18	1,034,649	2,472,411
Customers' deposits	20,478,961	1,428,532	4,904	2,522	66,081	21,981,000
Euro medium term notes / Sukuk	115,865	-	1,000,000	-	-	1,115,865
Other liabilities and taxation	1,182,339	56,047	-	-	200	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	5,007,121	-	-	-	-	5,007,121
Total liabilities and equity	26,834,731	2,745,623	1,131,159	104,540	1,100,930	31,916,983

41. Segmental information

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of the whole Bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking, as all of these business lines are located in Oman. Segment information in respect of geographical locations is as follows.

For the year ended 31 December 2019

Total	International	Oman		Oman	International	Total
US\$ 000's	US\$ 000's	US\$ 000's		RO 000's	RO 000's	RO 000's
1,174,072	49,013	1,125,059	Interest income	433,147	18,870	452,017
(418,538)	(26,990)	(391,548)	Interest expense	(150,746)	(10,391)	(161,137)
171,639	-	171,639	Income from Islamic financing / investments	66,081	-	66,081
(103,868)	-	(103,868)	Distribution to depositors	(39,989)	-	(39,989)
265,673	12,665	253,008	Commission and fee income (net)	97,408	4,876	102,284
137,441	4,979	132,462	Other operating income	50,998	1,917	52,915
1,226,419	39,667	1,186,752	Operating income	456,899	15,272	472,171
(455,225)	(17,048)	(438,177)	Other operating expenses	(168,699)	(6,563)	(175,262)
(53,686)	(1,311)	(52,375)	Depreciation	(20,164)	(505)	(20,669)
(145,784)	(55,153)	(90,631)	Net impairment losses on financial assets	(34,893)	(21,234)	(56,127)
(89,774)	(518)	(89,256)	Tax expense	(34,364)	(199)	(34,563)
(744,469)	(74,030)	(670,439)	Total	(258,120)	(28,501)	(286,621)
481,950	(34,363)	516,313	Profit / (loss) for the year	198,779	(13,229)	185,550
31,923,656	1,259,590	30,664,066	Total assets	11,805,666	484,942	12,290,608
22,044	618	21,426	Capital expenses	8,249	238	8,487

For the year ended 31 December 2018

Total	International	Oman		Oman	International	Total
US\$ 000's	US\$ 000's	US\$ 000's		RO 000's	RO 000's	RO 000's
1,091,006	51,662	1,039,344	Interest income	400,147	19,890	420,037
(372,229)	(29,366)	(342,863)	Interest expense	(132,002)	(11,306)	(143,308)
152,229	-	152,229	Income from Islamic financing	58,608	-	58,608
(80,644)	-	(80,644)	Distribution to depositors	(31,048)	-	(31,048)
250,571	16,694	233,877	Commission and fee income (net)	90,043	6,427	96,470
119,421	8,301	111,120	Other operating income	42,781	3,196	45,977
1,160,354	47,291	1,113,063	Operating income	428,529	18,207	446,736
(459,698)	(21,372)	(438,326)	Other operating expenses	(168,756)	(8,228)	(176,984)
(34,699)	(656)	(34,043)	Depreciation	(13,106)	(253)	(13,359)
(112,317)	(44,538)	(67,779)	Net impairment losses on financial assets	(26,095)	(17,147)	(43,242)
(87,060)	(131)	(86,929)	Tax expense	(33,468)	(50)	(33,518)
(693,774)	(66,697)	(627,077)	Total	(241,425)	(25,678)	(267,103)
466,580	(19,406)	485,986	Profit / (loss) for the year	187,104	(7,471)	179,633
31,916,983	1,428,855	30,488,128	Total assets	11,737,930	550,109	12,288,039
27,894	364	27,530	Capital expenses	10,599	140	10,739

The Group reports the segment information by the following business segments viz. Corporate, Consumer, Wholesale, International and Islamic Banking. The following table shows the distribution of the Group's operating income, profit and total assets by business segments:

- Corporate banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposit taking, trade finance, foreign exchange, transaction banking, cash management and other related services.
- Consumer banking provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposit accounts including saving deposits, foreign exchange, e-banking, remittances, bancassurance and other branch-related services.
- Wholesale Banking includes treasury, financial institutions, investments, advisory, asset management and private banking services.
- International banking includes activities of overseas branches, representative offices, subsidiary and strategic investment outside Oman. International banking includes overseas operations and cost allocations from Oman operations.
- Islamic banking represents the Banking activities of the Bank's Islamic window in Oman.

31 December 2019	Conventional banking					Islamic Banking	Total
	Corporate Banking	Consumer Banking	Wholesale Banking	International Banking	Subtotal		
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Net interest income	123,714	134,206	24,363	8,597	290,880	-	290,880
Net income from Islamic financing	-	-	-	-	-	26,092	26,092
Commission, fees and other income (net)	21,270	73,214	50,015	6,864	151,363	3,836	155,199
Operating income	144,984	207,420	74,378	15,461	442,243	29,928	472,171
Operating expenses (incl. depreciation)	(30,907)	(124,766)	(18,205)	(8,902)	(182,780)	(13,151)	(195,931)
Net impairment losses on financial assets	(20,949)	(8,933)	(519)	(21,234)	(51,635)	(4,492)	(56,127)
Tax expense	(13,924)	(11,041)	(8,010)	(122)	(33,097)	(1,466)	(34,563)
	(65,780)	(144,740)	(26,734)	(30,258)	(267,512)	(19,109)	(286,621)
Profit (loss) for the year	79,204	62,680	47,644	(14,797)	174,731	10,819	185,550
Total assets	4,324,501	3,442,401	2,563,169	518,644	10,848,715	1,441,893	12,290,608
Operating income (US \$ 000's)	376,583	538,753	193,190	40,158	1,148,684	77,735	1,226,419
Profit (loss) for the year (US \$ 000's)	205,726	162,806	123,751	(38,434)	453,849	28,101	481,950
Total assets (US \$ 000's)	11,232,469	8,941,301	6,657,582	1,347,127	28,178,479	3,745,177	31,923,656

31 December 2018	Conventional banking					Islamic Banking	Total
	Corporate Banking	Consumer Banking	Wholesale Banking	International Banking	Subtotal		
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's		
Net interest income	117,833	124,709	25,520	8,667	276,729	-	276,729
Net income from Islamic financing	-	-	-	-	-	27,560	27,560
Commission, fees and other income (net)	25,616	63,589	40,747	9,683	139,635	2,812	142,447
Operating income	143,449	188,298	66,267	18,350	416,364	30,372	446,736
Operating expenses (incl. depreciation)	(29,974)	(118,992)	(17,428)	(10,411)	(176,805)	(13,538)	(190,343)
Net impairment losses on financial assets	(19,925)	(4,898)	2,771	(17,147)	(39,199)	(4,043)	(43,242)
Tax expense	(14,099)	(9,702)	(7,551)	(120)	(31,472)	(2,046)	(33,518)
	(63,998)	(133,592)	(22,208)	(27,678)	(247,476)	(19,627)	(267,103)
Profit / (loss) for the year	79,451	54,706	44,059	(9,328)	168,888	10,745	179,633
Total assets	4,464,602	3,292,808	2,570,947	584,098	10,912,455	1,375,584	12,288,039
Operating income (US \$ 000's)	372,596	489,086	172,122	47,662	1,081,466	78,888	1,160,354
Profit/ (loss) for the year (US \$ 000's)	206,367	142,094	114,439	(24,229)	438,671	27,909	466,580
Total assets (US \$ 000's)	11,596,368	8,552,748	6,677,784	1,517,138	28,344,038	3,572,945	31,916,983

Disaggregated revenues 2019

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) and other operating income into contract revenues and non-contract revenues within Group's reportable segments. Contract revenue is further segregated based on the products and services:

Commission and fee income (net) and other operating income

31 December 2019	Corporate Banking	Consumer banking	Wholesale Banking	International Banking	Subtotal	Islamic Banking	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Contract revenue							
Transactional income	2,591	61,826	1,181	174	65,772	1,416	67,188
Trade income	9,321	498	4,576	2,427	16,822	270	17,092
Syndication and other loan related income	6,577	1,190	1,234	521	9,522	377	9,899
Advisory, Asset Management and Private Equity services related income	54	213	8,999	1,869	11,135	134	11,269
Total contract revenue	18,543	63,727	15,990	4,991	103,251	2,197	105,448
Non contract revenue	2,727	9,487	34,025	1,873	48,112	1,639	49,751
Total	21,270	73,214	50,015	6,864	151,363	3,836	155,199
US \$ 000's	55,246	190,166	129,909	17,829	393,150	9,964	403,114

31 December 2018	Corporate Banking	Consumer banking	Wholesale Banking	International Banking	Subtotal	Islamic Banking	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Contract revenue							
Transactional income	4,142	54,190	1,048	113	59,493	875	60,368
Trade income	11,518	-	3,754	3,264	18,536	439	18,975
Syndication and other loan related income	8,104	1,172	1,237	644	11,157	368	11,525
Advisory, Asset Management and Private Equity services related income	4	107	8,390	2,454	10,955	44	10,999
Total contract revenue	23,768	55,469	14,429	6,475	100,141	1,726	101,867
Non contract revenue	1,848	8,120	26,318	3,208	39,494	1,086	40,580
Total	25,616	63,589	40,747	9,683	139,635	2,812	142,447
US \$ 000's	66,535	165,166	105,836	25,151	362,688	7,304	369,992

The group has contract assets and contract liabilities amounting to RO 4.187 million (2018: RO 4.213 million) and RO 3.721 million (2018: RO 4.430 million) respectively.

No impairment losses have been recognised relating to the contract assets. Further, the contracts do not have a significant financing component.

The contract liabilities primarily relate to the non-refundable fees received from customers where revenue is recognised over a period of time as mentioned in note 3.2. The amount of RO 1.189 million (2018: RO 1.193 million) recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019. Management expects that 26% (2018: 22%) of revenue for the remaining performance obligations will be recognised every year for the next three years.

The revenue from contracts with customers does not include revenue recognised from performance obligations satisfied in previous periods.

42. Financial risk management

42.1 Introduction and overview

Risk Management is a process by which the Group identifies key risks by applying consistent risk measurement techniques, recommends which risks to accept or reject or mitigate, by what means and establishes procedures to monitor and report the resulting risk position for necessary action.

The objective of risk management is to ensure that the Group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. In the Group, risk is defined as the potential for loss or an undesirable outcome in relation to expected earnings, capital adequacy or liquidity, leading to volatility in earnings. The Bank has exposure to the following core risks:

- Credit risk.
- Liquidity risk.
- Market risk.
- Operational risk.

Risk management is the overall responsibility of the Group's Board of Directors and managed through the Board Risk Committee (BRC). The Board of Directors reviews and approves the risk management strategy and defines the risk appetite of the Group. To facilitate achievement of the Group's strategic objectives within the Board approved risk appetite, the Group has established a Management Risk Committee (MRC). The Management Risk Committee provides recommendations to the Board of Directors through BRC on the risk-reward strategy, risk appetite, policies and framework for managing various risks. For the purpose of day-to-day management of risks, the Group has established an independent Risk Management Department (RMD), which objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters set by the Board of Directors. The Risk Management Department acts independently of the business with direct reporting to the Board of Directors.

The risk appetite in various business areas is defined and communicated through a well-established Enterprise-wide risk policy. Enterprise wide risks are managed with the objective of maximising risk adjusted returns through a well-defined risk management framework. The Group's risk policy, approved by the Board of Directors, analyses and sets risk limits/thresholds for Credit, Market, Liquidity, Operational and other risks. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels is reported on a regular basis. This ensures prudent management of risks assumed by the Group in its normal course of business. The risk policy is updated regularly, based on changes in Group's strategy/ organisational goals, regulatory guidelines, analysis of the economic trends and the operating environment in the countries where the Group operates.

The Group's risk management processes have proven to be effective throughout the year and remains well supported by a strong risk culture. The Group's Board has remained closely involved with key risk management initiatives, ensuring effective management of the Group's risks, maintenance of appropriate levels of liquidity and capital in line with the evolving requirements.

The Group recognises risk management process as a key to achieve its objective of enhancing shareholder value and as an area of core competence. It continues to invest in enhancing its risk management capabilities, to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

42.2 Credit risk

42.2.1 Management of credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Sovereign/ Country risk.
- Counterparty Risk.
- Settlement risk.

The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Group's risk exposure.

Risk limit control and mitigation policies

The credit risk management process in the Group begins with the risk policy, which defines indicators to address different dimensions of credit risk including credit concentration risk, single borrower limit etc. For each of the indicator, the Group has set for itself, clear and well-defined limit and trigger point. Compliance with the various indicators is monitored and reported on a regular basis and exceptions, if any are escalated to enable remedial actions.

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off – all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related Group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.
- The analysis of large customers at group level is conducted on a regular basis. The lending division undertakes account updates, monitoring and management of exposures on a continuous basis. Industry and sectoral analysis, benchmark reports are analysed as a part of credit risk management process to understand the trends in industry.
- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.
- Retail portfolio is rated using an application score card.

A robust collateral management system is in place to mitigate any credit risk. The Group has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collateral. While securities such as listed equities are valued regularly, credit policy mandates 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.

The Group executes Credit Support annex to the International Swaps and Derivatives Association (ISDA) document with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

42.2.2 Credit quality analysis

All loans and advances of the Group are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

As required under IFRS 9, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- **Stage 1:** Financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified as Stage 1. When a Credit Facility is first recognised, the Group recognises a loss allowance based on 12 month ECL.
- **Stage 2:** Financial instruments having Significant Increase in Credit Risk ("SICR") since origination will be classified under Stage 2 (if not impaired). When a Credit Facility has shown a significant increase in credit risk since origination, the Group records a loss allowance for the life time (LT) ECL.
- **Stage 3:** All credit facilities that are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or interest is overdue by more than 89 days. Besides quantitative and qualitative criteria are also applied for assigning Stage 3. In such cases, the Group records a loss allowance for the LTECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Gross exposure				
Central Bank balances	134,179	-	-	134,179
Due from banks	821,428	387	-	821,815
Loans and advances	7,017,732	1,876,548	298,547	9,192,827
Investment securities at FVOCI	52,486	8,303	-	60,789
Investment securities at Amortised cost	1,266,969	8,029	-	1,274,998
Total	9,292,794	1,893,267	298,547	11,484,608
Financial guarantee contracts	1,414,473	859,937	48,547	2,322,957
Acceptances	77,457	45,984	21	123,462
Loan commitment/unutilised limits	1,347,493	698,640	-	2,046,133
Total	2,839,423	1,604,561	48,568	4,492,552
Total gross exposure	12,132,217	3,497,828	347,115	15,977,160
US\$'000	31,512,252	9,085,268	901,597	41,499,117
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	751	15	-	766
Loans and advances	18,203	77,751	218,832	314,786
Investment securities at FVOCI	140	1,171	-	1,311
Investment securities at amortised cost	267	35	-	302
Total	19,361	78,972	218,832	317,165
Financial guarantee contracts	1,947	17,533	34,662	54,142
Acceptances	45	100	-	145
Loan commitment/unutilised limits	2,460	8,285	-	10,745
Total	4,452	25,918	34,662	65,032
Total impairment	23,813	104,890	253,494	382,197
US\$'000	61,852	272,442	658,426	992,720
Net exposure				
Central Bank balances	134,179	-	-	134,179
Due from Banks	820,677	372	-	821,049
Loans and advances	6,999,529	1,798,797	79,715	8,878,041
Investment securities at FVOCI	52,346	7,132	-	59,478
Investment securities at amortised cost	1,266,702	7,994	-	1,274,696
Total	9,273,433	1,814,295	79,715	11,167,443
Financial guarantee contracts	1,412,526	842,404	13,885	2,268,815
Acceptances	77,412	45,884	21	123,317
Loan commitment/unutilised limits	1,345,033	690,355	-	2,035,388
Total	2,834,971	1,578,643	13,906	4,427,520
Total net exposure	12,108,404	3,392,938	93,621	15,594,963
US\$'000	31,450,400	8,812,826	243,171	40,506,397

Stage 1: 75.9% of gross exposure is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 21.9% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9.

Stage 3: 2.2% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Gross exposure				
Central Bank balances	773,482	-	-	773,482
Due from banks	457,106	335	-	457,441
Loans and advances	6,595,413	2,385,829	286,784	9,268,026
Investment securities at FVOCI	51,440	11,439	-	62,879
Investment securities at amortised cost	1,076,278	8,910	-	1,085,188
Total	8,953,719	2,406,513	286,784	11,647,016
Financial guarantee contracts	1,694,294	967,009	15,132	2,676,435
Acceptances	42,871	64,561	56	107,488
Loan commitment/unutilised limits	1,212,384	1,088,437	-	2,300,821
Total	2,949,549	2,120,007	15,188	5,084,744
Total gross exposure	11,903,268	4,526,520	301,972	16,731,760
US\$'000	30,917,579	11,757,195	784,343	43,459,117
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	645	3	-	648
Loans and advances	14,942	107,679	206,490	329,111
Investment securities at FVOCI	84	848	-	932
Investment securities at amortised cost	89	92	-	181
Total	15,760	108,622	206,490	330,872
Financial guarantee contracts	1,330	21,257	7,233	29,820
Acceptances	16	48	27	91
Loan commitment/unutilised limits	2,246	7,973	-	10,219
Total	3,592	29,278	7,260	40,130
Total impairment	19,352	137,900	213,750	371,002
US\$'000	50,265	358,182	555,195	963,642
Net exposure				
Central Bank balances	773,482	-	-	773,482
Due from Banks	456,461	332	-	456,793
Loans and advances	6,580,471	2,278,150	80,294	8,938,915
Investment securities at FVOCI	51,356	10,591	-	61,947
Investment securities at amortised cost	1,076,189	8,818	-	1,085,007
Total	8,937,959	2,297,891	80,294	11,316,144
Financial guarantee contracts	1,692,964	945,752	7,899	2,646,615
Acceptances	42,855	64,513	29	107,397
Loan commitment/unutilised limits	1,210,138	1,080,464	-	2,290,602
Total	2,945,957	2,090,729	7,928	5,044,614
Total net exposure	11,883,916	4,388,620	88,222	16,360,758
US\$'000	30,867,314	11,399,013	229,148	42,495,475

Stage 1: 71.1% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 27.1% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9.

Stage 3: 1.8% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

Net impairment losses on financial assets

Details of net impairment losses on financial assets charged in income statement is set out as follows:

2018	2019		2019	2018
US \$ 000's	US \$ 000's		RO 000's	RO 000's
		(Impairment) / reversal of impairment for credit losses:		
5,561	(304)	- Due from banks	(117)	2,141
(204,842)	(176,179)	- Loans and advances to customers	(67,829)	(78,864)
(25,010)	(63,164)	- Financial guarantees	(24,318)	(9,629)
(73)	(140)	- Acceptances	(54)	(28)
6,800	(1,366)	- Loan commitments / unutilised limits	(526)	2,618
1,592	(1,299)	- Investments	(500)	613
(215,972)	(242,452)		(93,344)	(83,149)
95,341	93,367	Recoveries from impairment for credit losses	35,946	36,706
8,314	3,301	Recoveries from loans previously written off	1,271	3,201
103,655	96,668		37,217	39,907
(112,317)	(145,784)		(56,127)	(43,242)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk equivalents relating to off-balance sheet items calculated as per Basel III guidelines are as follows:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
1,156,041	1,005,148	Financial guarantees	386,982	445,076
2,746,162	2,407,854	Other credit related liabilities	927,024	1,057,272
386,769	233,907	Loan commitments	90,054	148,906
4,288,972	3,646,909		1,404,060	1,651,254

The above table represents a worst case scenario of credit risk exposure as of 31 December 2019 and 2018, without taking into account of any collateral held or other credit enhancements attached.

42.2.3 Impaired loans and securities

Impaired loans and securities are those for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as sub-standard, doubtful or loss in the internal credit risk system and as Stage 3 under IFRS 9.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

Refer note 42.2.8.

42.2.6 Write-off policy

The Group writes off a loan or security and any related allowances for impairment when the Group determines that the loan or security is uncollectible. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. For smaller balance standardised loans, charge off decisions generally based on a product specific past due status and borrower's capacity to repay the loan.

42.2.7 Analysis of impairment and collateral

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances and Islamic financing to customers			Loans and advances and Islamic financing to customers	
2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
		Against individually impaired		
520,896	572,740	Property	220,505	200,545
86	17,356	Equities	6,682	33
1,049	8,756	Others	3,371	404
522,031	598,852		230,558	200,982
		Against past due but not impaired		
727,460	1,300,665	Property	500,756	280,072
272,870	71,613	Equities	27,571	105,055
68,348	43,618	Others	16,793	26,314
1,068,678	1,415,896		545,120	411,441
		Against neither past due nor impaired		
10,959,639	11,892,392	Property	4,578,571	4,219,461
1,926,182	1,556,590	Equities	599,287	741,580
545,036	496,429	Others	191,125	209,839
13,430,857	13,945,411		5,368,983	5,170,880
15,021,566	15,960,159	Total	6,144,661	5,783,303

(b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2019 is as follows:

	Carrying Amount	
	2019	2018
	RO 000's	RO 000's
Nature of assets		
Residential/commercial property	1,810	1,810
US\$ 000's	4,701	4,701

Repossessioned properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

42.2.8 Exposures and ECL of financial assets

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.6.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort is considered. This includes both quantitative and qualitative information and analysis, based on the historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date.
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

Each exposure is allocated to a rating scale for individual risk assessment based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Further, a master scale is employed across all different rating scales used by the Group. Its main purpose is to make risk assessment comparable across various segments or products.

A master scale is a scale of credit risk grades, typically denominated by a combination of numbers, letters or both, which represent the relative credit risk assigned to each class or grade. It typically composed of a quantitative and a qualitative component that are indicative of risk of default.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the periodic review of customers' files, status of the industry, press articles, economic condition, changes in external credit ratings, and other internal and external information.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Performance and default information about its credit risk exposures is collected and analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. Statistical models are employed to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP, unemployment rate, oil prices, equity index, etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Determining whether credit risk has increased significantly

Significant Increase in Credit Risk (SICR) Criteria

Under IFRS 9, Stage 2 consists of facilities that have undergone SICR since initial recognition (unless they are classified under low credit risk at reporting date). For these exposures, Lifetime ECL is recognised.

Non-Retail Portfolio

Qualitative Criteria

- Individual Assessment of any Non Retail exposure belonging to list of Top 20 borrowers.
- Special Mention accounts, contracts having specific provision and not in Stage 3 & contracts having interest in suspense and not in Stage 3.
- Qualitative criteria as prescribed by Central Bank of Oman vide circular BM1149 dated 13 April 2017.

Quantitative Criteria

- Rating Degradation based: Rating downgrade that remains within investment grade requires a drop of at least 4 rating grades. Rating degradation that transitions to sub investment grade from investment grade or degradation within sub investment grade requires a drop of at least 1 rating grade. Highest risk rating grades require fewer than 4 notches to trigger SICR.
- Days past due based: Any facility which has been more than 30 days delinquent & restructured accounts would be assigned to Stage 2.

Retail Portfolio

Any facility which has been more than 30 days delinquent would be assigned to Stage 2.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms.
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Loans to customers in financial difficulties are renegotiated to maximise collection opportunities and minimise the risk of default. Loan modification is granted on a selective basis, if the debtor is currently in default on its debt, or if there is a high risk

of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The policy applies to retail and corporate portfolios. The Audit Committee regularly reviews reports on modification activities.

For financial assets modified as part of policy, the estimate of PD reflects whether the modification has improved or restored ability to collect interest and principal and the Group's previous experience of similar modification action. As part of this process, the borrower's payment performance is evaluated against the modified contractual terms and considers various behavioural indicators.

Generally, modification is a qualitative indicator of a significant increase in credit risk and an expectation of modification may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

Definition of default

A financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).
- The borrower is past due more than 89 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, indicators like the following are considered:

- Qualitative - e.g. breaches of covenant.
- Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer.
- Based on data developed internally and obtained from external sources.

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

The definition of default largely aligns with that applied for regulatory capital purposes.

Incorporation of forward-looking information

Forward-looking information is incorporated into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios is formulated. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities in the countries where the Group operates, supranational organisations, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% and 30% respectively. The economic scenarios includes the following ranges of key indicators for Oman, Saudi Arabia and Kuwait.

As at 31 December 2019	Units of Measurement	2020	2021
Brent Crude Oil Price	(USD per bbl)	65.24	66.21
Unemployment Rate	(%)	3.17	3.17
Private Consumption Expenditure	(RO Bn)	11.63	11.75
Overnight Interbank Lending Rate	(%)	1.41	1.41
Oman Gross Domestic Product	(RO Bn)	31.00	31.33
Oman Share Price Index	Index	65.05	71.15
Saudi Arabia Gross Domestic Product	(SAR Bn)	2,712.98	2,762.64
Saudi Arabia Share Price Index	Index	8,777.89	9,607.66
Kuwait Share Price Index	Index	90.56	93.59

As at 31 December 2018	Units of Measurement	2019	2020
Brent Crude Oil Price	(USD per bbl)	67.74	64.09
Unemployment Rate	(%)	16.46	16.33
Private Consumption Expenditure	(RO Bn)	9.37	9.53
Overnight Interbank Lending Rate	(%)	3.13	2.99
Oman Gross Domestic Product	(RO Bn)	30.35	30.72
Oman Share Price Index	Index	172.37	173.98
Saudi Arabia Gross Domestic Product	(SAR Bn)	2,672.23	2,727.53
Saudi Arabia Share Price Index	Index	8,133.35	9,156.05
Kuwait Share Price Index	Index	97.87	99.03

Unemployment rate and Oman Share price index are not comparable with the prior year due to a change in the scale.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

Measurement of ECL

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

- Probability of Default (PD).
- Loss Given Default (LGD).
- Exposure At Default (EAD).

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, ECL is measured considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, a longer period is considered. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, ECL is measured over a period based on behavioural pattern of the portfolio which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type.
- Credit risk grading.
- Collateral type.

- Loan To Value (LTV) ratio for retail mortgages
- Date of initial recognition.
- Remaining term to maturity.
- Industry.
- Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Methodology for Computation of Expected Credit Losses

IFRS 9 requires 12 month expected credit loss provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

12 Month Expected Credit Loss

12 month credit loss refers to the portion of expected credit loss resulting from possible default events within 12 months after reporting date.

Lifetime Expected Credit Loss

Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date. The lifetime refers to the loan tenure of the financial instrument.

Calculating expected credit losses is a multi-step process. The process followed for Non-Retail and Retail exposures is given below:

Non-Retail Exposure

The following is the broad methodology for calculation of ECL for non retail exposures:

1. Inputs in ECL calculation include contractual terms, cash flows, EIR, country and industry risk factors, correlation to systemic risks and Moody's equivalent Through the cycle (TTC) ratings on origination and reporting dates
2. TTC Moody's Rating are converted to Point in time (PIT) Unconditional PD term structure using Moody's EDF9 model that incorporates country and industry factors.
3. Moody's RiskCalc model was adapted to Group's non-retail portfolio to calculate Unconditional PIT LGD.
4. Using Moody's GCorr model, 3 macroeconomic scenarios (Baseline, Upside and Downside) and the weight for each scenario are specified. The weights assigned are 40%, 30% & 30% for Baseline, Upside and Downside respectively. The macro variables used for Bank Muscat are Oil price, Oman Equity, KSA Equity, Kuwait Equity and KSA GDP.
5. PIT Unconditional PD is converted into 12 month and lifetime Conditional PIT PD and PIT Unconditional LGD is converted into PIT Conditional LGD using GCorr Macro model for each scenario mentioned above.
6. Using the scenario weights mentioned above, scenario-weighted average Conditional PIT PD is calculated. Scenario-weighted average conditional PIT PD is then converted to an equivalent credit rating using Moody's implied rating process.
7. Instrument-level contractual terms are used to generate cash flow which are discounted at the contractual rate to get exposure at default (EAD). Some instruments have irregular cash flows and hence custom cash flows are input directly in to the tool.
8. ECL Calculation

$$12 \text{ month ECL} = 12 \text{ month PD} \times \text{LGD} \times \text{Discounted EAD}$$

$$\text{Lifetime ECL} = \text{Lifetime PD} \times \text{LGD} \times \text{Discounted EAD}$$
9. Final ECL
 For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above
 For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above

Retail Exposures

The following is the broad methodology for calculation of ECL for retail exposures:

1. Individual and loan characteristics are used to develop PD models for each retail portfolio.
2. Historical portfolio write-off information is used to build LGD models for each retail portfolio.
3. Detailed payment schedules are used for EAD computation. In case payment detailed schedules are not available, linear amortization to the maturity date is used to compute the exposure at a particular forecast date.
4. ECL Calculation

$$12 \text{ month ECL} = 12 \text{ month PD} \times \text{LGD} \times \text{Discounted EAD}$$

$$\text{Lifetime ECL} = \text{Lifetime PD} \times \text{LGD} \times \text{Discounted EAD}$$

5. Final ECL

For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above.

For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above.

IFRS 9 requires 12 month ECL provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, upside case, and a downside case) and these scenarios are based on the combination of PD and LGD. Both 12 month ECL and life time ECL amount would be the weighted average of the ECL amounts calculated using the three macroeconomic scenario.

The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk.

ECL Calculation

12 month ECL = 12 month PD X LGD X Discounted EAD

Lifetime ECL = Lifetime PD X LGD X Discounted EAD

An analysis of credit quality of gross exposures As at 31 December and changes in gross exposure balances from 1 January to 31 December is set out in the following tables by class of financial assets:

Due from banks at amortised cost/FVOCI

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	592,969	13	-	592,982
Standard Grade (Ba1 to Ba2)	155,001	-	-	155,001
Satisfactory Grade (Ba3 to Caa3)	73,458	374	-	73,832
Total	821,428	387	-	821,815
Total (US\$'000)	2,133,579	1,005	-	2,134,584

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	457,106	335	-	457,441
Transfer between stages				
- Transfer to Stage 1	28	(28)	-	-
- Transfer to Stage 2	(147)	147	-	-
Re-measurement of outstanding	4,228	(67)	-	4,161
Financial assets originated during the period	706,131	-	-	706,131
Financial assets matured during the period	(345,918)	-	-	(345,918)
Balance at 31 December	821,428	387	-	821,815

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Due from banks at amortised cost/FVOCI				
High Grade (Aaa to Baa3)	362,867	28	-	362,895
Standard Grade (Ba1 to Ba2)	49,821	-	-	49,821
Satisfactory Grade (Ba3 to Caa3)	44,418	307	-	44,725
Total	457,106	335	-	457,441
Total (US\$'000)	1,187,288	870	-	1,188,158

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	594,507	69	-	594,576
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(236)	236	-	-
Re-measurement of outstanding	(36,049)	30	-	(36,019)
Financial assets originated during the period	355,950	-	-	355,950
Financial assets matured during the period	(457,066)	-	-	(457,066)
Balance at 31 December	457,106	335	-	457,441

Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	2,824,151	290,321	-	3,114,472
Standard Grade (Ba1 to Ba2)	3,748,683	775,331	-	4,524,014
Satisfactory Grade (Ba3 to Caa3)	444,898	810,896	-	1,255,794
Sub Standard	-	-	38,447	38,447
Doubtful	-	-	49,424	49,424
Loss	-	-	210,676	210,676
Total	7,017,732	1,876,548	298,547	9,192,827
Total (US\$'000)	18,227,875	4,874,151	775,446	23,877,472

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	6,595,413	2,385,829	286,784	9,268,026
Transfer between stages				
- Transfer to Stage 1	151,442	(142,295)	(9,147)	-
- Transfer to Stage 2	(1,199,371)	1,204,624	(5,253)	-
- Transfer to Stage 3	(65,700)	(41,692)	107,392	-
Re-measurement of outstanding	(409,212)	(171,203)	14,391	(566,024)
Financial assets originated during the period	4,044,983	-	-	4,044,983
Financial assets matured during the period	(2,099,823)	(1,358,715)	(38,497)	(3,497,035)
Write off	-	-	(2,423)	(2,423)
Transfer from / (to) Memorandum portfolio	-	-	(54,700)	(54,700)
Balance at 31 December	7,017,732	1,876,548	298,547	9,192,827

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	2,814,834	593,963	-	3,408,797
Standard Grade (Ba1 to Ba2)	3,220,845	1,083,254	-	4,304,099
Satisfactory Grade (Ba3 to Caa3)	559,734	708,612	-	1,268,346
Sub Standard	-	-	36,224	36,224
Doubtful	-	-	48,070	48,070
Loss	-	-	202,490	202,490
Total	6,595,413	2,385,829	286,784	9,268,026
Total (US\$'000)	17,130,943	6,196,958	744,893	24,072,794

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	6,658,301	1,738,733	259,466	8,656,500
Transfer between stages				
- Transfer to Stage 1	389,910	(379,852)	(10,058)	-
- Transfer to Stage 2	(1,846,315)	1,850,138	(3,823)	-
- Transfer to Stage 3	(55,958)	(32,637)	88,595	-
Re-measurement of outstanding	(344,735)	(154,946)	11,157	(488,524)
Financial assets originated during the period	3,942,623	-	-	3,942,623
Financial assets matured during the period	(2,148,413)	(635,607)	(46,253)	(2,830,273)
Write off	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
Balance at 31 December	<u>6,595,413</u>	<u>2,385,829</u>	<u>286,784</u>	<u>9,268,026</u>

Retail Loans and advances / Islamic financing receivables at amortised cost*

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	1,118,142	160	-	1,118,302
Standard Grade (Ba1 to Ba2)	2,375,638	889	-	2,376,527
Satisfactory Grade (Ba3 to Caa3)	225,848	27,829	-	253,677
Sub Standard	-	-	9,528	9,528
Doubtful	-	-	13,671	13,671
Loss	-	-	60,325	60,325
Total	<u>3,719,628</u>	<u>28,878</u>	<u>83,524</u>	<u>3,832,030</u>
Total (US\$'000)	<u>9,661,371</u>	<u>75,008</u>	<u>216,945</u>	<u>9,953,324</u>

* includes Housing Loans, Personal Loans, Credit Cards and Retail Overdrafts

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	3,594,336	30,653	74,995	3,699,984
Transfer between stages				
- Transfer to Stage 1	22,548	(14,578)	(7,970)	-
- Transfer to Stage 2	(23,864)	25,272	(1,408)	-
- Transfer to Stage 3	(27,275)	(6,861)	34,136	-
Re-measurement of outstanding	(279,031)	(1,909)	566	(280,374)
Financial assets originated during the period	905,829	-	-	905,829
Financial assets matured during the period	(472,915)	(3,699)	(17,262)	(493,876)
Write off	-	-	(688)	(688)
Transfer from / (to) Memorandum portfolio	-	-	1,155	1,155
Balance at 31 December	<u>3,719,628</u>	<u>28,878</u>	<u>83,524</u>	<u>3,832,030</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	1,150,806	790	-	1,151,596
Standard Grade (Ba1 to Ba2)	2,221,105	1,775	-	2,222,880
Satisfactory Grade (Ba3 to Caa3)	222,425	28,088	-	250,513
Sub Standard	-	-	10,396	10,396
Doubtful	-	-	14,130	14,130
Loss	-	-	50,469	50,469
Total	<u>3,594,336</u>	<u>30,653</u>	<u>74,995</u>	<u>3,699,984</u>
Total (US\$'000)	<u>9,335,938</u>	<u>79,618</u>	<u>194,792</u>	<u>9,610,348</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	3,452,684	29,080	65,759	3,547,523
Transfer between stages				
- Transfer to Stage 1	21,314	(12,752)	(8,562)	-
- Transfer to Stage 2	(25,664)	28,069	(2,405)	-
- Transfer to Stage 3	(27,970)	(7,342)	35,312	-
Re-measurement of outstanding	(243,125)	(2,232)	299	(245,058)
Financial assets originated during the period	854,020	-	-	854,020
Financial assets matured during the period	(436,923)	(4,170)	(16,588)	(457,681)
Write off	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
Balance at 31 December	<u>3,594,336</u>	<u>30,653</u>	<u>74,995</u>	<u>3,699,984</u>

Corporate and other Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	1,706,009	290,161	-	1,996,170
Standard Grade (Ba1 to Ba2)	1,373,045	774,442	-	2,147,487
Satisfactory Grade (Ba3 to Caa3)	219,050	783,067	-	1,002,117
Sub Standard	-	-	28,919	28,919
Doubtful	-	-	35,753	35,753
Loss	-	-	150,351	150,351
Total	<u>3,298,104</u>	<u>1,847,670</u>	<u>215,023</u>	<u>5,360,797</u>
Total (US\$'000)	<u>8,566,504</u>	<u>4,799,143</u>	<u>558,501</u>	<u>13,924,148</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	3,001,077	2,355,176	211,789	5,568,042
Transfer between stages				
- Transfer to Stage 1	128,894	(127,717)	(1,177)	-
- Transfer to Stage 2	(1,175,507)	1,179,352	(3,845)	-
- Transfer to Stage 3	(38,425)	(34,831)	73,256	-
Re-measurement of outstanding	(130,181)	(169,294)	13,825	(285,650)
Financial assets originated during the period	3,139,154	-	-	3,139,154
Financial assets matured during the period	(1,626,908)	(1,355,016)	(21,235)	(3,003,159)
Write off	-	-	(1,735)	(1,735)
Transfer from / (to) Memorandum portfolio	-	-	(55,855)	(55,855)
Balance at 31 December	<u>3,298,104</u>	<u>1,847,670</u>	<u>215,023</u>	<u>5,360,797</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	1,664,028	593,173	-	2,257,201
Standard Grade (Ba1 to Ba2)	999,740	1,081,479	-	2,081,219
Satisfactory Grade (Ba3 to Caa3)	337,309	680,524	-	1,017,833
Sub Standard	-	-	25,828	25,828
Doubtful	-	-	33,940	33,940
Loss	-	-	152,021	152,021
Total	<u>3,001,077</u>	<u>2,355,176</u>	<u>211,789</u>	<u>5,568,042</u>
Total (US\$'000)	<u>7,795,005</u>	<u>6,117,340</u>	<u>550,101</u>	<u>14,462,446</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	3,205,617	1,709,653	193,707	5,108,977
Transfer between stages				
- Transfer to Stage 1	368,596	(367,100)	(1,496)	-
- Transfer to Stage 2	(1,820,651)	1,822,069	(1,418)	-
- Transfer to Stage 3	(27,988)	(25,295)	53,283	-
Re-measurement of outstanding	(101,610)	(152,714)	10,858	(243,466)
Financial assets originated during the period	3,088,603	-	-	3,088,603
Financial assets matured during the period	(1,711,490)	(631,437)	(29,665)	(2,372,592)
Write off	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
Balance at 31 December	<u>3,001,077</u>	<u>2,355,176</u>	<u>211,789</u>	<u>5,568,042</u>

Debt investment securities at FVOCI

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	43,111	-	-	43,111
Standard Grade (Ba1 to Ba2)	4,879	1,794	-	6,673
Satisfactory Grade (Ba3 to Caa3)	4,496	6,509	-	11,005
Total	<u>52,486</u>	<u>8,303</u>	<u>-</u>	<u>60,789</u>
Total (US\$'000)	<u>136,327</u>	<u>21,566</u>	<u>-</u>	<u>157,893</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	51,440	11,439	-	62,879
Transfer between stages				
- Transfer to Stage 1	1,045	(1,045)	-	-
- Transfer to Stage 2	(981)	981	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(782)	162	-	(620)
Financial assets originated during the period	1,514	-	-	1,514
Financial assets matured during the period	(4,569)	(3,234)	-	(7,803)
Foreign exchange movements	40	-	-	40
Loss from change in fair value	4,779	-	-	4,779
Balance at 31 December	<u>52,486</u>	<u>8,303</u>	<u>-</u>	<u>60,789</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	43,663	1,020	-	44,683
Standard Grade (Ba1 to Ba2)	2,737	3,314	-	6,051
Satisfactory Grade (Ba3 to Caa3)	5,040	7,105	-	12,145
Total	<u>51,440</u>	<u>11,439</u>	<u>-</u>	<u>62,879</u>
Total (US\$'000)	<u>133,610</u>	<u>29,712</u>	<u>-</u>	<u>163,322</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	29,733	15,937	-	45,670
Transfer between stages				
- Transfer to Stage 1	1,982	(1,982)	-	-
- Transfer to Stage 2	(32)	32	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(1,297)	(534)	-	(1,831)
Financial assets originated during the period	29,889	-	-	29,889
Financial assets matured during the period	(6,691)	(2,014)	-	(8,705)
Foreign exchange movements	(1)	-	-	(1)
Loss from change in fair value	(2,143)	-	-	(2,143)
Balance at 31 December	<u>51,440</u>	<u>11,439</u>	<u>-</u>	<u>62,879</u>

Debt investment securities at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	420,882	-	-	420,882
Standard Grade (Ba1 to Ba2)	339,426	8,028	-	347,454
Satisfactory Grade (Ba3 to Caa3)	506,661	1	-	506,662
Total	<u>1,266,969</u>	<u>8,029</u>	<u>-</u>	<u>1,274,998</u>
Total (US\$'000)	<u>3,290,829</u>	<u>20,855</u>	<u>-</u>	<u>3,311,684</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,076,278	8,910	-	1,085,188
Transfer between stages				
- Transfer to Stage 1	1,128	(1,128)	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(4,974)	247	-	(4,727)
Financial assets originated during the period	676,653	-	-	676,653
Financial assets matured during the period	(485,529)	-	-	(485,529)
Foreign exchange and other movements	3,413	-	-	3,413
Balance at 31 December	<u>1,266,969</u>	<u>8,029</u>	<u>-</u>	<u>1,274,998</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	1,021,113	-	-	1,021,113
Standard Grade (Ba1 to Ba2)	45,165	1,128	-	46,293
Satisfactory Grade (Ba3 to Caa3)	10,000	7,782	-	17,782
Total	<u>1,076,278</u>	<u>8,910</u>	<u>-</u>	<u>1,085,188</u>
Total (US\$'000)	<u>2,795,527</u>	<u>23,143</u>	<u>-</u>	<u>2,818,670</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	591,500	273,293	-	864,793
Transfer between stages				
- Transfer to Stage 1	262,144	(262,144)	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(1,652)	(2,239)	-	(3,891)
Financial assets originated during the period	565,440	-	-	565,440
Financial assets matured during the period	(334,787)	-	-	(334,787)
Foreign exchange and other movements	(6,367)	-	-	(6,367)
Balance at 31 December	<u>1,076,278</u>	<u>8,910</u>	<u>-</u>	<u>1,085,188</u>

Financial guarantee contracts at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	861,061	100,379	-	961,440
Standard Grade (Ba1 to Ba2)	454,607	433,947	-	888,554
Satisfactory Grade (Ba3 to Caa3)	98,805	325,611	-	424,416
Sub Standard	-	-	12,016	12,016
Doubtful	-	-	18,530	18,530
Loss	-	-	18,001	18,001
Total	<u>1,414,473</u>	<u>859,937</u>	<u>48,547</u>	<u>2,322,957</u>
Total (US\$'000)	<u>3,673,956</u>	<u>2,233,603</u>	<u>126,096</u>	<u>6,033,655</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,694,294	967,009	15,132	2,676,435
Transfer between stages				
- Transfer to Stage 1	159,342	(159,016)	(326)	-
- Transfer to Stage 2	(548,959)	549,299	(340)	-
- Transfer to Stage 3	(8,610)	(37,261)	45,871	-
Re-measurement of outstanding	(123,063)	(147,417)	(4,303)	(274,783)
Financial assets originated during the period	850,381	-	-	850,381
Financial assets matured during the period	(608,912)	(312,677)	(7,487)	(929,076)
Balance at 31 December	<u>1,414,473</u>	<u>859,937</u>	<u>48,547</u>	<u>2,322,957</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	888,464	155,661	-	1,044,125
Standard Grade (Ba1 to Ba2)	629,921	555,083	-	1,185,004
Satisfactory Grade (Ba3 to Caa3)	175,909	256,265	-	432,174
Sub Standard	-	-	7,974	7,974
Doubtful	-	-	4,072	4,072
Loss	-	-	3,086	3,086
Total	<u>1,694,294</u>	<u>967,009</u>	<u>15,132</u>	<u>2,676,435</u>
Total (US\$'000)	<u>4,400,764</u>	<u>2,511,712</u>	<u>39,304</u>	<u>6,951,780</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	2,240,129	607,846	12,095	2,860,070
Transfer between stages				
- Transfer to Stage 1	108,185	(108,163)	(22)	-
- Transfer to Stage 2	(784,628)	784,718	(90)	-
- Transfer to Stage 3	(5,872)	(532)	6,404	-
Re-measurement of outstanding	(265,309)	(99,651)	(67)	(365,027)
Financial assets originated during the period	1,131,748	-	-	1,131,748
Financial assets matured during the period	(729,959)	(217,209)	(3,188)	(950,356)
Balance at 31 December	<u>1,694,294</u>	<u>967,009</u>	<u>15,132</u>	<u>2,676,435</u>

Acceptances at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	36,129	4,314	-	40,443
Standard Grade (Ba1 to Ba2)	41,206	34,752	-	75,958
Satisfactory Grade (Ba3 to Caa3)	122	6,918	-	7,040
Sub Standard	-	-	21	21
Total	<u>77,457</u>	<u>45,984</u>	<u>21</u>	<u>123,462</u>
Total (US\$'000)	<u>201,187</u>	<u>119,439</u>	<u>55</u>	<u>320,681</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	42,871	64,561	56	107,488
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(45,984)	45,984	-	-
- Transfer to Stage 3	(21)	-	21	-
Re-measurement of outstanding	-	-	-	-
Financial assets originated during the period	123,441	-	-	123,441
Financial assets matured during the period	(42,850)	(64,561)	(56)	(107,467)
Balance at 31 December	<u>77,457</u>	<u>45,984</u>	<u>21</u>	<u>123,462</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	36,465	18,992	-	55,457
Standard Grade (Ba1 to Ba2)	5,916	41,959	-	47,875
Satisfactory Grade (Ba3 to Caa3)	490	3,610	-	4,100
Sub Standard	-	-	56	56
Total	<u>42,871</u>	<u>64,561</u>	<u>56</u>	<u>107,488</u>
Total (US\$'000)	<u>111,354</u>	<u>167,691</u>	<u>145</u>	<u>279,190</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	52,959	34,875	27	87,861
Transfer between stages				
- Transfer to Stage 1	85	(85)	-	-
- Transfer to Stage 2	(64,386)	64,386	-	-
- Transfer to Stage 3	(56)	-	56	-
Re-measurement of outstanding	(50)	(10)	-	(60)
Financial assets originated during the period	105,845	-	-	105,845
Financial assets matured during the period	(51,526)	(34,605)	(27)	(86,158)
Balance at 31 December	<u>42,871</u>	<u>64,561</u>	<u>56</u>	<u>107,488</u>

Loan commitment/unutilised limits at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	755,890	243,797	-	999,687
Standard Grade (Ba1 to Ba2)	565,309	403,529	-	968,838
Satisfactory Grade (Ba3 to Caa3)	26,294	51,314	-	77,608
Total	<u>1,347,493</u>	<u>698,640</u>	<u>-</u>	<u>2,046,133</u>
Total (US\$'000)	<u>3,499,982</u>	<u>1,814,649</u>	<u>-</u>	<u>5,314,631</u>

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,212,384	1,088,437	-	2,300,821
Transfer between stages				
- Transfer to Stage 1	425,277	(425,277)	-	-
- Transfer to Stage 2	(210,682)	210,682	-	-
- Transfer to Stage 3	(892)	(2,289)	3,181	-
Re-measurement of outstanding	(57,014)	(68,447)	(3,181)	(128,642)
Financial assets originated during the period	201,913	-	-	201,913
Financial assets matured during the period	(223,493)	(104,466)	-	(327,959)
Balance at 31 December	<u>1,347,493</u>	<u>698,640</u>	<u>-</u>	<u>2,046,133</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
High Grade (Aaa to Baa3)	701,144	542,911	-	1,244,055
Standard Grade (Ba1 to Ba2)	348,279	485,826	-	834,105
Satisfactory Grade (Ba3 to Caa3)	162,961	59,700	-	222,661
Total	<u>1,212,384</u>	<u>1,088,437</u>	<u>-</u>	<u>2,300,821</u>
Total (US\$'000)	<u>3,149,049</u>	<u>2,827,109</u>	<u>-</u>	<u>5,976,158</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,861,398	408,297	-	2,269,695
Transfer between stages				
- Transfer to Stage 1	108,278	(108,278)	-	-
- Transfer to Stage 2	(729,030)	729,030	-	-
- Transfer to Stage 3	(728)	(715)	1,443	-
Re-measurement of outstanding	(165,340)	77,937	(1,443)	(88,846)
Financial assets originated during the period	386,262	-	-	386,262
Financial assets matured during the period	(248,456)	(17,834)	-	(266,290)
Balance at 31 December	<u>1,212,384</u>	<u>1,088,437</u>	<u>-</u>	<u>2,300,821</u>

Impairment loss allowances

An analysis of changes in the impairment loss allowances is set out in the following tables by class of financial assets.

Due from banks at amortised cost/FVOCI

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	645	3	-	648
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(1)	1	-	-
Impairment charged to income statement for:	<u>106</u>	<u>11</u>	<u>-</u>	<u>117</u>
- Re-measurement of impairment allowances	(34)	11	-	(23)
- Financial assets originated during the period	621	-	-	621
- Financial assets matured during the period	(481)	-	-	(481)
Foreign exchange and other movements	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Balance at 31 December	<u>751</u>	<u>15</u>	<u>-</u>	<u>766</u>
Balance at 31 December (US\$'000)	<u>1,951</u>	<u>39</u>	<u>-</u>	<u>1,990</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	2,788	1	-	2,789
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	<u>(2,142)</u>	<u>1</u>	<u>-</u>	<u>(2,141)</u>
- Re-measurement of impairment allowances	(1,860)	1	-	(1,859)
- Financial assets originated during the period	488	-	-	488
- Financial assets matured during the period	<u>(770)</u>	<u>-</u>	<u>-</u>	<u>(770)</u>
Balance at 31 December	<u>645</u>	<u>3</u>	<u>-</u>	<u>648</u>
Balance at 31 December (US\$'000)	<u>1,675</u>	<u>8</u>	<u>-</u>	<u>1,683</u>

Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	14,942	107,679	206,490	329,111
Transfer between stages:				
- Transfer to Stage 1	2,816	(2,816)	-	-
- Transfer to Stage 2	(21,030)	21,030	-	-
- Transfer to Stage 3	(200)	(23,792)	23,992	-
Impairment charged / (credited) to income statement for:	<u>21,675</u>	<u>(22,134)</u>	<u>68,288</u>	<u>67,829</u>
- Re-measurement of impairment allowances	(1,990)	(8,260)	68,288	58,038
- Financial assets originated during the period	27,186	-	-	27,186
- Financial assets matured during the period	(3,521)	(13,874)	-	(17,395)
Recoveries from impairment for credit losses	-	-	(35,946)	(35,946)
Interest reserve charged to interest income	-	(2,216)	18,058	15,842
Recoveries of reserved interest in interest income	-	-	(4,914)	(4,914)
Write off of impairment allowances	-	-	(2,423)	(2,423)
Transfer from / (to) Memorandum portfolio	-	-	(54,700)	(54,700)
Foreign exchange and other movements	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Balance at 31 December	<u>18,203</u>	<u>77,751</u>	<u>218,832</u>	<u>314,786</u>
Balance at 31 December (US\$'000)	<u>47,280</u>	<u>201,951</u>	<u>568,395</u>	<u>817,626</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	15,911	94,912	184,114	294,937
Transfer between stages:				
- Transfer to Stage 1	17,645	(17,645)	-	-
- Transfer to Stage 2	(22,157)	22,157	-	-
- Transfer to Stage 3	(201)	(4,783)	4,984	-
Impairment charged to income statement for:	<u>3,744</u>	<u>11,049</u>	<u>64,071</u>	<u>78,864</u>
- Re-measurement of impairment allowances	(18,045)	19,557	64,071	65,583
- Financial assets originated during the period	25,605	-	-	25,605
- Financial assets matured during the period	(3,816)	(8,508)	-	(12,324)
Recoveries from impairment for credit losses	-	-	(36,706)	(36,706)
Interest reserve charged to interest income	-	1,989	8,071	10,060
Recoveries of reserved interest in interest income	-	-	(5,575)	(5,575)
Write off of impairment allowances	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
Foreign exchange and other movements	<u>-</u>	<u>-</u>	<u>(169)</u>	<u>(169)</u>
Balance at 31 December	<u>14,942</u>	<u>107,679</u>	<u>206,490</u>	<u>329,111</u>
Balance at 31 December (US\$'000)	<u>38,810</u>	<u>279,686</u>	<u>536,338</u>	<u>854,834</u>

Retail Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	10,213	4,791	61,739	76,743
Transfer between stages:				
- Transfer to Stage 1	1,659	(1,659)	-	-
- Transfer to Stage 2	(1,240)	1,240	-	-
- Transfer to Stage 3	(181)	(1,549)	1,730	-
Impairment charged to income statement for:	<u>205</u>	<u>2,287</u>	<u>22,474</u>	<u>24,966</u>
- Re-measurement of impairment allowances	(1,893)	2,944	22,474	23,525
- Financial assets originated during the period	3,727	-	-	3,727
- Financial assets matured during the period	(1,629)	(657)	-	(2,286)
Recoveries from impairment for credit losses	-	-	(17,920)	(17,920)
Interest reserve charged to interest income	-	-	2,992	2,992
Recoveries of reserved interest in interest income	-	-	(1,323)	(1,323)
Write off of impairment allowances	-	-	(688)	(688)
Transfer from / (to) Memorandum portfolio	-	-	1,156	1,156
Balance at 31 December	<u>10,656</u>	<u>5,110</u>	<u>70,160</u>	<u>85,926</u>
Balance at 31 December (US\$'000)	<u>27,677</u>	<u>13,273</u>	<u>182,232</u>	<u>223,182</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	11,123	5,230	53,000	69,353
Transfer between stages:				
- Transfer to Stage 1	1,637	(1,637)	-	-
- Transfer to Stage 2	(1,120)	1,120	-	-
- Transfer to Stage 3	(186)	(1,851)	2,037	-
Impairment charged / (credited) to income statement for:	<u>(1,241)</u>	<u>1,929</u>	<u>21,121</u>	<u>21,809</u>
- Re-measurement of impairment allowances	(2,489)	2,910	21,121	21,542
- Financial assets originated during the period	3,333	-	-	3,333
- Financial assets matured during the period	(2,085)	(981)	-	(3,066)
Recoveries from impairment for credit losses	-	-	(19,129)	(19,129)
Interest reserve charged to interest income	-	-	5,260	5,260
Recoveries of reserved interest in interest income	-	-	(1,730)	(1,730)
Write off of impairment allowances	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
Balance at 31 December	<u>10,213</u>	<u>4,791</u>	<u>61,739</u>	<u>76,743</u>
Balance at 31 December (US\$'000)	<u>26,527</u>	<u>12,444</u>	<u>160,361</u>	<u>199,332</u>

Corporate and other Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	4,729	102,888	144,751	252,368
Transfer between stages:				
- Transfer to Stage 1	1,157	(1,157)	-	-
- Transfer to Stage 2	(19,790)	19,790	-	-
- Transfer to Stage 3	(19)	(22,243)	22,262	-
Impairment charged / (credited) to income statement for:	<u>21,470</u>	<u>(24,421)</u>	<u>45,814</u>	<u>42,863</u>
- Re-measurement of impairment allowances	(97)	(11,204)	45,814	34,513
- Financial assets originated during the period	23,459	-	-	23,459
- Financial assets matured during the period	(1,892)	(13,217)	-	(15,109)
Recoveries from impairment for credit losses	-	-	(18,026)	(18,026)
Interest reserve charged to interest income	-	(2,216)	15,066	12,850
Recoveries of reserved interest in interest income	-	-	(3,591)	(3,591)
Write off of impairment allowances	-	-	(1,735)	(1,735)
Transfer from / (to) Memorandum portfolio	-	-	(55,856)	(55,856)
Foreign exchange and other movements	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Balance at 31 December	<u>7,547</u>	<u>72,641</u>	<u>148,672</u>	<u>228,860</u>
Balance at 31 December (US\$'000)	<u>19,603</u>	<u>188,678</u>	<u>386,163</u>	<u>594,444</u>

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	4,788	89,682	131,114	225,584
Transfer between stages:				
- Transfer to Stage 1	16,008	(16,008)	-	-
- Transfer to Stage 2	(21,037)	21,037	-	-
- Transfer to Stage 3	(15)	(2,932)	2,947	-
Impairment charged to income statement for:	<u>4,985</u>	<u>9,120</u>	<u>42,950</u>	<u>57,055</u>
- Re-measurement of impairment allowances	(15,556)	16,647	42,950	44,041
- Financial assets originated during the period	22,272	-	-	22,272
- Financial assets matured during the period	(1,731)	(7,527)	-	(9,258)
Recoveries from impairment for credit losses	-	-	(17,577)	(17,577)
Interest reserve charged to interest income	-	1,989	2,811	4,800
Recoveries of reserved interest in interest income	-	-	(3,845)	(3,845)
Write off of impairment allowances	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
Foreign exchange and other movements	<u>-</u>	<u>-</u>	<u>(169)</u>	<u>(169)</u>
Balance at 31 December	<u>4,729</u>	<u>102,888</u>	<u>144,751</u>	<u>252,368</u>
Balance at 31 December (US\$'000)	<u>12,283</u>	<u>267,242</u>	<u>375,977</u>	<u>655,502</u>

Debt investment securities at FVOCI

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	84	848	-	932
Transfer between stages:				
- Transfer to Stage 1	51	(51)	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	6	373	-	379
- Re-measurement of impairment allowances	9	373	-	382
- Financial assets originated during the period	5	-	-	5
- Financial assets matured during the period	(8)	-	-	(8)
Balance at 31 December	140	1,171	-	1,311
Balance at 31 December (US\$'000)	364	3,041	-	3,405

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	109	985	-	1,094
Transfer between stages:				
- Transfer to Stage 1	91	(91)	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	(115)	(47)	-	(162)
- Re-measurement of impairment allowances	(131)	(42)	-	(173)
- Financial assets originated during the period	27	-	-	27
- Financial assets matured during the period	(11)	(5)	-	(16)
Balance at 31 December	84	848	-	932
Balance at 31 December (US\$'000)	218	2,203	-	2,421

Debt investment securities at amortised cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	89	92	-	181
Transfer between stages:				
- Transfer to Stage 1	16	(16)	-	-
- Transfer to Stage 2	-	-	-	-
Impairment charged / (credited) to income statement for:	162	(41)	-	121
- Re-measurement of impairment allowances	136	(41)	-	95
- Financial assets originated during the period	31	-	-	31
- Financial assets matured during the period	(5)	-	-	(5)
Balance at 31 December	267	35	-	302
Balance at 31 December (US\$'000)	694	91	-	785

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	79	553	-	632
Transfer between stages:				
- Transfer to Stage 1	43	(43)	-	-
- Transfer to Stage 2	-	-	-	-
Reversal of impairment to income statement for:	(33)	(418)	-	(451)
- Re-measurement of impairment allowances	(44)	(418)	-	(462)
- Financial assets originated during the period	75	-	-	75
- Financial assets matured during the period	(64)	-	-	(64)
Balance at 31 December	89	92	-	181
Balance at 31 December (US\$'000)	231	239	-	470

Financial guarantee contracts at amortised Cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,330	21,257	7,233	29,820
Transfer between stages:				
- Transfer to Stage 1	1,052	(1,052)	-	-
- Transfer to Stage 2	(3,756)	3,756	-	-
- Transfer to Stage 3	-	(7,593)	7,593	-
Impairment charged to income statement for:	3,321	1,165	19,832	24,318
- Re-measurement of impairment allowances	(290)	8,446	19,832	27,988
- Financial assets originated during the period	3,949	-	-	3,949
- Financial assets matured during the period	(338)	(7,281)	-	(7,619)
Foreign exchange and other movements	-	-	4	4
Balance at 31 December	1,947	17,533	34,662	54,142
Balance at 31 December (US\$'000)	5,056	45,540	90,031	140,629

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	1,681	17,895	617	20,193
Transfer between stages:				
- Transfer to Stage 1	744	(744)	-	-
- Transfer to Stage 2	(3,460)	3,460	-	-
- Transfer to Stage 3	(2)	(16)	18	-
Impairment charged to income statement for:	2,367	661	6,601	9,629
- Re-measurement of impairment allowances	(800)	6,867	6,601	12,668
- Financial assets originated during the period	3,521	-	-	3,521
- Financial assets matured during the period	(354)	(6,206)	-	(6,560)
Foreign exchange and other movements	-	1	(3)	(2)
Balance at 31 December	1,330	21,257	7,233	29,820
Balance at 31 December (US\$'000)	3,455	55,213	18,787	77,455

Acceptances at amortised Cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	16	48	27	91
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(100)	100	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged / (credited) to income statement for:	<u>129</u>	<u>(48)</u>	<u>(27)</u>	<u>54</u>
- Re-measurement of impairment allowances	-	-	(27)	(27)
- Financial assets originated during the period	144	-	-	144
- Financial assets matured during the period	<u>(15)</u>	<u>(48)</u>	<u>-</u>	<u>(63)</u>
Balance at 31 December	45	100	-	145
Balance at 31 December (US\$'000)	117	260	-	377

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	24	39	-	63
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(47)	47	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged / (credited) to income statement for:	<u>39</u>	<u>(38)</u>	<u>27</u>	<u>28</u>
- Re-measurement of impairment allowances	-	-	27	27
- Financial assets originated during the period	59	-	-	59
- Financial assets matured during the period	<u>(20)</u>	<u>(38)</u>	<u>-</u>	<u>(58)</u>
Balance at 31 December	<u>16</u>	<u>48</u>	<u>27</u>	<u>91</u>
Balance at 31 December (US\$'000)	<u>42</u>	<u>124</u>	<u>70</u>	<u>236</u>

Loan Commitment / Unutilised limits at amortised Cost

2019	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	2,246	7,973	-	10,219
Transfer between stages:				
- Transfer to Stage 1	1,485	(1,485)	-	-
- Transfer to Stage 2	(4,128)	4,128	-	-
- Transfer to Stage 3	(1)	(314)	315	-
Impairment charged / (credited) to income statement for:	<u>2,858</u>	<u>(2,017)</u>	<u>(315)</u>	<u>526</u>
- Re-measurement of impairment allowances	(442)	164	(315)	(593)
- Financial assets originated during the period	4,204	-	-	4,204
- Financial assets matured during the period	<u>(904)</u>	<u>(2,181)</u>	<u>-</u>	<u>(3,085)</u>
Balance at 31 December	2,460	8,285	-	10,745
Balance at 31 December (US\$'000)	6,390	21,519	-	27,909

2018	Stage 1	Stage 2	Stage 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Balance at 1 January	4,928	7,909	-	12,837
Transfer between stages:				
- Transfer to Stage 1	3,162	(3,162)	-	-
- Transfer to Stage 2	(2,612)	2,612	-	-
- Transfer to Stage 3	(1)	(3)	4	-
Impairment charged / (credited) to income statement for:	(3,231)	617	(4)	(2,618)
- Re-measurement of impairment allowances	(4,540)	3,089	(4)	(1,455)
- Financial assets originated during the period	2,084	-	-	2,084
- Financial assets matured during the period	(775)	(2,472)	-	(3,247)
Balance at 31 December	2,246	7,973	-	10,219
Balance at 31 December (US\$'000)	5,834	20,709	-	26,543

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

2019 Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross amount	Provision as per CBO norms	Reserve interest as per CBO norms	Provision as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)-(5)-(6)	(8) = (3)-(6)	(9)
Standard	Stage 1	7,839,159	108,488	-	18,954	89,534	7,820,205	-
	Stage 2	1,166,567	12,166	-	51,252	(39,086)	1,115,315	-
	Stage 3	-	-	-	-	-	-	-
		<u>9,005,726</u>	<u>120,654</u>	<u>-</u>	<u>70,206</u>	<u>50,448</u>	<u>8,935,520</u>	<u>-</u>
Special mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	710,369	12,419	-	26,515	(14,096)	683,854	-
	Stage 3	-	-	-	-	-	-	-
		<u>710,369</u>	<u>12,419</u>	<u>-</u>	<u>26,515</u>	<u>(14,096)</u>	<u>683,854</u>	<u>-</u>
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	50,484	12,035	361	12,396	-	38,088	-
		<u>50,484</u>	<u>12,035</u>	<u>361</u>	<u>12,396</u>	<u>-</u>	<u>38,088</u>	<u>-</u>
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	67,954	28,550	1,775	39,780	(9,455)	28,174	-
		<u>67,954</u>	<u>28,550</u>	<u>1,775</u>	<u>39,780</u>	<u>(9,455)</u>	<u>28,174</u>	<u>-</u>
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	228,677	168,380	27,042	201,318	(5,896)	27,359	-
		<u>228,677</u>	<u>168,380</u>	<u>27,042</u>	<u>201,318</u>	<u>(5,896)</u>	<u>27,359</u>	<u>-</u>
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	4,293,058	-	-	4,859	(4,859)	4,288,199	-
	Stage 2	1,620,892	-	-	27,123	(27,123)	1,593,769	-
	Stage 3	-	-	-	-	-	-	-
		<u>5,913,950</u>	<u>-</u>	<u>-</u>	<u>31,982</u>	<u>(31,982)</u>	<u>5,881,968</u>	<u>-</u>
Total	Stage 1	12,132,217	108,488	-	23,813	84,675	12,108,404	-
	Stage 2	3,497,828	24,585	-	104,890	(80,305)	3,392,938	-
	Stage 3	347,115	208,965	29,178	253,494	(15,351)	93,621	-
		<u>15,977,160</u>	<u>342,038</u>	<u>29,178</u>	<u>382,197</u>	<u>(10,981)</u>	<u>15,594,963</u>	<u>-</u>

2018 Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross amount	Provision as per CBO norms	Reserve interest as per CBO norms	Provision as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9
(1)	(2)	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)+(5)-(6)	(8) = (3)-(6)	(9)
Standard	Stage 1	7,052,519	103,339	-	15,589	87,750	7,036,930	-
	Stage 2	1,726,165	17,416	-	54,704	(37,288)	1,671,461	-
	Stage 3	-	-	-	-	-	-	-
		<u>8,778,684</u>	<u>120,755</u>	<u>-</u>	<u>70,293</u>	<u>50,462</u>	<u>8,708,391</u>	<u>-</u>
Special mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	660,024	30,023	-	52,977	(22,954)	607,047	-
	Stage 3	-	-	-	-	-	-	-
		<u>660,024</u>	<u>30,023</u>	<u>-</u>	<u>52,977</u>	<u>(22,954)</u>	<u>607,047</u>	<u>-</u>
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	44,254	10,813	372	11,185	-	33,069	-
		<u>44,254</u>	<u>10,813</u>	<u>372</u>	<u>11,185</u>	<u>-</u>	<u>33,069</u>	<u>-</u>
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	52,142	21,706	1,442	29,122	(5,974)	23,020	-
		<u>52,142</u>	<u>21,706</u>	<u>1,442</u>	<u>29,122</u>	<u>(5,974)</u>	<u>23,020</u>	<u>-</u>
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	205,576	153,049	20,394	173,443	-	32,133	-
		<u>205,576</u>	<u>153,049</u>	<u>20,394</u>	<u>173,443</u>	<u>-</u>	<u>32,133</u>	<u>-</u>
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	4,850,749	-	-	3,763	(3,763)	4,846,986	-
	Stage 2	2,140,331	-	-	30,219	(30,219)	2,110,112	-
	Stage 3	-	-	-	-	-	-	-
		<u>6,991,080</u>	<u>-</u>	<u>-</u>	<u>33,982</u>	<u>(33,982)</u>	<u>6,957,098</u>	<u>-</u>
Total	Stage 1	11,903,268	103,339	-	19,352	83,987	11,883,916	-
	Stage 2	4,526,520	47,439	-	137,900	(90,461)	4,388,620	-
	Stage 3	301,972	185,568	22,208	213,750	(5,974)	88,222	-
		<u>16,731,760</u>	<u>336,346</u>	<u>22,208</u>	<u>371,002</u>	<u>(12,448)</u>	<u>16,360,758</u>	<u>-</u>

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Restructured accounts

2019 Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Reserve interest as per CBO norms	Provisions held as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(4)+(5)-(6)	(8)=(3)-(6)	(9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	197,163	2,862	-	10,281	(7,419)	186,882	-
	Stage 3	-	-	-	-	-	-	-
		<u>197,163</u>	<u>2,862</u>	<u>-</u>	<u>10,281</u>	<u>(7,419)</u>	<u>186,882</u>	<u>-</u>
Classified as non- performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	91,084	56,755	5,858	62,613	-	28,471	-
		<u>91,084</u>	<u>56,755</u>	<u>5,858</u>	<u>62,613</u>	<u>-</u>	<u>28,471</u>	<u>-</u>
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	197,163	2,862	-	10,281	(7,419)	186,882	-
	Stage 3	91,084	56,755	5,858	62,613	-	28,471	-
		<u>288,247</u>	<u>59,617</u>	<u>5,858</u>	<u>72,894</u>	<u>(7,419)</u>	<u>215,353</u>	<u>-</u>

2018 Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Reserve interest as per CBO norms	Provisions held as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(4)+(5)-(6)	(8)=(3)-(6)	(9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	64,964	8,663	-	13,060	(4,397)	51,904	-
	Stage 3	-	-	-	-	-	-	-
		<u>64,964</u>	<u>8,663</u>	<u>-</u>	<u>13,060</u>	<u>(4,397)</u>	<u>51,904</u>	<u>-</u>
Classified as non- performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	89,751	62,289	6,735	70,902	(1,878)	18,849	-
		<u>89,751</u>	<u>62,289</u>	<u>6,735</u>	<u>70,902</u>	<u>(1,878)</u>	<u>18,849</u>	<u>-</u>
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	64,964	8,663	-	13,060	(4,397)	51,904	-
	Stage 3	89,751	62,289	6,735	70,902	(1,878)	18,849	-
		<u>154,715</u>	<u>70,952</u>	<u>6,735</u>	<u>83,962</u>	<u>(6,275)</u>	<u>70,753</u>	<u>-</u>

Impairment allowance

2019	As per CBO Norms	As per IFRS 9	Difference
	RO 000's	RO 000's	RO 000's
Impairment loss charged to profit and loss account (net of recoveries)	56,127	56,127	-
Provisions required as per CBO norms / held as per IFRS 9 ¹	371,216	382,197	(10,981)
Gross NPL ratio ¹	3.25%	3.25%	0.00%
Net NPL ratio ¹	0.98%	0.89%	0.09%

2018	As per CBO Norms	As per IFRS 9	Difference
	RO 000's	RO 000's	RO 000's
Impairment loss charged to profit and loss account (net of recoveries)	44,468	44,468	-
Provisions required as per CBO norms / held as per IFRS 9 ¹	358,555	371,002	(12,448)
Gross NPL ratio ¹	3.09%	3.09%	0.00%
Net NPL ratio ¹	0.91%	0.89%	0.02%

¹ NPL ratios are calculated on the basis of funded non performing loans and funded exposures

42.2.9 Concentration of credit risk

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Carrying amount								
Concentration by sector								
Corporate	-	-	4,834,547	4,951,772	17,670	99,652	1,450,956	1,669,961
Sovereign	-	-	42,047	39,400	1,164,471	957,682	2,740	107,065
Financial institutions	870,570	476,691	455,648	551,652	53,646	90,733	869,261	899,409
Retail	-	-	3,860,585	3,725,202	-	-	-	-
Total	870,570	476,691	9,192,827	9,268,026	1,335,787	1,148,067	2,322,957	2,676,435
US\$'000	2,261,220	1,238,158	23,877,472	24,072,794	3,469,576	2,981,992	6,033,655	6,951,780

The table below analyses the concentration of gross exposures to customers by various sectors.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Agriculture/ allied activity	-	-	26,644	30,482	-	-	11,530	14,243
Construction	-	-	333,557	346,634	-	-	519,509	521,071
Export trade	-	-	26,514	14,709	-	-	-	68
Financial institutions	870,570	476,691	455,648	551,652	53,646	90,733	869,261	1,089,725
Government	-	-	42,047	39,400	1,164,471	957,681	2,740	41,796
Import trade	-	-	360,067	396,726	-	-	103,605	123,061
Manufacturing	-	-	715,170	730,184	-	-	100,511	101,570
Mining and quarrying	-	-	513,586	420,448	8,699	8,730	142,873	126,562
Real estate	-	-	328,509	407,315	-	-	8,162	8,120
Services	-	-	817,215	717,160	61,931	44,018	404,876	472,401
Transport	-	-	760,578	856,217	-	-	65,095	56,182
Utilities	-	-	652,867	642,993	43,120	43,097	22,213	26,203
Wholesale and retail trade	-	-	194,600	229,637	-	-	39,011	41,933
Others	-	-	105,240	159,267	3,920	3,808	33,571	53,500
Personal and Housing Loans	-	-	3,860,585	3,725,202	-	-	-	-
Total	870,570	476,691	9,192,827	9,268,026	1,335,787	1,148,067	2,322,957	2,676,435
US\$'000	<u>2,261,220</u>	<u>1,238,158</u>	<u>23,877,472</u>	<u>24,072,794</u>	<u>3,469,576</u>	<u>2,981,991</u>	<u>6,033,655</u>	<u>6,951,780</u>

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk by location at the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Concentration by location								
Sultanate of Oman	125,609	5,127	8,828,715	8,738,262	1,235,472	1,072,943	1,456,171	1,564,988
Other GCC Countries	269,851	94,683	309,908	478,514	38,961	57,920	260,377	529,988
Europe	30,741	31,451	486	2,701	-	-	312,993	321,664
United States of America	55,556	57,965	-	-	-	-	28,227	29,451
Others	388,813	287,465	53,718	48,549	61,354	17,204	265,189	230,344
Total	870,570	476,691	9,192,827	9,268,026	1,335,787	1,148,067	2,322,957	2,676,435
US\$'000	<u>2,261,220</u>	<u>1,238,158</u>	<u>23,877,472</u>	<u>24,072,794</u>	<u>3,469,576</u>	<u>2,981,991</u>	<u>6,033,655</u>	<u>6,951,779</u>

Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- Are offset in the Group's statement of financial position; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

42.2.10 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent, such as Continuous Linked Settlement (CLS), or having bilateral payment netting agreements.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to counterparty.

42.3.1 Management of liquidity risk

Liquidity risk arises when the Group is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on Group deposits etc.

Asset Liability Committee (ALCO) of the Group manages the liquidity position of the Group. In order to ensure that the Group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the Group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The Group consciously diversifies its funding base to include deposits raised from inter-bank, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through Euro medium term notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The Group undertakes structural profiling based on the actual behavioral patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

The Group undertakes liquidity management through both cash flow approach and stock approach. Under the stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

The Group's statement on maturity of asset and liability is outlined in note 42.3.2 to the consolidated financial statements.

42.3.2 Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are the ratios of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and due from banks. The table below provides the ratios of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets ratio		Liquid assets to total deposits ratio	
	2019	2018	2019	2018
As at 31 December	19.98%	21.07%	26.26%	27.13%
Average for the period	18.34%	17.54%	24.08%	23.55%
Maximum for the period	19.98%	21.07%	26.26%	27.13%
Minimum for the period	17.31%	15.38%	22.31%	20.68%

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity Groupings based on the remaining period at the reporting date using the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group's maturity position of on and off balance sheet assets and liabilities is as follows:

At 31 December 2019	On demand or within one month	Two to three months	Four months to twelve months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	534,769	28,616	55,706	114,450	48,214	781,755
Due from banks	250,868	359,094	204,018	30,824	25,000	869,804
Loans and advances	1,133,743	743,944	803,042	2,172,906	4,024,406	8,878,041
Investments	380,851	133,760	190,332	291,601	448,288	1,444,832
Property and equipment and other assets	90,995	62,737	73,643	9,720	79,081	316,176
Total on balance sheet assets	2,391,226	1,328,151	1,326,741	2,619,501	4,624,989	12,290,608
Irrevocable commitments to extend credit	-	-	-	147,434	175,746	323,180
Derivatives	660,241	373,704	648,481	186,426	-	1,868,852
Total off balance sheet assets	660,241	373,704	648,481	333,860	175,746	2,192,032
Total assets	3,051,467	1,701,855	1,975,222	2,953,361	4,800,735	14,482,640
Future interest cash inflows	33,057	75,987	329,530	1,148,635	855,332	2,442,541
Deposits from banks	482,120	388,731	63,928	238,700	-	1,173,479
Customers' deposits	704,616	844,144	1,672,796	3,409,315	1,412,795	8,043,666
Euro medium term notes	-	-	-	475,615	-	475,615
Other liabilities and taxation	192,285	144,864	218,709	12,244	930	569,032
Subordinated liabilities	-	-	-	26,180	-	26,180
Shareholders' funds	-	-	-	-	2,002,636	2,002,636
Total liabilities and equity	1,379,021	1,377,739	1,955,433	4,162,054	3,416,361	12,290,608
Irrevocable commitments to extend credit	28,909	88,982	133,376	71,913	-	323,180
Derivatives	658,779	372,543	645,389	185,299	-	1,862,010
Total off balance sheet liabilities	687,688	461,525	778,765	257,212	-	2,185,190
Total liabilities	2,066,709	1,839,264	2,734,198	4,419,266	3,416,361	14,475,798
Future interest cash outflows	10,593	24,482	57,610	201,973	3,469	298,127
Gap (total assets - total liabilities)	984,758	(137,409)	(758,976)	(1,465,905)	1,384,374	6,842
Cumulative gap	984,758	847,349	88,373	(1,377,532)	6,842	

At 31 December 2019	On demand or within one month	Two to three months	Four months to twelve months	One to five years	More than five years	Total
	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's
Cash and balances with Central Banks	1,389,011	74,327	144,691	297,273	125,231	2,030,533
Due from banks	651,604	932,712	529,917	80,062	64,935	2,259,230
Loans and advances	2,944,787	1,932,321	2,085,823	5,643,912	10,453,003	23,059,846
Investments	989,224	347,429	494,369	757,405	1,164,384	3,752,811
Property and equipment and other assets	236,350	162,953	191,281	25,247	205,405	821,236
Total on balance sheet assets	6,210,976	3,449,742	3,446,081	6,803,899	12,012,958	31,923,656
Irrevocable commitments to extend credit	-	-	-	382,945	456,483	839,428
Derivatives	1,714,912	970,660	1,684,366	484,223	-	4,854,161
Total off balance sheet assets	1,714,912	970,660	1,684,366	867,168	456,483	5,693,589
Total assets	7,925,888	4,420,402	5,130,447	7,671,067	12,469,441	37,617,245
Future interest cash inflows	85,862	197,370	855,922	2,983,467	2,221,642	6,344,263
Deposits from banks	1,252,259	1,009,691	166,047	620,000	-	3,047,997
Customers' deposits	1,830,171	2,192,582	4,344,925	8,855,364	3,669,597	20,892,639
Euro medium term notes	-	-	-	1,235,364	-	1,235,364
Other liabilities & taxation	499,441	376,269	568,075	31,803	2,416	1,478,004
Subordinated liabilities	-	-	-	68,000	-	68,000
Shareholders' funds	-	-	-	-	5,201,652	5,201,652
Total liabilities and equity	3,581,871	3,578,542	5,079,047	10,810,531	8,873,665	31,923,656
Irrevocable commitments to extend credit	75,088	231,122	346,431	186,787	-	839,428
Derivatives	1,711,114	967,644	1,676,335	481,296	-	4,836,389
Total off balance sheet liabilities	1,786,202	1,198,766	2,022,766	668,083	-	5,675,817
Total liabilities	5,368,073	4,777,308	7,101,813	11,478,614	8,873,665	37,599,473
Future interest cash outflows	27,515	63,590	149,635	524,605	9,012	774,357
Gap (total assets - total liabilities)	2,557,815	(356,906)	(1,971,366)	(3,807,547)	3,595,776	17,772
Cumulative gap	2,557,815	2,200,909	229,543	(3,578,004)	17,772	

At 31 December 2018	On demand or within one month	Two to three months	Four months to twelve months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	1,085,194	22,485	55,528	100,330	43,219	1,306,756
Due from banks	135,796	128,005	174,862	37,380	-	476,043
Loans and advances	1,397,278	514,268	862,832	2,184,667	3,979,870	8,938,915
Investments	453,796	100,331	27,833	367,045	320,577	1,269,582
Property and equipment and other assets	80,985	81,430	59,907	2,277	72,144	296,743
Total on balance sheet assets	3,153,049	846,519	1,180,962	2,691,699	4,415,810	12,288,039
Irrevocable commitments to extend credit	-	-	-	336,998	224,932	561,930
Derivatives	745,219	383,622	528,833	118,883	-	1,776,557
Total off balance sheet assets	745,219	383,622	528,833	455,881	224,932	2,338,487
Total assets	3,898,268	1,230,141	1,709,795	3,147,580	4,640,742	14,626,526
Future interest cash inflows	37,342	79,590	326,571	1,164,148	840,097	2,447,748
Deposits from banks	389,773	249,118	68,921	244,066	-	951,878
Customers' deposits	1,356,406	716,035	1,789,029	3,232,261	1,368,954	8,462,685
Euro medium term notes	-	-	-	429,608	-	429,608
Other liabilities and taxation	186,645	103,621	183,305	2,303	982	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	-	-	-	-	1,927,742	1,927,742
Total liabilities and equity	1,932,824	1,068,774	2,041,255	3,947,508	3,297,678	12,288,039
Irrevocable commitments to extend credit	82,391	94,533	246,708	138,298	-	561,930
Derivatives	724,594	385,102	524,723	139,110	-	1,773,529
Total off balance sheet liabilities	806,985	479,635	771,431	277,408	-	2,335,459
Total liabilities	2,739,809	1,548,409	2,812,686	4,224,916	3,297,678	14,623,498
Future interest cash outflows	12,630	24,086	71,205	269,391	51,129	428,441
Gap (total assets - total liabilities)	1,158,459	(318,268)	(1,102,891)	(1,077,336)	1,343,064	3,028
Cumulative gap	1,158,459	840,191	262,700	(1,340,036)	3,028	

At 31 December 2018	On demand or within one month	Two to three months	Four months to twelve months	One to five years	More than five years	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Cash and balances with Central Banks	2,818,686	58,403	144,229	260,597	112,257	3,394,172
Due from banks	352,716	332,481	454,187	97,091	-	1,236,475
Loans and advances	3,629,293	1,335,760	2,241,122	5,674,460	10,337,325	23,217,960
Investments	1,178,690	260,599	72,294	953,364	832,668	3,297,615
Property and equipment and other assets	210,351	211,506	155,603	5,914	187,387	770,761
Total on balance sheet assets	8,189,736	2,198,749	3,067,435	6,991,426	11,469,637	31,916,983
Irrevocable commitments to extend credit	-	-	-	875,319	584,239	1,459,558
Derivatives	1,935,634	996,421	1,373,592	308,787	-	4,614,434
Total off balance sheet assets	1,935,634	996,421	1,373,592	1,184,106	584,239	6,073,992
Total assets	10,125,370	3,195,170	4,441,027	8,175,532	12,053,876	37,990,975
Future interest cash inflows	96,992	206,727	848,236	3,023,761	2,182,070	6,357,786
Deposits from banks	1,012,397	647,060	179,016	633,938	-	2,472,411
Customers' deposits	3,523,132	1,859,831	4,646,829	8,395,483	3,555,725	21,981,000
Euro medium term notes	-	-	-	1,115,865	-	1,115,865
Other liabilities & taxation	484,791	269,145	476,117	5,982	2,551	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	-	-	-	-	5,007,121	5,007,121
Total liabilities and equity	5,020,320	2,776,036	5,301,962	10,253,268	8,565,397	31,916,983
Irrevocable commitments to extend credit	214,003	245,540	640,800	359,216	-	1,459,559
Derivatives	1,882,062	1,000,265	1,362,917	361,325	-	4,606,569
Total off balance sheet Liabilities	2,096,065	1,245,805	2,003,717	720,541	-	6,066,128
Total liabilities	7,116,385	4,021,841	7,305,679	10,973,809	8,565,397	37,983,111
Future interest cash outflows	32,805	62,561	184,948	699,717	132,803	1,112,834
Gap (total assets - total liabilities)	3,008,985	(826,671)	(2,864,652)	(2,798,277)	3,488,479	7,864
Cumulative gap	3,008,985	2,182,314	(682,338)	(3,480,615)	7,864	

Interest cash flows shown in the above tables represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

As on the reporting date, deposits from Ministries and other Government organisations represents 31.7% of the total customer deposits / Islamic customer deposits (2018: 31.9 %).

42.4 Market risk

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not enter into trading positions in commodities and derivatives. Limits and all internal / external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Group are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign exchange risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Group is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35% of its net worth as against the regulatory limit of 40% of net worth.

As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
10,132	48,517	UAE Dirham	18,679	3,901
205,691	201,044	US Dollar	77,402	79,191
34,161	82,756	Saudi Riyal	31,861	13,152
8,418	9,797	Qatari Riyal	3,772	3,241
6,553	5,956	Pakistani Rupee	2,293	2,523
7,190	6,371	Indian Rupee	2,453	2,768
51,304	16,304	Kuwait Dinar	6,277	19,752
83,829	87,055	Bahraini Dinar	33,516	32,274
44,431	2,681	Others	1,032	17,106
<u>451,709</u>	<u>460,481</u>		<u>177,285</u>	<u>173,908</u>

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas branches, subsidiary and significant investment in entity of equivalent to RO 60 million (2018: RO 73 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have (other than Kuwaiti Dinar) fixed parity with Omani Rial unless the peg is changed.

Exposure and sensitivity analysis

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices As at 31 December with all other variables held constant.

Non-parity foreign currency net assets	2019		2018	
	% of change in the currency price (+/-)	Change in profit and equity (+/-)	% of change in the currency price (+/-)	Change in profit and equity (+/-)
		RO'000		RO'000
Indian Rupee	10%	245	10%	277
Pakistani Rupee	10%	229	10%	252
Kuwaiti Dinar	10%	628	10%	1,975
Others	10%	103	10%	1,711

42.4.3 Investment price risk

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectorial limits are defined in various policies enabling proper risk management of the Group's investments. The Group's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular intervals to ensure that unrealised losses, if any, on account of reduction in the market value of the investments below their cost remain within the acceptable parameters defined in the Group's Investment Policy.

Exposure and sensitivity analysis

The Group analyses price sensitivity of the equity portfolio as follows:

(a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.

(b) For the international quoted equity portfolio, based on the individual security market price movement.

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2019 was 1.11 (2018: 1.09). Thus, a +/- 5% change in the value of MSM30 index may result in 5.55% (2018: 5.46%) change in the value of Group's quoted local equity portfolio, amounting to RO 1.828 million (2018: 2.573 million) change in the unrealised gain recognised in the investment income / statement of other comprehensive income for the year based on the classification of the portfolio.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/- 5% change in the market price of the respective securities would result in change in value of the portfolio of RO 3.79 million (2018: RO 3.70 million) and corresponding increase or decrease in the unrealised gain recognised in the investment income / statement of other comprehensive income based on the classification of the portfolio.

42.4.4 Interest rate risk management

Interest rate risk is the risk of adverse impact on the Group's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the Banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Group while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the Asset Liability Management Committee (ALCO). The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

At 31 December 2019	Effective annual interest rate %	Within one month	Months 2 to 3	Months 4 to 12	Year 1 to 5	Over 5 years	Non-interest sensitive	Total
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	0-0.5	129,142	2,526	2,511	-	-	647,576	781,755
Due from banks	2.58	249,360	359,094	204,018	30,824	25,000	1,508	869,804
Loans and advances	5.09	1,292,794	1,258,598	1,144,820	2,874,392	2,302,610	4,827	8,878,041
Investments	2.63	317,384	131,656	189,039	288,056	416,697	102,000	1,444,832
Property and equipment and other assets	None	-	-	-	-	-	316,176	316,176
Total		1,988,680	1,751,874	1,540,388	3,193,272	2,744,307	1,072,087	12,290,608
Derivatives		872,674	559,995	672,712	664,936	167,476	-	2,937,793
Total assets		2,861,354	2,311,869	2,213,100	3,858,208	2,911,783	1,072,087	15,228,401
Deposits from banks	3.03	479,062	388,731	63,928	238,700	-	3,058	1,173,479
Customers' deposits	1.80	266,543	459,842	4,128,583	1,742,207	120,847	1,325,644	8,043,666
Euro medium term notes / Sukuk	4.72	-	-	-	475,615	-	-	475,615
Other liabilities and taxation	None	-	-	-	-	-	569,032	569,032
Subordinated liabilities	6.31	-	-	26,180	-	-	-	26,180
Perpetual Tier I capital	5.50	-	-	-	130,000	-	-	130,000
Shareholders' funds	None	-	-	-	-	-	1,872,636	1,872,636
Total		745,605	848,573	4,218,691	2,586,522	120,847	3,770,370	12,290,608
Derivatives		881,041	549,001	885,810	444,196	170,903	-	2,930,951
Total liabilities		1,626,646	1,397,574	5,104,501	3,030,718	291,750	3,770,370	15,221,559
Total interest rate sensitivity gap		1,234,708	914,295	(2,891,401)	827,490	2,620,033	(2,698,283)	6,842
Cumulative interest rate sensitivity gap		1,234,708	2,149,003	(742,398)	85,092	2,705,125	6,842	
In US\$ '000		3,207,034	5,581,826	(1,928,306)	221,018	7,026,299	17,772	

At 31 December 2018	Effective annual interest rate %	Within one month	Months 2 to 3	Months 4 to 12	Year 1 to 5	Over 5 years	Non-interest sensitive	Total
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	0-0.5	767,187	3,158	3,137	-	-	533,274	1,306,756
Due from banks	2.35	134,456	128,004	171,782	37,730	-	4,071	476,043
Loans and advances	4.86	1,573,355	1,055,102	1,226,653	2,834,318	2,238,931	10,556	8,938,915
Investments	2.50	365,613	98,000	39,276	364,046	288,800	113,847	1,269,582
Property and equipment and other assets	None	-	-	-	-	-	296,743	296,743
Total		2,840,611	1,284,264	1,440,848	3,236,094	2,527,731	958,491	12,288,039
Derivatives		911,162	538,048	396,016	517,804	184,352	-	2,547,382
Total assets		<u>3,751,773</u>	<u>1,822,312</u>	<u>1,836,864</u>	<u>3,753,898</u>	<u>2,712,083</u>	<u>958,491</u>	<u>14,835,421</u>
Deposits from banks	2.74	376,356	249,119	68,921	244,066	-	13,416	951,878
Customers' deposits	1.53	963,105	300,928	4,180,176	1,645,913	124,466	1,248,097	8,462,685
Euro medium term notes / Sukuk	4.86	-	-	-	429,608	-	-	429,608
Other liabilities and taxation	None	-	-	-	-	-	476,856	476,856
Subordinated liabilities	5.84	-	-	39,270	-	-	-	39,270
Perpetual Tier I capital	5.50	-	-	-	130,000	-	-	130,000
Shareholders' funds	None	-	-	-	-	-	1,797,742	1,797,742
Total		1,339,461	550,047	4,288,367	2,449,587	124,466	3,536,111	12,288,039
Derivatives		920,175	539,528	354,734	545,565	184,352	-	2,544,354
Total liabilities		<u>2,259,636</u>	<u>1,089,575</u>	<u>4,643,101</u>	<u>2,995,152</u>	<u>308,818</u>	<u>3,536,111</u>	<u>14,832,393</u>
Total interest rate sensitivity gap		<u>1,492,137</u>	<u>732,737</u>	<u>(2,806,237)</u>	<u>758,746</u>	<u>2,403,265</u>	<u>(2,577,620)</u>	<u>3,028</u>
Cumulative interest rate sensitivity gap		<u>1,492,137</u>	<u>2,224,874</u>	<u>(581,363)</u>	<u>177,383</u>	<u>2,580,648</u>	<u>3,028</u>	
In US\$ '000		<u>3,875,681</u>	<u>5,778,894</u>	<u>(1,510,034)</u>	<u>460,735</u>	<u>6,702,982</u>	<u>7,865</u>	

- (i) The repricing profile is based on the remaining period to the next interest repricing date.
- (ii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyse the magnitude of portfolio changes necessary to alter the existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile.

Economic Value of Equity (EVE) is the present value of all asset cash flows subtracted by the present value of all liability cash flows. By calculating the EVE the Group is able to show the effect of different interest rate changes on its total capital. This is a key tool that allows Group to prepare against constantly changing interest rates. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

Impact on Net Interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
2019	RO 000's	RO 000's	RO 000's	RO 000's	RO'000's	RO 000's
As at 31 December	18,700	(12,750)	10,387	(3,504)	5,576	2,367
Average for the period	18,368	(17,417)	11,238	(4,659)	5,812	858
Maximum for the period	22,712	(20,782)	12,747	(6,330)	6,514	2,367
Minimum for the period	13,560	(12,750)	9,715	(2,582)	5,097	(1,429)
2018						
As at 31 December	19,739	(18,238)	10,994	(5,268)	5,957	1,605
Average for the period	20,387	(18,053)	12,000	(5,521)	6,999	1,348
Maximum for the period	37,191	(20,310)	27,231	(6,620)	21,490	2,270
Minimum for the period	14,769	(13,931)	8,617	(4,752)	4,682	(365)

Impact on Economic Value	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
2019	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As at 31 December	(237,000)	350,580	(87,413)	106,036	(104,070)	106,905
Average for the period	(224,866)	343,878	(80,416)	106,311	(99,057)	64,852
Maximum for the period	(237,744)	368,911	(87,823)	122,277	(104,070)	106,905
Minimum for the period	(211,576)	317,946	(72,775)	94,669	(94,920)	(3,329)
2018						
As at 31 December	(216,216)	368,139	(92,207)	136,324	(93,819)	98,487
Average for the period	(205,655)	358,958	(85,686)	135,334	(90,384)	100,525
Maximum for the period	(224,585)	368,139	(96,241)	139,390	(95,870)	105,522
Minimum for the period	(183,914)	345,621	(74,833)	130,171	(84,689)	81,325

Impact on Net Interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
2019	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
As at 31 December	48,572	(33,118)	26,980	(9,102)	14,483	6,147
Average for the period	47,710	(45,240)	29,189	(12,102)	15,096	2,229
Maximum for the period	58,992	(53,978)	33,109	(16,441)	16,919	6,147
Minimum for the period	35,222	(33,118)	25,233	(6,707)	13,239	(3,713)
2018						
As at 31 December	51,271	(47,371)	28,556	(13,683)	15,472	4,168
Average for the period	52,953	(46,891)	31,169	(14,339)	18,179	3,501
Maximum for the period	96,601	(52,753)	70,731	(17,194)	55,818	5,897
Minimum for the period	38,362	(36,186)	22,381	(12,343)	12,162	(948)

Impact on Economic Value	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
2019	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
As at 31 December	(615,585)	910,597	(227,048)	275,418	(270,312)	277,674
Average for the period	(584,068)	893,189	(208,872)	276,132	(257,291)	168,446
Maximum for the period	(617,516)	958,210	(228,113)	317,603	(270,312)	277,674
Minimum for the period	(549,548)	825,833	(189,026)	245,893	(246,544)	(8,646)
2018						
As at 31 December	(561,601)	956,205	(239,498)	354,089	(243,686)	255,810
Average for the period	(534,170)	932,360	(222,561)	351,517	(234,763)	261,104
Maximum for the period	(583,339)	956,205	(249,976)	362,053	(249,014)	274,082
Minimum for the period	(477,700)	897,716	(194,371)	338,107	(219,972)	211,233

42.5 Commodity Price Risk

As part of its treasury operations, the Group offers commodities hedging facility to its clients. Customers of the Group who are exposed to commodities like Copper, Aluminium, Oil and also Jewellers with exposure to gold prices cover their commodity exposures through the Group. The Group covers all its commodity exposures back-to-back in the interbank market.

The Group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the Group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-mark related credit exposures for the Group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers' positions and MTMs on daily basis.

42.6 Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. Operational risk loss results from deficiencies in information systems, internal controls or uncontrollable external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes.

The Group's risk policy provides the framework to identify, assess, monitor and report operational risks in a consistent and comprehensive manner across the Group. The operational risk function independently supports business units in the management of operational risks. The main objectives of operational risk management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To minimize the impact of operational risks events through fully functional IT Disaster recovery system, comprehensive insurance arrangements, up-to-date documentation and effective implementation of Business Continuity Plan;
- To minimise operational losses, increase the efficiency and effectiveness of the available resources.
- To provide operational risk training to new hires as well as regular refresher training for all relevant staff.
- To spread operational risk awareness across the Bank to ensure effective internal controls.

Business units have the primary responsibility of understanding, identifying and managing the operational risks that are inherent in their respective products, activities, processes and systems. Operational risk is controlled through strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. Internal Audit Department independently reviews effectiveness of the Group's internal controls and its ability to minimize the impact of operational risks.

The Management Risk Committee is the primary oversight body for operational risk. The committee is represented by various business and control functions and is responsible for ensuring that the Group has an adequate risk management process that covers identification, evaluation and management of operational risks and formulation of sound, adequate policies pertaining to operational risk management. The responsibility of facilitating the process lies with operational risk unit in accordance with the operational risk management framework.

Business Continuity Management (BCM)

BCM is the planning, implementation and management to ensure that the Group can continue to operate at least at a pre-determined level following a significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient in potential situations of failure. The Group has put in place Business Continuity Plans (BCP) for each critical department as well as every branch to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continues to strengthen and enhance its existing plans by implementing a robust business continuity framework to be ready to meet 'emergency preparedness'. The Group provides training to its new joiners as well as existing employees through online and onsite training to ensure that everyone is familiar with resumption and business recovery procedures. The Protective Services Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The said committee continuously reviews and agrees to the business continuity strategy. It also ensures that planning and maintenance responsibilities are assigned, understood and implemented across the business. The Group's recovery centre has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure proper functioning of the Business Recovery Centre (BRC), all departments of the Group are required to complete bi-annual testing to ensure that it will operate successfully in times of emergencies.

42.7 Capital management

42.7.1 Regulatory capital

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel III's capital requirement, the CBO requires the Parent Company to maintain a minimum of 14.5% ratio of total capital to total risk-weighted assets. The Group's regulatory capital as per Basel III regulations is Grouped into:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital, which includes qualifying subordinated liabilities, General loan loss impairment / ECL provision (Stage 1 and 2) and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI after deductions for 50% of carrying value of investments in associates.

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed 50% of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 % of the total credit risk-weighted assets.

42.7.2 Capital adequacy

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximise the shareholders' value through an optimal capital structure that protects the stakeholders' interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the Group assuming higher levels of risk. Hence, with regards to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Group utilises Additional Tier 1 (AT1) and subordinated debt (Tier II Capital) and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

Basel III regulatory reporting

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms. The group remains strongly capitalised and is ahead of the transitional phase-in arrangements.

The following table sets out the capital adequacy position of the Group.

2018	2019		2019	2018
USD 000's	USD 000's		RO 000's	RO 000's
		Common Equity Tier 1 (CET1) capital:		
		Instruments and reserves		
765,561	803,839	Share capital	309,478	294,741
1,380,610	1,380,610	Share premium	531,535	531,535
255,187	267,948	Legal reserve	103,160	98,247
963,605	997,605	General reserve	384,078	370,988
34,000	34,000	Subordinated loan reserve	13,090	13,090
992,840	1,086,156	Retained profit (post proposed cash dividend)	418,170	382,243
<u>4,391,803</u>	<u>4,570,158</u>	Total	<u>1,759,511</u>	<u>1,690,844</u>
		Less: Regulatory adjustments		
(31,531)	(25,849)	Cumulative loss on fair value	(9,952)	(12,139)
-	(88)	Cumulative loss on Cash Flow Hedge	(34)	-
(20,086)	(13,395)	Deferred tax assets	(5,157)	(7,733)
(5,371)	(5,964)	Foreign currency translation reserve	(2,296)	(2,068)
(86,491)	(88,512)	Significant investments in the common stock of banking, financial and insurance entities	(34,077)	(33,299)
<u>(143,479)</u>	<u>(133,808)</u>	Total regulatory adjustments to CET1	<u>(51,516)</u>	<u>(55,239)</u>
<u>4,248,324</u>	<u>4,436,350</u>	Total Common Equity Tier 1 capital (CET1)	<u>1,707,995</u>	<u>1,635,605</u>
<u>337,662</u>	<u>337,662</u>	Additional Tier 1 capital (AT1)	<u>130,000</u>	<u>130,000</u>
<u>4,585,986</u>	<u>4,774,012</u>	Total Tier 1 capital (T1 = CET1 + AT1)	<u>1,837,995</u>	<u>1,765,605</u>
		Tier 2 capital: instruments and provisions		
1,398	2,106	Cumulative change in fair value (45%)	811	538
287,438	225,317	General Loan loss impairment	86,747	110,664
27,200	10,200	Subordinated liabilities (net of reserves)	3,927	10,472
-	-	Mandatory convertible Bonds	-	-
<u>316,036</u>	<u>237,623</u>	Tier 2 capital before regulatory adjustments	<u>91,485</u>	<u>121,674</u>
		Less: Regulatory adjustments		
-	-	Significant investments in the common stock of banking, financial and insurance entities	-	-
-	-	Total regulatory adjustments to Tier 2 capital	-	-
<u>316,036</u>	<u>237,623</u>	Tier 2 capital (T2)	<u>91,485</u>	<u>121,674</u>
<u>4,902,022</u>	<u>5,011,635</u>	Total Regulatory Capital (TC = T1 + T2)	<u>1,929,480</u>	<u>1,887,279</u>
<u>25,501,348</u>	<u>25,415,182</u>	Total risk weighted assets	<u>9,784,845</u>	<u>9,818,019</u>
<u>22,995,023</u>	<u>22,848,117</u>	Credit risk weighted assets	<u>8,796,525</u>	<u>8,853,084</u>
<u>429,629</u>	<u>393,613</u>	Market risk weighted assets	<u>151,541</u>	<u>165,407</u>
<u>2,076,696</u>	<u>2,173,452</u>	Operational risk weighted assets	<u>836,779</u>	<u>799,528</u>
		Capital ratios: (expressed as a % of total risk weighted assets)		
<u>16.66%</u>	<u>17.46%</u>	Common Equity Tier 1	<u>17.46%</u>	<u>16.66%</u>
<u>17.98%</u>	<u>18.78%</u>	Tier 1	<u>18.78%</u>	<u>17.98%</u>
<u>19.22%</u>	<u>19.72%</u>	Total capital	<u>19.72%</u>	<u>19.22%</u>

The total regulatory capital adequacy ratio of 19.72% (2018: 19.22%) is after considering the proposed dividend of 35% Cash and 5% Stock (2018: 35% Cash and 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 20.83% (2018: 20.27%).

Capital Adequacy as per Basel II reporting for monitoring purposes:

The following table sets out the capital adequacy position as per Basel II guidelines issued by Central Bank of Oman of the Group for monitoring purposes:

2018	2019		2019	2018
USD 000's	USD 000's		RO 000's	RO 000's
4,629,231	4,818,267	Tier I Capital	1,855,033	1,782,254
313,590	217,166	Tier II Capital	83,609	120,732
<u>4,942,821</u>	<u>5,035,433</u>	Total regulatory capital	<u>1,938,642</u>	<u>1,902,986</u>
		Total risk weighted assets:		
22,995,023	22,848,117	Credit risk	8,796,525	8,853,084
429,629	393,613	Market risk	151,541	165,407
<u>2,076,696</u>	<u>2,173,452</u>	Operational risk	<u>836,779</u>	<u>799,528</u>
<u>25,501,348</u>	<u>25,415,182</u>	Total risk weighted assets	<u>9,784,845</u>	<u>9,818,019</u>
		Capital ratios		
19.38%	19.81%	Total regulatory capital expressed as a % of total risk weighted assets	19.81%	19.38%
18.15%	18.96%	Total Tier I capital expressed as a % of total risk weighted assets	18.96%	18.15%

The total regulatory capital adequacy ratio of 19.81% (2018: 19.38%) is after considering the proposed dividend of 35% Cash and 5% Stock (2018 : 35% Cash and 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 20.92% (2018: 20.43%).

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP)

Apart from the regulatory capital which is based on the guidelines issued by Central Bank of Oman, the Group has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Group's actual capital adequacy based on advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, Interest Rate Risk on Banking Book (IRRBB) along with the core risks. The purpose of the Group's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to estimate future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Group's risk profile. It will scrutinize the current business model of the Group and may lead to corresponding adjustments if the inherent risk goes beyond the Group's risk appetite. The business plan will be updated at least annually on a rolling basis for forward-looking period of 5 years. On an annual basis, ICAAP is approved by the Board of Directors and then submitted to Central Bank annually. On a quarterly basis, reporting is done to the Board of Directors on the adequacy of capital. The Group believes that its current and foreseen capital supply is suitable to support its business strategy.

The forward looking assessment of capital adequacy has helped the Group to plan ahead for capital management.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives are taken in to account while allocating capital.

43. Fair value information

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

At 31 December 2019	Notes	Designated as at FVTPL	Designated as at FVOCI	Amortised cost	Total carrying value	Fair Value	Level
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	
Cash and balances with Central Bank	5	-	-	781,755	781,755	781,755	3
Due from banks	6	48,755	15,328	805,721	869,804	880,223	2,3
Loans and advances and Islamic financing receivables	7	-	-	8,878,041	8,878,041	9,028,450	3
Investment securities	9	25,934	144,202	1,274,696	1,444,832	1,469,958	1,2,3
Positive fair value of derivatives	38	22,274	-	-	22,274	22,274	2
		<u>96,963</u>	<u>159,530</u>	<u>11,740,213</u>	<u>11,996,706</u>	<u>12,182,660</u>	
Deposits from banks	14	-	-	1,173,479	1,173,479	1,180,261	3
Customers' deposits and Islamic customer deposits	15	-	-	8,043,666	8,043,666	8,068,716	3
Sukuk	16	-	-	90,205	90,205	89,670	1
Euro medium term notes	17	-	-	385,410	385,410	397,081	1
Subordinated liabilities	21	-	-	26,180	26,180	26,180	3
Negative fair value of derivatives	38	18,675	-	-	18,675	18,675	2
		<u>18,675</u>	<u>-</u>	<u>9,718,940</u>	<u>9,737,615</u>	<u>9,780,583</u>	

At 31 December 2018	Notes	Designated as at FVTPL	Designated as at FVOCI	Amortised cost	Total carrying value	Fair Value	Level
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	
Cash and balances with Central Bank	5	-	-	1,306,756	1,306,756	1,306,756	3
Due from banks	6	19,213	11,581	445,249	476,043	479,683	2,3
Loans and advances and Islamic financing receivables	7	-	-	8,938,915	8,938,915	9,037,426	3
Investment securities	9	30,119	154,456	1,085,007	1,269,582	1,283,347	1,2,3
Positive fair value of derivatives	38	18,431	-	-	18,431	18,431	2
		<u>67,763</u>	<u>166,037</u>	<u>11,775,927</u>	<u>12,009,727</u>	<u>12,125,643</u>	
Deposits from banks	14	-	-	951,878	951,878	959,572	3
Customers' deposits and Islamic customer deposits	15	-	-	8,462,685	8,462,685	8,520,259	3
Sukuk	16	-	-	44,608	44,608	40,147	1
Euro medium term notes	17	-	-	385,000	385,000	395,877	1
Subordinated liabilities	21	-	-	39,270	39,270	39,270	3
Negative fair value of derivatives	38	19,456	-	-	19,456	19,456	2
		<u>19,456</u>	<u>-</u>	<u>9,883,441</u>	<u>9,902,897</u>	<u>9,974,581</u>	

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December:

2019	Level 1	Level 2	Level 3	Total
	RO'000s	RO'000s	RO'000s	RO'000s
Assets				
Derivatives	-	22,274	-	22,274
FVTPL Equity	17,140	-	8,794	25,934
FVOCI Equity	81,197	-	3,527	84,724
FVOCI Debt	55,109	-	4,369	59,478
Total Assets	153,446	22,274	16,690	192,410
Liabilities				
Derivatives	-	18,675	-	18,675
2018	Level 1	Level 2	Level 3	Total
	RO'000s	RO'000s	RO'000s	RO'000s
Assets				
Derivatives	-	18,431	-	18,431
FVTPL Equity	21,307	-	8,812	30,119
FVOCI Equity	81,747	-	10,762	92,509
FVOCI Debt	54,010	-	7,937	61,947
Total Assets	157,064	18,431	27,511	203,006
Liabilities				
Derivatives	-	19,456	-	19,456

There are no transfers between levels of fair value measurement hierarchy during the years 2019 and 2018.

A table showing the impact of change in estimates by 5% on the Group's assets and liabilities that are measured at fair value at 31 December, on the other comprehensive income is as follows:

2019	Level 1	Level 2	Level 3	Total
	RO'000s	RO'000s	RO'000s	RO'000s
Assets				
Derivatives	-	1,114	-	1,114
FVTPL Equity	857	-	440	1,297
FVOCI Equity	4,060	-	176	4,236
FVOCI Debt	2,755	-	218	2,973
Total Assets	7,672	1,114	834	9,620
Liabilities				
Derivatives	-	934	-	934

2018	Level 1	Level 2	Level 3	Total
	RO'000s	RO'000s	RO'000s	RO'000s
Assets				
Derivatives	-	922	-	922
FVTPL Equity	1,065	-	441	1,506
FVOCI Equity	4,087	-	538	4,625
FVOCI Debt	2,701	-	397	3,098
Total Assets	<u>7,853</u>	<u>922</u>	<u>1,376</u>	<u>10,151</u>
Liabilities				
Derivatives	-	973	-	973

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Group's level 3 investments:

	FVOCI Equity	FVOCI Debt	FVTPL Equity	Total
	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2019	10,762	7,937	8,812	27,511
Realised gain on sale	-	-	218	218
Gain/(loss) from change in fair value	291	374	(119)	546
Additions	-	-	1,044	1,044
Disposals and redemption	(7,526)	(3,600)	(1,154)	(12,280)
Impairment on investments	-	(342)	-	(342)
Exchange differences	-	-	(7)	(7)
At 31 December 2019	<u>3,527</u>	<u>4,369</u>	<u>8,794</u>	<u>16,690</u>

	FVOCI Equity	FVOCI Debt	FVTPL Equity	Total
	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2018	20,647	12,220	425	33,292
IFRS 9 transition adjustments	(8,574)	(1,925)	8,390	(2,109)
Reversal of impairment on investments	-	-	(14)	(14)
Gain/(loss) from change in fair value	(1,366)	80	(420)	(1,706)
Additions	63	-	1,056	1,119
Disposals and redemption	(8)	(2,504)	(629)	(3,141)
Reversal of impairment on investments	-	66	-	66
Exchange differences	-	-	4	4
At 31 December 2018	<u>10,762</u>	<u>7,937</u>	<u>8,812</u>	<u>27,511</u>

As of 31 December 2019, 79% (2018: 86%) of the level 3 equity securities were valued on the basis of fair valuation carried out in accordance with appropriate valuation techniques based on income approach (discounting of cash flows), market approach (using prices or other relevant information generated by market transactions of identical or similar entities), cost approach or a combination thereof. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, using the best information available in the circumstances. These might include banks own data and would consider all information about market participant assumptions that is reasonably available.

As of 31 December 2019, 21% (2018: 14%) of the level 3 equity securities were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers as at 30 September 2019 or at a later date and adjusted for subsequent cash flows till 31 December 2019 or based on net asset values received from independent fund managers as at 30 September 2019 or at a later date.

The debt investments were valued on fair value basis. Valuation is based on Risk adjusted discount rate (yield) considering a reasonable range of estimates. A significant decrease in the credit quality would result in a lower fair value with significant increase in the spread above the risk-free rate and vice-versa. The Group holds adequate provisioning on the above investments as of the reporting date.

43.1 Estimation of fair values

43.1 Estimation of fair values

The following summarises major methods and assumptions used in estimating the fair values of assets and liabilities:

43.1.1 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.

43.1.2 Investments carried at cost and derivatives

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.

43.1.3 Fair value through OCI and fair value through profit or loss investments

Fair values for quoted investments are based on quoted bid prices as at the reporting date. Unquoted equity investments are carried at fair values, measured in accordance with appropriate valuation techniques based on income, market, cost approaches or a combination thereof or on the basis of latest available capital accounts statements or net asset values of the investee companies received from independent fund managers and adjusted for subsequent cash flows up to the reporting date.

43.1.4 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.

43.1.5 Off-balance sheet 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 the book values of other assets and other liabilities.

44. Comparative figures

No material corresponding figures for 2018 included for comparative purposes were reclassified.

Independent auditor's report to the shareholders of bank muscat SAOG

Report on the carve-out financial statements

We have audited the accompanying carve-out statement of financial position of the Meethaq Islamic Banking Window ('the Window') of bank muscat SAOG ('the Bank') as of 31 December 2019, and the related carve-out statement of comprehensive income, carve-out statement of cash flows and carve-out changes in owner's equity and sources and uses of charity funds for the year then ended. These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles 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 the Bank's Board of Directors, 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 carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Window as of 31 December 2019, the carve-out results of its operations, cash flows and changes in equity for the period then ended in accordance with the Shari'ah rules and principles as determined by the Shari'ah Board of the Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

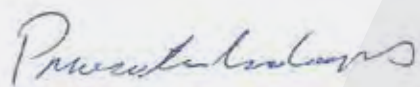
Other legal and regulatory requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

- a) received all required information and explanations to prepare the report; and
- b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Emphasis of matter

We draw attention to the fact that, as described in note 1, the Window of the Bank is not a separate legal entity. These carve-out financial statements, therefore, represent the Meethaq Islamic Banking business as an Islamic banking Window and not as a separate stand-alone legal entity. Our opinion is not qualified with respect to this matter.



5 March 2020
Muscat, Sultanate of Oman

Report of Shari'a Supervisory Board to the shareholder Of Bank Muscat SAOG



شفافية. ثقة. شراكة.
Transparency. Trust. Partnership.



“In the name of Allah, the Beneficent, The Merciful”

To the shareholders of Bank Muscat SAOG

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment we are required to submit this report:

We have reviewed the principles and contracts relating to the transaction and applications introduced by Meethaq – The licensed Islamic banking window of bank muscat SAOG (hereinafter bank muscat SAOG referred to as the “Bank” approved by the CBO and its Islamic banking window as “Meethaq”) during the period ended 31 December 2019, where it is the responsibility of the Bank to ensure compliance of the Bank's operations with the principles of the Shari'a, and our responsibility is to form an independent opinion as based on our review of the bank operations, our guidance and decisions towards the bank operations.

We therefore present the following report:

- We have also conducted our review to form an opinion as to whether Meethaq has complied with Shari'a principles and also with the specific Fatawa, rulings and guidelines issued by us, which are available at Meethaq's website:
<http://www.meethaq.om/Fatwa-from-Supervisory-Board.html>
- We conducted our review which included examining, on test basis, of each type of transaction, the relevant documentation and procedures adopted by Meethaq.
- 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 Meethaq has not violated Shari'a principles.
- We have reviewed the financial statements of Meethaq for the period ended 31 December 2019.

In our opinion:

***Report of Shari'a Supervisory Board to the shareholders
Of Bank Muscat SAOG**



MEETHAQ
للصيرفة الإسلامية
Islamic Banking

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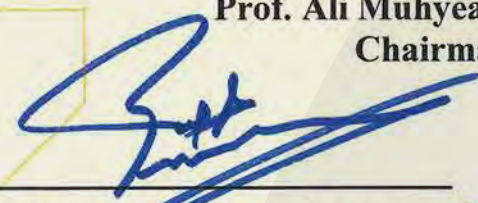
- The contracts, transactions and dealings entered into by the Meethaq during the period ended 31 December 2019 that we have received are in compliance with Shari'a principles;
- The allocation of profit and charging of losses relating to investment accounts conforms to the basis that had been approved by us in accordance with Shari'a principles;
- All earnings that have been realized from sources or by means not fulfilling the Shari'a requirements have been credited to the charity account.
- The Bank's management is not authorized to pay Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders.
- Bank's management is responsible for ensuring that Meethaq conducts its business in accordance with Shari'a principles. It is our responsibility to form an independent opinion, based on our review of the operations of Meethaq, and to report to you.

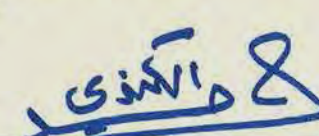
Finally, we take this opportunity to thank the Board of Directors and members of executive management for their due care to comply with Shari'a principles and we wish the shareholders all the best and this country all the prosperity.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

24Jumada I 1441
20 January 2020
Muscat


Prof. Ali Muhyealdin Ali Al-Quradaghi
Chairman of SSB


Shaikh. Esam Mohammed Ishaq
Executive Member of SSB


Dr. Majid bin Mohamed Al-Kindi
Executive Member of SSB



This report is a translation of the Arabic version which was approved by the Shari'a Supervisory Board.

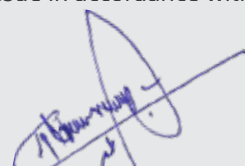
Meethaq

Financial Statements

Bank Muscat SAOG - Meethaq
Statement of financial position
As at 31 December 2019

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		ASSETS			
7,145	8,627	Cash		3,321	2,751
411,369	222,136	Balances with Central Bank of Oman		85,522	158,377
54,109	111,771	Due from banks	4	43,032	20,832
141,824	194,514	Murabaha and other receivables	5	74,888	54,602
2,233,128	2,357,491	Musharaka	6	907,634	859,754
293,336	262,387	Ijarah Muntahia Bittamleek	7	101,019	112,934
215,948	213,784	Wakala Bil Istithmar	8	82,307	83,140
187,919	341,210	Investments	9	131,366	72,349
6,701	6,522	Property and equipment	10	2,511	2,580
21,592	25,852	Other assets	11	9,953	8,313
<u>3,573,071</u>	<u>3,744,294</u>	TOTAL ASSETS		<u>1,441,553</u>	<u>1,375,632</u>
		LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNER'S EQUITY			
		Liabilities			
510,000	418,571	Due to banks		161,150	196,350
455,696	350,699	Current accounts		135,019	175,443
115,865	234,299	Sukuk	12	90,205	44,608
148,249	71,987	Other liabilities	13	27,715	57,076
<u>1,229,810</u>	<u>1,075,556</u>	TOTAL LIABILITIES		<u>414,089</u>	<u>473,477</u>
<u>2,039,056</u>	<u>2,337,353</u>	EQUITY OF INVESTMENT ACCOUNTHOLDERS	14	<u>899,881</u>	<u>785,036</u>
		OWNER'S EQUITY			
181,818	181,818	Allocated share capital	15	70,000	70,000
126,094	153,881	Retained earnings		59,244	48,546
1,987	1,000	Impairment reserve/Reserve for restructured finance		385	765
(5,694)	(5,314)	Investment fair value reserve		(2,046)	(2,192)
<u>304,205</u>	<u>331,385</u>	TOTAL OWNER'S EQUITY		<u>127,583</u>	<u>117,119</u>
<u>3,573,071</u>	<u>3,744,294</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNER'S EQUITY		<u>1,441,553</u>	<u>1,375,632</u>
<u>158,420</u>	<u>81,244</u>	Contingent liabilities and commitments	16	<u>31,279</u>	<u>60,992</u>

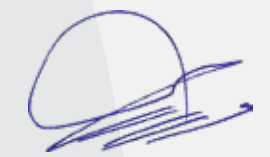
These financial statements along with notes and other explanatory information on page 229 to 265 were authorized on 5 March 2020 for issue in accordance with a resolution of the Board of Directors.



Chairman



Director



Chief Executive Officer

The notes and other explanatory information on pages 229 to 265 form an integral part of these financial statements.

Bank Muscat SAOG - Meethaq
Statement of comprehensive income
For the year ended 31 December 2019

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		Income			
151,927	171,288	Income from Islamic finance and investments	17	65,946	58,492
(86,325)	(87,961)	Return on equity of investment accountholders before Meethaq's share as a Mudarib		(33,865)	(33,235)
20,590	11,257	Meethaq's share as a Mudarib		4,334	7,927
(65,735)	(76,704)	Return on equity of investment account holders		(29,531)	(25,308)
86,192	94,584	Meethaq's share of income as a Mudarib and Rab Almal		36,415	33,184
(6,018)	(10,112)	Profit paid on Sukuk		(3,893)	(2,317)
(6,649)	(14,940)	Net profit on due to banks		(5,752)	(2,560)
73,525	69,532			26,770	28,307
5,364	8,203	Other income	18	3,158	2,065
78,889	77,735	Net operating income		29,928	30,372
		Operating expenses			
(16,403)	(15,460)	Staff expenses		(5,952)	(6,315)
(4,039)	(3,582)	Occupancy costs		(1,379)	(1,555)
(3,158)	(3,174)	Depreciation	10	(1,222)	(1,216)
(11,564)	(11,860)	Administrative expenses		(4,566)	(4,452)
(35,164)	(34,076)			(13,119)	(13,538)
43,725	43,659	Net income before provisions and taxation		16,809	16,834
(19,068)	(19,452)	Impairment for credit losses	19	(7,489)	(7,341)
(73)	(221)	Impairment for investments	9	(85)	(28)
8,636	8,005	Recoveries from provisions for impairment	19	3,082	3,325
33,220	31,991	Net income before taxation		12,317	12,790
(5,314)	(3,821)	Taxation		(1,471)	(2,046)
27,906	28,170	Net income for the year		10,846	10,744
		Other comprehensive income/(loss) for the year			
545	987	Transferred from reserve for restructured finance		380	210
(784)	(1,371)	Realized Loss on securities measured through Equity		(528)	(302)
(3,756)	379	Changes in fair value on securities measured through Equity		146	(1,446)
(3,995)	(5)	Other Comprehensive loss for the year		(2)	(1,538)
23,911	28,165	Total comprehensive income for the year		10,844	9,206

The notes and other explanatory information on pages 229 to 265 form an integral part of these financial statements.

Bank Muscat SAOG - Meethaq
Statement of cash flows
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
US\$'000	US\$'000			RO'000	RO'000
		Operating activities			
33,221	31,991	Net income before taxation		12,317	12,790
		Adjustment for:			
3,158	3,174	Depreciation	10	1,222	1,216
73	221	Impairment for investments	9	85	28
19,068	19,452	Impairment for credit losses	19	7,489	7,341
(8,636)	(8,005)	Recoveries from impairment for credit losses	19	(3,082)	(3,325)
(13)	(88)	Gain on sale of investments		(34)	(5)
(1,927)	(1,686)	Dividends received		(649)	(742)
2,049	1,086	Profit equalization reserve	14	418	789
260	179	Investment risk reserve	14	69	100
47,253	46,324	Operating profit before changes in operating assets and liabilities		17,835	18,192
		Net changes in operating assets and liabilities:			
8,696	(52,125)	Murabaha and other receivables		(20,068)	3,348
(230,630)	(136,525)	Musharaka		(52,562)	(88,792)
(68,569)	31,195	Ijarah Muntahia Bittamleek		12,010	(26,399)
(83,158)	2,065	Wakala Bil Istithmar		795	(32,016)
(9,886)	(4,257)	Other assets		(1,639)	(3,806)
(81,548)	(104,997)	Current accounts		(40,424)	(31,396)
-	300,000	Due to banks under Wakala		115,500	-
60,883	(80,083)	Other liabilities		(30,832)	23,440
(356,959)	1,597	Net cash generated from/ (used in) operating activities		615	(137,429)
		Investing activities			
1,927	1,686	Dividends received		649	742
(32,974)	(155,244)	Purchase of investments		(59,769)	(12,695)
15,868	831	Proceeds from sale of investments		320	6,109
(2,122)	(2,995)	Addition to property and equipment	10	(1,153)	(817)
(17,301)	(155,722)	Net cash (used in) investing activities		(59,953)	(6,661)
		Financing activities			
12,987	-	Allocated capital received		-	5,000
-	118,435	Sukuk issued during the year		45,597	-
77,818	297,029	Equity of investment accountholders		114,356	29,960
90,805	415,464	Net cash generated from financing activities		159,953	34,960
(283,455)	261,339	Net change in cash and cash equivalents		100,615	(109,130)
246,079	(37,376)	Cash and cash equivalents at the beginning of the year		(14,390)	94,740
(37,376)	223,963	Cash and cash equivalents at the end of the year		86,225	(14,390)
		Cash and cash equivalents comprise of:			
7,145	8,627	Cash		3,321	2,751
411,370	222,136	Balances with Central Bank of Oman		85,522	158,377
54,109	111,771	Due from banks		43,032	20,832
(510,000)	(118,571)	Due to banks under Wakala		(45,650)	(196,350)
(37,376)	223,963			86,225	(14,390)

The notes and other explanatory information on pages 229 to 265 form an integral part of these financial statements.

Bank Muscat SAOG - Meethaq
Statement of changes in owner's equity
For the year ended 31 December 2019

	Allocated share capital	Retained earnings	Reserve for Restructured Finance	Investment fair value reserve	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2019	70,000	48,546	765	(2,192)	117,119
Net income for the year	-	10,846	-	-	10,846
Transferred from Reserve for restructured finance	-	380	(380)	-	-
Cumulative changes in fair value	-	-	-	(382)	(382)
Realized loss on equity type investments	-	(528)	-	528	-
Balance at 31 December 2019 (RO'000)	70,000	59,244	385	(2,046)	127,583
Balance at 31 December 2019 (US\$'000)	181,818	153,881	1,000	(5,314)	331,385

	Allocated share capital	Retained earnings	Special reserve	Investment fair value reserve	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2018	65,000	35,958	975	866	102,799
Impact of adopting IFRS 9 at 1st January 2018	-	1,936	-	(1,612)	324
Capital allocated by the Head office	5,000	-	-	-	5,000
Net income for the year	-	10,744	-	-	10,744
Transferred to/from impairment reserve	-	210	(210)	-	-
Cumulative changes in fair value	-	-	-	(1,748)	(1,748)
Realized gain/(loss) on equity type investments	-	(302)	-	302	-
Balance at 31 December 2018 (RO'000)	70,000	48,546	765	(2,192)	117,119
Balance at 31 December 2018 (US\$'000)	181,818	126,094	1,987	(5,694)	304,205

The notes and other explanatory information on pages 229 to 265 form an integral part of these financial statements.

Bank Muscat SAOG - Meethaq
Statement of sources and uses of charity fund
For the year ended 31 December 2019

2018	2019		Notes	2019	2018
US\$'000	US\$'000			RO'000	RO'000
		Sources of charity fund			
46	54	Charity funds at beginning of the year		21	18
49	88	Proceeds of committed charity		34	19
16	39	Dividend purification		15	6
111	181	Total sources of funds during the year		70	43
		Uses of charity fund			
57	70	Distributed to charity organizations		27	22
57	70	Total uses of funds during the year		27	22
54	111	Undistributed charity fund at end of the year	13	43	21

The notes and other explanatory information on pages 229 to 265 form an integral part of these financial statements.

1. Legal status and principal activities

Bank Muscat SAOG (the "Bank" or the "Head office") established "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking licence granted by the Central Bank of Oman ("CBO") on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities.

Meethaq offers a full range of Islamic banking services and products. The principal activities of Meethaq include: accepting Shari'a compliant customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking investment activities; providing commercial banking services and other investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2019, Meethaq has 20 operating branches in the Sultanate of Oman (2018: 20 operating branches) and its registered address is P.O. Box 134, Ruwi, P C 112, Sultanate of Oman. Meethaq employed 226 employees as of 31 December 2019 (2018: 261 employees).

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

2. Basis of preparation

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Meethaq and other applicable requirements of the CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

The financial statements are prepared under the historical cost basis convention modified to include the application of fair value measurement that are required or allowed by relevant accounting standards.

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani (RO) which is Meethaq's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

2.4 New Standards, implementations and amendments in existing standards

New and amended standards and interpretations relevant to Meethaq

(a) New and amended standards and interpretations to relevant to Meethaq :

The following new standard became effective from 1 January 2019:

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

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

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by Meethaq:

FAS 30 – Impairment, credit losses and onerous commitments: This standard provides the principles of accounting and financial reporting for impairment and credit losses on various Islamic financing, investment and other assets of IFIs and related revisions for onerous commitments. The Standard also specifies how impairment and credit losses shall be recognized and when and how they can be reversed (corresponding IFRS is IFRS 9 which Meethaq has applied from 1 January 2018).

Since Meethaq already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 does not have any material financial impacts.

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

FAS 33 Investment in Sukuk, shares and similar instruments was issued in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The standard is not expected to have a material impact on the financial statements.

FAS 34 Financial reporting for Sukuk-holders- this standard was issued in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The standard is not expected to have a material impact on the financial statements.

AAOIFI has also issued FAS 35 "Risk 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 FAS 30 "Impairment, Credit Losses and Onerous Commitments" is early adopted by the entity. Meethaq is currently evaluating the impact of this standard.

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

3. Accounting policies

3.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1.1 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central bank of Oman, due from/to bank. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.1.2 Due from banks

Due from banks comprise of receivables under Wakala contracts and Nostro balances. Wakala contracts are recognised at fair value of consideration paid less amounts settled, if any. Profits on Wakala balances are received as per the respective agreement. Nostro balances are current accounts of Meethaq with other financial institutions.

3.1.3 Murabaha receivables

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

Murabaha receivables are sales on deferred payment terms. Meethaq arranges a Murabaha transaction by buying an asset (which represents the object of the Murabaha) and then sells this asset to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The promise made in the Murabaha to the purchase orderer is binding upon the customer.

3.1.4 Musharaka

Musharaka contract represents a partnership between Meethaq and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share in 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, Meethaq enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Meethaq'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.

3.1.5 Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Meethaq assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

3.1.6 Wakala Bil Istithmar

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel.

3.1.7 Sukuk

Sukuk are the asset backed, Shari'a a compliant trust certificates. Musharaka Sukuk are certificates of equal value representing ownership of asset. Sukuk are recognized at amount of proceeds minus issuance cost collected from the investors. Profits are recognized periodically till maturity subject to terms and conditions of issuing documents.

3.1.8 Investments

Investments comprise of equity type instruments carried at fair value through equity or statement of income and debt type instruments carried at fair value through equity or at amortised cost.

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 investment carried at fair value through statement of income, if any.

Equity/ debt type instruments at fair value through equity

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Impairment losses on instruments carried at fair value through equity are not reversed through the statement of income.

Equity/debt type instruments at fair value through statement of income

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with unrealised gains or losses recognised in the statement of income. All other gains or losses arising from these investments are also recognised in the statement of income.

Debt-type instruments at amortised cost

Investments which have fixed or determinable payments and where Meethaq has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognised in the statement of income, when the instruments are de-recognised or impaired.

3.1.9 Derivative financial instruments

Meethaq holds derivative financial instruments (Waa'd based) to hedge its foreign currency exposures. However, it does not apply hedge accounting. Hence, foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at reporting date and the resultant gains and losses for the financial year are recognised in the statement of income.

3.1.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. The cost of additions and major improvements are capitalised. Maintenance and repairs are charged to the statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Furniture, fixtures and equipment	5 - 10
Hardware and software	5 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. 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.

D3.1.11 Due to banks under Wakala

Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognised at fair value of consideration received less amounts settled, if any. Profits on these accounts are paid as per the respective agreement.

3.1.12 Current accounts

Current accounts are funds received under "Qard" whereby the principal amount is guaranteed to be repaid by Meethaq. These funds are neither entitled to any profit nor bear any losses. Current accounts are stated at fair value of consideration received less amounts settled, if any.

3.1.13 Equity of investment account holders

Equity of investment account holders comprises of deposits obtained on the basis of Mudaraba which are invested in Islamic assets. There is no restriction on Meethaq for the use of the equity of investment account holders. Equity of investment account holders is measured at the fair value of the consideration received less amounts settled.

3.1.14 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment account holders, after allocating the Mudarib share, in order to cater against future losses for equity of investment account holders.

3.1.15 Profit equalisation reserve

Meethaq appropriates a certain amount in excess of the profit to be distributed to equity of investment account holders before taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment account holders.

3.1.16 Revenue recognition

Murabaha receivables

Profit on Murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised by proportionately allocating the attributable profits over the deferred period whereby each financial period carries its portion of profits irrespective of when the cash is received, net of suspended profit.

Musharaka

Income on Musharaka is recognised when the right to receive payment is established or when distribution is made, net of suspended profit.

Ijarah Muntahia Bittamleek

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

Wakala Bil Istithmar

Wakala profit is usually reliably estimated and is internally accounted for on time-apportioned basis over the Wakala tenure based on the Wakala capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala agreement, otherwise the loss would be borne by the Muwakkil.

Profit suspension

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

Meethaq's share of income from equity of investment account holders (as "Rabalmal" and "Mudarib")

Income is allocated proportionately between equity of investment account holders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. Meethaq's share as a Mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related Mudaraba agreements.

Fees and commission income

Fees and commission income is recognised when earned.

Commission on letters of credit and letters of guarantee are recognized as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognized when the Islamic Window has fulfilled all its obligations in connection with the related transaction or is amortized over the period of respective financing transaction.

Investment income

Income from investments at amortised cost is recognised on a time-proportionate basis based on underlying rate of return. Dividend income is recognised when the Meethaq's right to receive the payment is established.

3.1.17 Return on equity of investment account holders

Return on equity of investment account holders is calculated based on the income generated from jointly financed assets after deducting the expenses related to investment pool (pool expenses). Pool expenses include all direct expenses incurred by Meethaq, including specific provisions. Meethaq's "Mudarib share of income" is deducted from the investors' share of income before distributing such income.

3.1.18 Taxation

Taxation is calculated and paid by the Head office on an overall basis. Taxation expense in the financial statements represents allocation of such taxation to the Meethaq. Deferred tax assets and liabilities are recognised only at head office level.

3.1.19 Provisions

Provisions are recognised when Meethaq has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.1.20 De-recognition of financial assets and liabilities

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

- (i) The right to receive cash flows from the asset has expired.
- (ii) Meethaq retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.
- (iii) Meethaq has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.1.21 Identification and measurement of impairment assets

Loss allowances are recognised for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments.
- Financial guarantee contracts issued.
- Loan commitments issued.

No impairment loss is recognised on equity investments. Loss allowances are measured at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

Detailed policy is given in note 3.6 of the financial statements of Bank Muscat.

3.1.22 Earnings prohibited by Shari'a

Meethaq is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income, if any, is credited to a charity fund where Meethaq uses these funds for social welfare activities.

3.1.23 Foreign currencies

Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. 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 the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

3.1.24 Employees' end of service benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of income when accrued. Meethaq's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods. This amount is accrued and recognised as an expense in the statement of income.

3.1.25 Joint and self-financed

Assets that are jointly owned by Meethaq and the equity of investment account holders are classified under the caption "jointly financed" in the financial statements. Assets that are financed solely by Meethaq, if any, are classified under "self-financed".

3.1.26 Zakah

Meethaq is not required to pay Zakah on behalf of shareholders and investment account holders. It is the responsibility of shareholders and investment account holders to pay Zakah.

3.1.27 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and Meethaq intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.1.28 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

3.1.29 Fair value

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

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or

are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.2 Significant accounting judgments and estimates

The preparation of Meethaq's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The most significant use of judgments and estimates is as follows:

(a) Identification and measurement of impairment of financial assets

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk.
- Choosing appropriate models and assumptions for the measurement of ECL.
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The following table shows a comparison of the Meethaq's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 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	ECL	Impact on ECL	Impact on ECL
	RO 000's	RO 000's	RO 000's	RO 000's
	2019	2018	2019	2018
ECL on non-impaired financing under IFRS 9	18,116	16,815	-	-
Simulations				
Upside case - 100% weighted	16,717	14,829	(1,399)	(1,986)
Base case - 100% weighted	18,618	17,185	501	369
Downside scenario - 100% weighted	18,847	18,310	731	1,494

(b) Liquidity

Meethaq manages its liquidity through consideration of the maturity profile of its assets, liabilities and investment accounts which is set out in the liquidity risk disclosures. This requires judgment when determining the maturity of assets, liabilities and investment accounts with no specific maturities.

(c) Classification of investments

Management decides on acquisition of:

- An equity type financial asset, whether it should be carried at fair value through equity or through statement of income.
- For a debt type financial asset, whether it should be carried at amortised cost or at fair value through statement of income or to be carried at amortized cost.

4. Due from banks

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
45,000	93,571	Due from banks under Wakala	36,025	17,325
9,127	18,270	Nostro current accounts	7,034	3,514
(18)	(70)	Less: Impairment loss allowance	(27)	(7)
<u>54,109</u>	<u>111,771</u>		<u>43,032</u>	<u>20,832</u>

5. Murabaha and other receivables

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
154,585	205,862	Murabaha receivables - Jointly finance	79,257	59,515
(13,816)	(14,805)	Deferred profit (Note 5.1)	(5,700)	(5,319)
(3,379)	(2,130)	Less: Impairment loss allowance	(820)	(1,301)
137,390	188,927	Net Murabaha receivables	72,737	52,895
4,434	5,587	Receivables under Ujah	2,151	1,707
<u>141,824</u>	<u>194,514</u>		<u>74,888</u>	<u>54,602</u>

Murabaha receivables include RO 17.2 Million (2018: RO 2.3 Million) for unsecured Murabaha receivables.

5.1 Movement in deferred profit

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
(12,673)	(13,816)	Deferred profit opening balance	(5,319)	(4,879)
(134,839)	(164,641)	Murabaha sales during the year	(63,387)	(51,913)
128,000	156,766	Murabaha cost of sales	60,355	49,280
5,696	6,886	Deferred profit transferred to earned profit	2,651	2,193
<u>(13,816)</u>	<u>(14,805)</u>		<u>(5,700)</u>	<u>(5,319)</u>

6. Musharaka

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
2,274,949	2,412,930	Musharaka - Jointly financed	928,978	875,855
(41,821)	(55,439)	Less: Impairment loss allowance	(21,344)	(16,101)
<u>2,233,128</u>	<u>2,357,491</u>		<u>907,634</u>	<u>859,754</u>

7. Ijarah Muntahia Bittamleek

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
303,209	272,013	Cost, net of accumulated depreciation - Jointly financed	104,725	116,735
(9,873)	(9,626)	Less: Impairment loss allowance	(3,706)	(3,801)
<u>293,336</u>	<u>262,387</u>		<u>101,019</u>	<u>112,934</u>

8. Wakala Bil Istithmar

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
216,405	214,340	Wakala Bil Istithmar - Jointly financed	82,521	83,316
(457)	(556)	Less: Impairment loss allowance	(214)	(176)
<u>215,948</u>	<u>213,784</u>		<u>82,307</u>	<u>83,140</u>

9. Investments

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
		Equity type investments at fair value through equity		
22,816	20,462	Shares - Jointly financed	7,878	8,784
		Equity type investments at fair value through statement of income		
1,317	2,073	Shares - Jointly financed	798	507
		Debt type investment at fair value through equity		
3,132	3,662	Sukuk - Jointly financed	1,410	1,206
		Debt type Investment at amortised cost		
160,831	315,410	Sukuk - Jointly financed	121,433	61,920
188,096	341,607		131,519	72,417
(177)	(397)	Impairment for investments	(153)	(68)
<u>187,919</u>	<u>341,210</u>	Investments (net)	<u>131,366</u>	<u>72,349</u>

The movement in investment securities is summarized as follows:

	2019		
	Equity type investment	Debt type investment	Total
	RO'000	RO'000	RO'000
At 1 January 2019	9,291	63,058	72,349
Additions	92	59,677	59,769
Disposal and redemption	(320)	-	(320)
Gain / (loss) from change in fair value	180	-	180
Impairment losses	(40)	(45)	(85)
Realized loss	<u>(527)</u>	<u>-</u>	<u>(527)</u>
At 31 December 2019 (RO'000)	8,676	122,690	131,366
As 31 December 2019 (US\$'000)	<u>22,535</u>	<u>318,675</u>	<u>341,210</u>

	2018		
	Equity type investment	Debt type investment	Total
	RO'000	RO'000	RO'000
At 1 January 2018	8,262	59,273	67,535
Impact of adopting IFRS 9	1,795	(40)	1,755
Transfers	1000	(1,000)	-
Additions	2,697	10,000	12,697
Disposal and redemption	(1,109)	(5,000)	(6,109)
Loss from change in fair value	(3,351)	(145)	(3,496)
Impairment losses	-	(28)	(28)
Amortization of discount / premium	-	(2)	(2)
Realized loss	(3)	-	(3)
At 31 December 2018 (RO'000)	9,291	63,058	72,349
As 31 December 2018 (US\$'000)	24,132	163,787	187,919

The movement in impairment of investment securities is summarised as follows:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
4,662	177	At 1 January	68	1,795
(4,558)	-	Impact of adopting IFRS 9	-	(1,755)
73	221	Provided during the year	85	28
177	398	At 31 December	153	68

Equity type investments at fair value through equity is carried at fair value and includes a mark to market loss of RO 2.06 Million (2018: Loss of 2.192 million).

10. Property and equipment

	2019			
	Furniture and Fixtures	Equipment	Hardware and software	Total
	RO'000	RO'000	RO'000	RO'000
Cost:				
At 1 January 2019	2,829	789	3,311	6,929
Additions	36	26	1,091	1,153
At 31 December 2019	2,865	815	4,402	8,082
Accumulated depreciation:				
At 1 January 2019	1,899	588	1,862	4,349
Provided during the year	439	115	668	1,222
At 31 December 2019	2,338	703	2,530	5,571
Net book values:				
At 31 December 2019 (RO'000)	527	112	1,872	2,511
At 31 December 2019 (US\$'000)	1,369	291	4,862	6,522

	2018			
	Furniture and fixtures	Equipment	Hardware and software	Total
	RO'000	RO'000	RO'000	RO'000
Cost:				
At 1 January 2019	2,656	741	2,715	6,112
Additions	173	48	596	817
Disposals	-	-	-	-
At 31 December 2018	2,829	789	3,311	6,929
Accumulated depreciation:				
At 1 January 2019	1,388	435	1,310	3,133
Provided during the year	511	153	552	1,216
Disposals	-	-	-	-
At 31 December 2018	1,899	588	1,862	4,349
Net book values:				
At 31 December 2018 (RO'000)	930	201	1,449	2,580
At 31 December 2018 (US\$'000)	2,415	522	3,764	6,701

11. Other assets

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
17,831	19,993	Profit receivable	7,697	6,865
2,184	4,753	Prepayments	1,830	841
1,577	1,106	Others	426	607
21,592	25,852		9,953	8,313

12. Sukuk

Meethaq -Islamic Banking Window of Bank Muscat S.A.O.G (Meethaq) started its Sukuk Al Musharaka Certificates programme in June 2017. An SPV was formed for this purpose (Meethaq Sukuk Company LLC) which is the issuer and trustee of Sukuk program.

As part of the program, the first series of certificates was issued in June 2017 amounting to RO 44.6 Million (face value RO 1.000 per certificate) and has a tenor of five years through a Shari'a compliant financing arrangement. The second series of certificates was issued in May 2019 amounting to RO 45.6 Million (face value RO 1.000 per certificate) and has a tenor of five years. The profit on Sukuk is payable semi-annually and it is listed in Muscat Securities Market.

Listed Sukuk - Muscat Securities Market	Expected Annual Profit Rate	Maturity	2019	2018
			RO 000's	RO 000's
Sukuk Issued by Meethaq (First issuance)	5.00%	June 2022	44,608	44,608
Sukuk Issued by Meethaq (Second issuance)	5.50%	May 2024	45,597	-
			90,205	44,608

13. Other liabilities

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
37,623	37,762	Profit payable	14,538	14,485
12,564	5,119	Provision for taxation	1,971	4,837
98,062	29,106	Others	11,206	37,754
<u>148,249</u>	<u>71,987</u>		<u>27,715</u>	<u>57,076</u>

Others include charity payable of RO 43k (2018 - RO 21K) which has been accumulated during the year.

Meethaq is not a separate taxable entity. The tax is calculated and paid on an overall basis by the Head Office. Based on the effective tax rate, the Head office has allocated a taxation provision to Meethaq. During the year, RO 4.3 Million has been paid to Head Office towards payment of prior years tax dues (2018: NIL).

14. Equity of investment account holders

Equity of investment account holders ('IAH') is commingled with Meethaq's funds and utilised in the business of Meethaq according to the weights of each type of fund. These weights are declared by Meethaq at the beginning of each month. Mudarib expenses are charged to the pool which include all direct expenses incurred by Meethaq, including impairment provisions. Meethaq's effective share in profits as Mudarib for the period was 12.80% (2018: 23.85%). The rate of return on each type of investment account is disclosed by Meethaq on a monthly basis. As of 31 December, the analysis of equity of investment account holders is as follows:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
377,756	560,117	Savings accounts	215,645	145,436
1,534,377	1,631,797	Fixed term accounts	628,242	590,735
121,694	138,945	Other deposits	53,494	46,852
2,033,827	2,330,859	Total	897,381	783,023
4,569	5,655	Profit equalization reserve(note 14.1)	2,177	1,759
660	839	Investment risk reserve (notes 14.2)	323	254
<u>2,039,056</u>	<u>2,337,353</u>		<u>899,881</u>	<u>785,036</u>

14.1 Movement in profit equalisation reserve

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
2,519	4,569	Balance as at 1 January	1,759	970
2,049	1,086	Apportioned during the year	418	789
-	-	Amount utilised during the year	-	-
<u>4,568</u>	<u>5,655</u>	Balance at 31 December	<u>2,177</u>	<u>1,759</u>

14.2 Movement in investment risk reserve

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
400	660	Balance as at 1 January	254	154
260	179	Apportioned during the year	69	100
-	-	Amount utilised during the year	-	-
<u>660</u>	<u>839</u>	Balance at 31 December	<u>323</u>	<u>254</u>

15. Allocated share capital

In 2019, No further capital was injected by Head Office (2018- RO 5 million).

16. Contingencies and commitments

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
57,384	18,221	Guarantees	7,015	22,093
101,036	63,023	Letters of credit	24,264	38,899
158,420	81,244		31,279	60,992

17. Income from Islamic finance and investments

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
5,696	6,886	Murabaha receivables	2,651	2,193
119,091	130,109	Musharaka	50,092	45,850
13,384	16,475	Ijarah Muntahia Bittamleek	6,343	5,153
5,060	8,691	Wakala Bil Istithmar	3,346	1,948
-	49	Istisna	19	-
8,696	9,078	Investments	3,495	3,348
151,927	171,288		65,946	58,492

18. Other income

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
2,574	2,649	Fee and commission	1,020	991
878	2,496	Foreign exchange gain - net	961	338
1,026	1,055	Handling commission	406	395
886	2,003	Service fee and other	771	341
5,364	8,203		3,158	2,065

19. Provision for impairment

Movement in provision for impairment for Islamic financing is analysed below:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
46,254	55,530	At 1 January	21,379	17,808
(1,288)	-	Impact of re-measurement on transition to IFRS 9	-	(496)
18,683	19,668	Impairment for credit losses	7,572	7,193
(8,636)	(8,005)	Recoveries from impairment for credit losses	(3,082)	(3,325)
517	558	Transfer from memorandum portfolio	215	199
55,530	67,751	At 31 December	26,084	21,379

Details of credit impairment charged in income statement is set out below:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
18,684	19,668	Impairment for Islamic financing	7,572	7,193
384	(268)	Impairment (Reversal) for un-funded exposure	(103)	148
-	52	Impairment for due from banks	20	-
19,068	19,452		7,489	7,341

20. Segmental information

The activities of Meethaq are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. Further, Meethaq operates solely in the Sultanate of Oman, therefore, no geographical segment information is presented.

21. Related party transactions

Related parties comprise of the Head office, directors and key management personnel of Meethaq and the Head office, close members of their families, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Bank, members of Shari'a Supervisory Board (SSB) and external auditors.

The significant balances with related parties at 31 December 2019 were as follows:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
		Statement of financial position		
358,683	93,571	Due to banks- affiliates	36,025	138,093
12,564	5,119	Other liabilities	1,971	4,837
371,247	98,690		37,996	142,930

The transactions with the related parties included in the statement of income for the year ended 31 December 2019 and 2018 are as follows:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
		Statement of income		
2,691	7,906	Profit on due to banks	3,044	1,036
236	236	Remuneration and expense reimbursements of Shari'a Supervisory Board (SSB)	91	91
2,927	8,142		3,135	1,127

22. Derivative financial instruments

31 December 2019	Positive	Negative	Notional	Notional amounts by term to maturity		
	fair value	fair Value	amount total	within 3 months	4-12 months	> 12 months
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Forward purchase contracts	-	3	98,273	82,775	15,498	-
Forward sales contracts	-	-	98,176	82,776	15,400	-
Total (RO'000)	-	3	196,449	165,551	30,898	-
Total (US\$'000)	-	9	510,258	430,003	80,255	-
31 December 2018						
Forward purchase contracts	-	88	70,347	41,251	29,096	-
Forward sales contracts	125	-	70,100	41,225	28,875	-
Total (RO'000)	125	88	140,447	82,476	57,971	-
Total (US\$'000)	325	229	364,797	214,223	150,574	-

23. Risk management

Meethaq's risk management is centralised at the level of Head office. It is a process whereby the Head office identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that Meethaq operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximising the risk adjusted returns. The overall risk management philosophy of the Bank is disclosed in the consolidated financial statements of the Bank. Specific disclosures pertaining to the following risks, for which Meethaq is exposed, are given below:

(a) Liquidity risk

Liquidity risk is the risk that Meethaq will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Meethaq Asset Liability sub-committee (MALCO) of the Bank manages the liquidity position of Meethaq. In order to ensure that Meethaq meets its financial obligations as and when they fall due, cash flow positions are closely monitored. If required, Meethaq, being a window operation of the Bank, obtains funding from the Head office.

The table below summarizes the maturity profile of Meethaq's assets, liabilities and investment accounts as of 31 December 2019 based on expected periods to cash conversion from the statement of financial position date:

31 December 2019	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets					
Cash and balances with Central Bank of Oman	58,994	8,540	13,876	7,433	88,843
Due from banks	43,032	-	-	-	43,032
Murabaha and other receivables	14,398	32,051	24,110	4,329	74,888
Musharaka	65,452	47,814	291,390	502,978	907,634
Ijarah Muntahia Bittamleek	1,031	3,093	57,838	39,057	101,019
Wakala Bil Istithmar	2,478	53,294	8,709	17,826	82,307
Investments	5,730	50,000	33,378	42,258	131,366
Property and equipment	-	-	-	2,511	2,511
Other assets	9,953	-	-	-	9,953
Total assets	201,068	194,792	429,301	616,392	1,441,553

31 December 2019	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Liabilities, equity of investment account holders and owner's equity					
Due to banks	45,650	-	115,500	-	161,150
Current accounts	53,981	47,272	-	33,766	135,019
Sukuk	-	-	90,205	-	90,205
Other liabilities	22,236	5,479	-	-	27,715
Total liabilities	121,867	52,751	205,705	33,766	414,089
Equity of investment accountholders	93,144	206,711	412,677	187,349	899,881
Total owner's equity	-	-	-	127,583	127,583
Total liabilities, equity of investment account holders and owner's equity	215,011	259,462	618,382	348,698	1,441,553
Net gap	(13,943)	(64,670)	(189,081)	267,694	-
Cumulative net gap	(13,943)	(78,613)	(267,694)	-	-

31 December 2019	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Cash and balances with Central Bank of Oman	153,233	22,182	36,042	19,306	230,763
Due from banks	111,771	-	-	-	111,771
Murabaha and other receivables	37,398	83,249	62,623	11,244	194,514
Musharaka	170,006	124,192	756,857	1,306,436	2,357,491
Ijarah Muntahia Bittamleek	2,677	8,034	150,229	101,447	262,387
Wakala Bil Istithmar	6,436	138,426	22,621	46,301	213,784
Investments	14,883	129,870	86,696	109,761	341,210
Property and equipment	-	-	-	6,522	6,522
Other assets	25,852	-	-	-	25,852
Total assets	522,256	505,953	1,115,068	1,601,017	3,744,294
Liabilities, equity of investment account holders and owner's equity					
Due to banks	118,571	-	300,000	-	418,571
Current accounts	140,211	122,785	-	87,703	350,699
Sukuk	-	-	234,299	-	234,299
Other liabilities	57,756	14,231	-	-	71,987
Total liabilities	316,538	137,016	534,299	87,703	1,075,556
Equity of investment accountholders	241,932	536,912	1,071,888	486,621	2,337,353
Total owner's equity	-	-	-	331,385	331,385
Total liabilities, equity of investment account holders and owner's equity	558,470	673,928	1,606,187	905,709	3,744,294
Net gap	(36,214)	(167,975)	(491,119)	695,308	-
Cumulative net gap	(36,214)	(204,189)	(695,308)	-	-

31 December 2018	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets					
Cash and balances with Central Bank of Oman	133,120	8,800	12,834	6,374	161,128
Due from banks	20,832	-	-	-	20,832
Murabaha and other receivables	6,917	18,960	14,626	14,099	54,602
Musharaka	35,673	45,711	301,210	477,160	859,754
Ijarah Muntahia Bittamleek	1,636	8,346	74,619	28,333	112,934
Wakala Bil Istithmar	55,530	885	5,768	20,957	83,140
Investments	6,198	-	64,803	1,348	72,349
Property and equipment	-	-	-	2,580	2,580
Other assets	8,313	-	-	-	8,313
Total assets	268,219	82,702	473,860	550,851	1,375,632
Liabilities, equity of investment account holders and owner's equity					
Due to banks	196,350	-	-	-	196,350
Current accounts	70,177	61,405	-	43,861	175,443
Sukuk	-	-	44,608	-	44,608
Other liabilities	48,502	8,574	-	-	57,076
Total liabilities	315,029	69,979	44,608	43,861	473,477
Equity of investment accountholders	75,779	194,491	373,210	141,556	785,036
Total owner's equity	-	-	-	117,119	117,119
Total liabilities, equity of investment account holders and owner's equity	390,808	264,470	417,818	302,536	1,375,632
Net gap	(122,589)	(181,768)	56,042	248,315	-
Cumulative net gap	(122,589)	(304,357)	(248,315)	-	-

31 December 2018	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Cash and balances with Central Bank of Oman	345,766	22,857	33,335	16,556	418,514
Due from banks	54,109	-	-	-	54,109
Murabaha and other receivables	17,966	49,247	37,990	36,621	141,824
Musharaka	92,657	118,730	782,364	1,239,377	2,233,128
Ijarah Muntahia Bittamleek	4,250	21,678	193,816	73,592	293,336
Wakala Bil Istithmar	144,233	2,299	14,982	54,434	215,948
Investments	16,099	-	168,319	3,501	187,919
Property and equipment	-	-	-	6,701	6,701
Other assets	21,592	-	-	-	21,592
Total assets	696,672	214,811	1,230,806	1,430,782	3,573,071
Liabilities, equity of investment account holders and owner's equity					
Due to banks	510,000	-	-	-	510,000
Current accounts	182,278	159,493	-	113,925	455,696

31 December 2018	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Sukuk	-	-	115,865	-	115,865
Other liabilities	125,979	22,270	-	-	148,249
Total liabilities	818,257	181,763	115,865	113,925	1,229,810
Equity of investment accountholders	196,829	505,172	969,377	367,678	2,039,056
Total owner's equity	-	-	-	304,205	304,205
Total liabilities, equity of investment account holders and owner's equity	1,015,086	686,935	1,085,242	785,808	3,573,071
Net gap	(318,414)	(472,124)	145,564	644,974	-
Cumulative net gap	(318,414)	(790,538)	(644,974)	-	-

(b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

Profit rate risk is the risk that Meethaq will incur a financial loss as a result of mismatch in the profit rate on Meethaq's assets and liabilities.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Meethaq is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Meethaq's results do not allow Meethaq to distribute profits in line with the market rates. To cater against DCR, Meethaq creates profit equalisation reserve as disclosed in note 14.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. A 10% change in equity indices will have an impact of RO 0.79 Million on the equity of Meethaq (2018 - RO 0.88 million).

Effective profit rates on profit bearing assets, liabilities and equity of investment account holders as of 31 December 2019 and 2018 are as follows:

	2019	2018
Assets:		
Financing	5.23%	5.10%
Due from bank	1.11%	1.01%
Investments	4.03%	3.99%
Liabilities:		
Due to banks under Wakala	3.39%	2.51%
Meethaq Sukuk	5.37%	5.00%
Equity of Investment Account Holders	2.97%	2.63%

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure that they are maintained within established approved limits.

The following table summarises the exposure by currency as of 31 December 2019:

	2019		
	Assets	Liabilities	Net
	RO'000	RO'000	RO'000
US Dollars	228,900	224,353	4,546
Euro	209	47	162
Great Britain Pound	50	-	50
UAE Dirham	177	147	30
Others	452	-	452

	2018		
	Assets	Liabilities	Net
	RO'000	RO'000	RO'000
US Dollars	320,704	294,632	26,072
Euro	1,835	1,887	(52)
Great Britain Pound	14	-	14
UAE Dirham	139	163	(24)
Others	102	-	102

Foreign currency risk sensitivity analysis

A 5% change in foreign exchange rates, with all other variables held constant, will have an impact of RO 0.26 Million on Meethaq's statement of income (2018 - RO 1.3 Million).

(c) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. Meethaq credit risk is managed by monitoring credit exposures, continually assessing the creditworthiness of counterparties, and by entering into collateral agreements in the form of mortgages, pledge of assets and personal guarantees.

Meethaq classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- **Stage 1:** Financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified as Stage1. When a Credit Facility is first recognised, the Meethaq recognizes a loss allowance based on 12 months ECL.
- **Stage 2:** Financial instruments having Significant Increase in Credit Risk ("SICR") since origination will be classified under Stage 2 (if not impaired). When a Credit Facility has shown a significant increase in credit risk since origination, Meethaq records a loss allowance for the life time (LT) ECL.
- **Stage 3:** All Credit Facilities that are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or profit is overdue by more than 90 days. Besides quantitative and qualitative criteria are also applied for assigning stage 3. In such cases, Meethaq records a loss allowance for the LT ECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt type investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Gross Exposure	RO'000	RO'000	RO'000	RO'000
Due from banks	42,525	534	-	43,059
Islamic Financing	848,431	328,583	14,918	1,191,932
Investments	121,865	978	-	122,843
Total Funded Gross Exposure	1,012,821	330,095	14,918	1,357,834

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Gross Exposure	RO'000	RO'000	RO'000	RO'000
Letters of credit/Guarantees	23,734	7,545	-	31,279
Financing commitments/Unutilized limits	4,429	61,182	-	65,611
Total Gross Exposure	1,040,984	398,822	14,918	1,454,724
Impairment				
Due from banks	26	1	-	27
Islamic Financing	2,492	15,624	7,968	26,084
Investments	115	38	-	153
Total Funded Impairment	2,633	15,663	7,968	26,264
Letters of credit/Guarantees	14	7	-	21
Financing commitments/Unutilized limits	12	177	-	189
Total Impairment	2,659	15,847	7,968	26,474
Net Exposure				
Due from banks	42,499	533	-	43,032
Islamic Financing	845,939	312,959	6,950	1,165,848
Investments	121,750	940	-	122,690
Total Funded Net Exposure	1,010,188	314,432	6,950	1,331,570
Letters of credit/Guarantees	23,720	7,538	-	31,258
Financing commitments/Unutilized limits	4,417	61,005	-	65,422
Total Net Exposure	1,038,325	382,975	6,950	1,428,250

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Gross Exposure	RO'000	RO'000	RO'000	RO'000
Central Bank Balances	103,950	-	-	103,950
Due from banks	20,272	567	-	20,839
Islamic Financing	855,738	265,256	10,815	1,131,809
Investments	62,255	871	-	63,126
Total Funded Gross Exposure	1,042,215	266,694	10,815	1,319,724
Letters of credit/Guarantees	28,877	31,083	1,032	60,992
Financing commitments/Unutilized limits	2,908	47,465	-	50,373
Total Gross Exposure	1,074,000	345,242	11,847	1,431,089
Impairment				
Central Bank Balances	-	-	-	-
Due from banks	5	2	-	7
Islamic Financing	2,197	14,275	4,907	21,379
Investments	68	-	-	68
Total Funded Impairment	2,270	14,277	4,907	21,454
Letters of credit/Guarantees	8	42	45	95
Financing commitments/Unutilized limits	8	210	-	218
Total Impairment	2,286	14,529	4,952	21,767
Net Exposure				
Central Bank Balances	103,950	-	-	103,950
Due from banks	20,267	565	-	20,832
Islamic Financing	853,541	250,981	5,908	1,110,430
Investments	62,187	871	-	63,058
Total Funded Net Exposure	1,039,945	252,417	5,908	1,298,270
Letters of credit/Guarantees	28,869	31,041	987	60,897
Financing commitments/Unutilized limits	2,900	47,255	-	50,155
Total Net Exposure	1,071,714	330,713	6,895	1,409,322

Stage 1: 73% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination (2018- 75%).

Stage 2: 26% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9 (2018- 24%).

Stage 3: 1% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets (2018- 1%).

Amounts arising from ECL

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

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Due from banks				
High grade	42,886	173	-	43,059
	42,886	173	-	43,059

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Due from banks				
Opening balance	20,839	-	-	20,839
<u>Transfers between stages:</u>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(114)	114	-	-
- Transfer to Stage 3	-	-	-	-
	(114)	114	-	-
Re-measurement of outstanding	3,669	59	-	3,728
Financial assets originated during the year	36,385	-	-	36,385
Financial assets matured during the year	(17,893)	-	-	(17,893)
	22,161	59	-	22,220
Closing Balance	42,886	173	-	40,059

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Due from banks				
High grade	20,725	-	-	20,725
Standard grade	114	-	-	114
	20,839	-	-	20,839
Due from banks				
Opening balance	27,085	-	-	27,085
<u>Transfers between stages:</u>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
	-	-	-	-
Re-measurement of outstanding	1,554	-	-	1,554
Financial assets originated during the year	14,733	567	-	15,300
Financial assets matured during the year	(23,100)	-	-	(23,100)
	(6,813)	567	-	(6,246)
Closing Balance	20,272	567	-	20,839

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Total Islamic Financing				
High grade	380,799	34,968	-	415,767
Standard grade	324,200	150,678	-	474,878
Satisfactory grade	<u>143,432</u>	<u>142,937</u>	<u>-</u>	<u>286,369</u>
Performing	<u>848,431</u>	<u>328,583</u>	<u>-</u>	<u>1,177,014</u>
Sub standard	-	-	5,810	5,810
Doubtful	-	-	5,369	5,369
Loss	<u>-</u>	<u>-</u>	<u>3,739</u>	<u>3,739</u>
Non-Performing	<u>-</u>	<u>-</u>	<u>14,918</u>	<u>14,918</u>
	<u>848,431</u>	<u>328,583</u>	<u>14,918</u>	<u>1,191,932</u>

Total Islamic Financing	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance	855,738	265,256	10,815	1,131,809
Transfers between stages:				
- Transfer to Stage 1	5,292	(4,846)	(446)	-
- Transfer to Stage 2	(165,873)	167,105	(1,231)	-
- Transfer to Stage 3	<u>(8,416)</u>	<u>(1,110)</u>	<u>9,526</u>	<u>-</u>
	<u>(168,997)</u>	<u>161,149</u>	<u>7,849</u>	<u>-</u>
Re-measurement of outstanding	(38,022)	(28,385)	(1,065)	(67,472)
Financial assets originated during the year	341,299	-	-	341,299
Financial assets matured during the year	<u>(141,587)</u>	<u>(69,437)</u>	<u>(2,681)</u>	<u>(213,705)</u>
	<u>161,690</u>	<u>(97,822)</u>	<u>(3,746)</u>	<u>60,122</u>
Closing Balance	<u>848,431</u>	<u>328,583</u>	<u>14,918</u>	<u>1,191,932</u>

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Total Islamic financing				
High grade	406,692	39,399	-	446,091
Standard grade	243,299	142,747	-	386,046
Satisfactory grade	<u>205,747</u>	<u>83,110</u>	<u>-</u>	<u>288,857</u>
Performing	<u>855,738</u>	<u>265,256</u>	<u>-</u>	<u>1,120,994</u>
Sub standard	-	-	6,781	6,781
Doubtful	-	-	1,805	1,805
Loss	<u>-</u>	<u>-</u>	<u>2,229</u>	<u>2,229</u>
Non-Performing	<u>-</u>	<u>-</u>	<u>10,815</u>	<u>10,815</u>
	<u>855,738</u>	<u>265,256</u>	<u>10,815</u>	<u>1,131,809</u>
Total Islamic financing				
Opening balance	836,126	145,810	6,057	987,993
Transfers between stages:				
- Transfer to Stage 1	7,471	(6,827)	(644)	-
- Transfer to Stage 2	(47,629)	48,604	(975)	-
- Transfer to Stage 3	<u>(2,877)</u>	<u>(3,904)</u>	<u>6,781</u>	<u>-</u>
	<u>(43,035)</u>	<u>37,873</u>	<u>5,162</u>	<u>-</u>
Re-measurement of outstanding	(35,456)	6,220	(979)	(30,215)
Financial assets originated during the year	162,375	87,137	1,496	251,008
Financial assets matured during the year	<u>(64,272)</u>	<u>(11,784)</u>	<u>(921)</u>	<u>(76,977)</u>
	<u>62,647</u>	<u>81,573</u>	<u>(404)</u>	<u>143,816</u>
Closing Balance	<u>855,738</u>	<u>265,256</u>	<u>10,815</u>	<u>1,131,809</u>

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Retail Financing				
High grade	288,229	24	-	288,253
Standard grade	203,576	238	-	203,814
Satisfactory grade	<u>36,773</u>	<u>1,794</u>	<u>-</u>	<u>38,567</u>
Performing	<u>528,578</u>	<u>2,056</u>	<u>-</u>	<u>530,634</u>
Sub standard	-	-	530	530
Doubtful	-	-	918	918
Loss	<u>-</u>	<u>-</u>	<u>2,411</u>	<u>2,411</u>
Non-Performing	<u>-</u>	<u>-</u>	<u>3,859</u>	<u>3,859</u>
	<u>528,578</u>	<u>2,056</u>	<u>3,859</u>	<u>534,493</u>

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Retail Financing				
Opening balance	522,633	2,769	3,001	528,403
Transfers between stages:				
- Transfer to Stage 1	1,465	(1,193)	(272)	-
- Transfer to Stage 2	(1,456)	1,455	-	-
- Transfer to Stage 3	<u>(1,195)</u>	<u>(617)</u>	<u>1,812</u>	<u>-</u>
	(1,186)	(355)	1,540	-
Re-measurement of outstanding	(26,700)	(102)	(378)	(27,180)
Financial assets originated during the year	60,271	-	-	60,271
Financial assets matured during the year	<u>(26,440)</u>	<u>(257)</u>	<u>(304)</u>	<u>(27,001)</u>
	<u>7,131</u>	<u>(359)</u>	<u>(682)</u>	<u>6,090</u>
Closing Balance	<u>528,578</u>	<u>2,056</u>	<u>3,859</u>	<u>534,493</u>

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Retail Financing				
High grade	316,885	25	-	316,910
Standard grade	174,593	565	-	175,158
Satisfactory grade	<u>31,155</u>	<u>2,179</u>	<u>-</u>	<u>33,334</u>
Performing	<u>522,633</u>	<u>2,769</u>	<u>-</u>	<u>525,402</u>
Sub standard	-	-	503	503
Doubtful	-	-	1,222	1,222
Loss	<u>-</u>	<u>-</u>	<u>1,276</u>	<u>1,276</u>
Non-Performing	<u>-</u>	<u>-</u>	<u>3,001</u>	<u>3,001</u>
	<u>522,633</u>	<u>2,769</u>	<u>3,001</u>	<u>528,403</u>

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Retail Financing				
Opening balance	497,558	2,192	1,425	501,175
Transfers between stages:				
- Transfer to Stage 1	1,147	(943)	(204)	-
- Transfer to Stage 2	(1,938)	2,242	(304)	-
- Transfer to Stage 3	(765)	(544)	1,309	-
	(1,556)	755	801	-
Re-measurement of outstanding	(18,575)	(314)	(62)	(18,951)
Financial assets originated during the year	72,710	222	932	73,864
Financial assets matured during the year	(27,504)	(86)	(95)	(27,685)
	26,631	(178)	775	27,228
Closing Balance	522,633	2,769	3,001	528,403

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Corporate Financing				
High grade	92,570	34,944	-	127,514
Standard grade	120,624	150,440	-	271,064
Satisfactory grade	106,659	141,143	-	247,802
Performing	319,853	326,527	-	646,380
Sub standard	-	-	5,280	5,280
Doubtful	-	-	4,451	4,451
Loss	-	-	1,328	1,328
Non-Performing	-	-	11,059	11,059
	319,853	326,527	11,059	657,439

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Corporate Financing				
Opening balance	333,105	262,487	7,814	603,406
Transfers between stages:				
- Transfer to Stage 1	3,827	(3,653)	(174)	-
- Transfer to Stage 2	(164,417)	165,649	(1,232)	-
- Transfer to Stage 3	(7,221)	(493)	7,714	-
	(167,811)	161,503	6,308	-
Re-measurement of outstanding	(11,322)	(28,283)	(686)	(40,291)
Financial assets originated during the year	281,028	-	-	281,028
Financial assets matured during the year	(115,147)	(69,180)	(2,377)	(186,704)
	154,559	(97,463)	(3,063)	54,033
Closing Balance	319,853	326,527	11,059	657,439

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Corporate Financing				
High grade	89,807	39,374	-	129,181
Standard grade	68,706	142,182	-	210,888
Satisfactory grade	174,592	80,931	-	255,523
Performing	333,105	262,487	-	595,592
Sub standard	-	-	6,278	6,278
Doubtful	-	-	583	583
Loss	-	-	953	953
Non-Performing	-	-	7,814	7,814
	333,105	262,487	7,814	603,406
Corporate Financing				
Opening balance	338,568	143,618	4,632	486,818
Transfers between stages:				
- Transfer to Stage 1	6,324	(5,884)	(440)	-
- Transfer to Stage 2	(45,691)	46,362	(671)	-
- Transfer to Stage 3	(2,112)	(3,360)	5,472	-
	(41,479)	37,118	4,361	-
Re-measurement of outstanding	(16,881)	6,534	(917)	(11,264)
Financial assets originated during the year	89,665	86,915	564	177,144
Financial assets matured during the year	(36,768)	(11,698)	(826)	(49,292)
	36,016	81,751	(1,179)	116,588
Closing Balance	333,105	262,487	7,814	603,406

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Investments				
High grade	-	978	-	978
Standard grade	56,920	-	-	56,920
Satisfactory grade	64,945	-	-	64,945
Performing	121,865	978	-	122,843
	121,865	978	-	122,843

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Investments				
Opening balance	62,255	871	-	63,126
Transfers between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	56	107	-	163
Financial assets originated during the year	59,554	-	-	59,554
Financial assets matured during the year	-	-	-	-
	59,610	107	-	59,717
Closing Balance	121,865	978	-	122,843

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Investments				
High grade	49,995	871	-	50,866
Standard grade	1,925	-	-	1,925
Satisfactory grade	10,335	-	-	10,335
	<u>62,255</u>	<u>871</u>	<u>-</u>	<u>63,126</u>
Investments				
Opening balance	57,308	964	-	58,272
Transfers between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(46)	(93)	-	(139)
Financial assets originated during the year	10,000	-	-	10,000
Financial assets matured during the year	<u>(5,007)</u>	<u>-</u>	<u>-</u>	<u>(5,007)</u>
	<u>4,947</u>	<u>(93)</u>	<u>-</u>	<u>4,854</u>
Closing Balance	<u>62,255</u>	<u>871</u>	<u>-</u>	<u>63,126</u>

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Letters of credit/Guarantees				
High grade	7,911	5,538	-	13,449
Standard grade	15,821	1,864	-	17,685
Satisfactory grade	<u>2</u>	<u>143</u>	<u>-</u>	<u>145</u>
	<u>23,734</u>	<u>7,545</u>	<u>-</u>	<u>31,279</u>

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Letters of credit/Guarantees				
Opening balance	29,971	30,809	212	60,992
Transfers between stages:				
- Transfer to Stage 1	2,197	(2,197)	-	-
- Transfer to Stage 2	(10,128)	10,145	(17)	-
- Transfer to Stage 3	-	-	-	-
	<u>(7,931)</u>	<u>7,948</u>	<u>(17)</u>	<u>-</u>
Re-measurement of outstanding	(8,467)	(15,337)	(39)	(23,843)
Financial assets originated during the year	15,839	-	-	15,839
Financial assets matured during the year	<u>(5,678)</u>	<u>(15,875)</u>	<u>(156)</u>	<u>(21,709)</u>
	<u>1,694</u>	<u>(31,212)</u>	<u>(195)</u>	<u>(29,713)</u>
Closing Balance	<u>23,734</u>	<u>7,545</u>	<u>-</u>	<u>31,279</u>

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Letters of credit/Guarantees				
High grade	9,987	20890	-	30,877
Standard grade	19,978	9,812	-	29,790
Satisfactory grade	6	107	-	113
	29,971	30,809	-	60,780
Sub standard	-	-	-	-
Doubtful	-	-	173	173
Loss	-	-	39	39
Non-Performing	-	-	212	212
	29,971	30,809	212	60,992
<u>Transfers between stages:</u>				
- Transfer to Stage 1	14	(14)	-	-
- Transfer to Stage 2	(5,406)	5,406	-	-
- Transfer to Stage 3	(118)	(11)	129	-
	(5,510)	5,381	129	-
Re-measurement of outstanding	(198)	(5,038)	(23)	(5,259)
Financial assets originated during the year	29,067	25,014	106	54,187
Financial assets matured during the year	(10,427)	(1,442)	(188)	(12,057)
	18,442	18,534	(105)	36,871
Closing Balance	29,971	30,809	212	60,992

31 December 2019	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Financing commitments/Unutilized limits				
High grade	1,072	46,940	-	48,012
Standard grade	3,357	10,158	-	13,515
Satisfactory grade	-	4,084	-	4,084
	4,429	61,182	-	65,611

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Financing commitments/Unutilized limits				
Opening balance	2,908	47,465	-	50,373
<u>Transfers between stages:</u>				
- Transfer to Stage 1	3,023	(3,023)	-	-
- Transfer to Stage 2	(1,734)	1,734	-	-
- Transfer to Stage 3	-	(13)	13	-
	1,289	(1,302)	13	-
Re-measurement of outstanding	189	15,019	(13)	15,195
Financial assets originated during the year	43	-	-	43
Financial assets matured during the year	-	-	-	-
	232	15,019	(13)	15,238
Closing Balance	4,429	61,182	-	65,611

31 December 2018	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Financing commitments/Unutilized limits				
High grade	105	16,438	-	16,543
Standard grade	2,803	27,731	-	30,534
Satisfactory grade		3,296	-	3,296
	<u>2,908</u>	<u>47,465</u>	<u>-</u>	<u>50,373</u>
Financing commitments/Unutilized limits				
Opening balance	17,078	18,914	-	35,992
<u>Transfers between stages:</u>				
- Transfer to Stage 1	820	(820)	-	-
- Transfer to Stage 2	(15,447)	15,447	-	-
- Transfer to Stage 3	<u>-</u>	<u>(30)</u>	<u>30</u>	<u>-</u>
	(14,627)	14,597	30	-
Re-measurement of outstanding	246	13,094	(30)	13,310
Financial assets originated during the year	906	862	-	1,768
Financial assets matured during the year	<u>(695)</u>	<u>(2)</u>	<u>-</u>	<u>(697)</u>
	<u>457</u>	<u>13,954</u>	<u>(30)</u>	<u>14,381</u>
Closing Balance	<u>2,908</u>	<u>47,465</u>	<u>-</u>	<u>50,373</u>

Loss allowance

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for Total Islamic Financing:

	2019			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance (as per IFRS9)	2,197	14,275	4,907	21,379
<u>Transfers between stages:</u>				
- Transfer to Stage 1	55	(55)	-	-
- Transfer to Stage 2	(6,145)	6,145	-	-
- Transfer to Stage 3	<u>(9)</u>	<u>(31)</u>	<u>40</u>	<u>-</u>
	(6,099)	6,059	40	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	187	(3,677)	5,931	2,441
- Financial assets originated during the period	6,633	-	-	6,633
- Financial assets matured during the period	<u>(426)</u>	<u>(1,076)</u>	<u>-</u>	<u>(1,502)</u>
	6,394	(4,753)	5,933	7,572
Recoveries from impairment for credit losses	-	-	(3,082)	(3,082)
Profit reserve charged to profit income	<u>-</u>	<u>43</u>	<u>172</u>	<u>215</u>
Closing Balance	<u>2,492</u>	<u>15,624</u>	<u>7,968</u>	<u>26,084</u>

	2018			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance (as per IFRS9)	2,012	12,790	2,510	17,312
<u>Transfers between stages:</u>				
- Transfer to Stage 1	5,666	(5,666)	-	-
- Transfer to Stage 2	(636)	636	-	-
- Transfer to Stage 3	(1)	(395)	396	-
	5,029	(5,425)	396	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	(5,253)	4,722	5,136	4,605
- Financial assets originated during the period	495	2,210	-	2,705
- Financial assets matured during the period	(86)	(42)	-	(128)
	(4,844)	6,890	5,136	7,182
Recoveries from impairment for credit losses	-	-	(3,325)	(3,325)
Profit reserve charged to profit income	-	20	190	210
Closing Balance	2,197	14,275	4,907	21,379

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for Corporate Islamic Financing:

	2019			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
<u>Transfers between stages:</u>				
Opening balance	1,341	14,182	2,866	18,389
- Transfer to Stage 1	38	(38)	-	-
- Transfer to Stage 2	(6,126)	6,126	-	-
- Transfer to Stage 3	(4)	(11)	15	-
	(6,092)	6,077	15	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	180	(3,727)	4,356	809
- Financial assets originated during the period	6,426	-	-	6,426
- Financial assets matured during the period	(366)	(1,029)	-	(1,395)
	6,240	(4,756)	4,356	5,840
Recoveries from impairment for credit losses	-	-	(2,423)	(2,423)
Profit reserve charged to profit income	-	43	137	178
Closing Balance	1,489	15,546	4,951	21,986

	2018			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance (as per IFRS9)	1,221	12,714	1,374	15,309
<u>Transfers between stages:</u>				
- Transfer to Stage 1	90	(90)	-	-
- Transfer to Stage 2	(134)	134	-	-
- Transfer to Stage 3	(6)	(65)	71	-
	(50)	(21)	71	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	(71)	(584)	4,040	3,385
- Financial assets originated during the period	313	2,198	-	2,511
- Financial assets matured during the period	(72)	(145)	-	(217)
	170	1,469	4,040	5,679
Recoveries from impairment for credit losses	-	-	(2,707)	(2,707)
Profit reserve charged to profit income	-	20	88	108
Closing Balance	1,341	14,182	2,866	18,389

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for retail Islamic Financing:

	2019			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance (as per IFRS 9)	856	93	2,041	2,990
<u>Transfers between stages:</u>				
- Transfer to Stage 1	17	(17)	-	-
- Transfer to Stage 2	(19)	19	-	-
- Transfer to Stage 3	(5)	(20)	25	-
	(7)	(18)	25	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	7	50	1,575	1,632
- Financial assets originated during the period	207	-	-	207
- Financial assets matured during the period	(60)	(47)	-	(107)
	154	3	1,575	1,732
Recoveries from impairment for credit losses	-	-	(659)	(659)
Profit reserve charged to profit income	-	-	35	35
Closing Balance	1,003	78	3,017	4,098

	2018			
	Stage1	Stage2	Stage3	Total
	RO'000	RO'000	RO'000	RO'000
Opening balance (as per IFRS9)	791	76	1,136	2,003
<u>Transfers between stages:</u>				
- Transfer to Stage 1	27	(27)	-	-
- Transfer to Stage 2	(8)	8	-	-
- Transfer to Stage 3	(5)	(26)	31	-
	14	(45)	31	-
<u>Impairment charged to income statement for:</u>				
- Re-measurement of impairment allowances	(62)	68	1,390	1,396
- Financial assets originated during the period	171	3	-	174
- Financial assets matured during the period	(58)	(9)	-	(67)
	51	62	1,390	1,503
Recoveries from impairment for credit losses	-	-	(618)	(618)
Profit reserve charged to profit income	-	-	102	102
Closing Balance	856	93	2,041	2,990

Amount arising from ECL

31 December 2019

Asset classification as per CBO Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and Provision held	Net carrying amount	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
1	2	3	4	5	(5)-(4)=(6)	(5)-(3)=(7)	8	9
Standard	Stage 1	848,430	12,133	2,491	(9,642)	845,939	-	-
	Stage 2	165,308	3,306	7,459	4,153	157,849	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		1,013,738	15,439	9,950	(5,489)	1,003,788	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	163,275	1,637	8,166	6,529	155,109	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		163,275	1,637	8,166	6,529	155,109	-	-
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	5,810	1,477	1,477	-	4,333	37	37
Sub Total		5,810	1,477	1,477	-	4,333	37	37
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	5,369	2,759	2,759	-	2,610	149	149
Sub Total		5,369	2,759	2,759	-	2,610	149	149
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,740	3,732	3,732	-	8	299	299
Sub Total		3,740	3,732	3,732	-	8	299	299
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	192,553	-	167	167	192,386	-	-
	Stage 2	70,239	-	223	223	70,016	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		262,792	-	390	390	262,402	-	-
Total	Stage 1	1,040,983	12,133	2,658	(9,475)	1,038,325	-	-
	Stage 2	398,822	4,943	15,848	10,905	382,974	-	-
	Stage 3	14,919	7,968	7,968	-	6,951	485	485
		1,454,724	25,045	26,474	1,429	1,428,250	485	485

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

As at 31 December 2018

Asset classification as per CBO Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and Provision held	Net carrying amount	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
1	2	3	4	5	(5)-(4)=(6)	(5)-(3)=(7)	8	9
Standard	Stage 1	855,738	12,812	2,197	(10,615)	853,541	-	-
	Stage 2	173,562	2,680	10,336	7,656	163,226	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		1,029,300	15,492	12,533	(2,959)	1,016,767	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	91,694	927	3,939	3,012	87,755	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		91,694	927	3,939	3,012	87,755	-	-
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	6,782	1,763	1,763	-	5,019	86	86
Sub Total		6,782	1,763	1,763	-	5,019	86	86
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	1,803	914	914	-	889	79	79
Sub Total		1,803	914	914	-	889	79	79
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,230	2,230	2,230	-	-	161	161
Sub Total		2,230	2,230	2,230	-	-	161	161
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	219,080	-	89	89	218,991	-	-
	Stage 2	79,987	-	254	254	79,733	-	-
	Stage 3	213	-	45	45	168	-	-
Sub Total		299,280	-	388	388	298,892	-	-
Total	Stage 1	1,074,818	12,812	2,286	(10,526)	1,072,532	-	-
	Stage 2	345,243	3,607	14,529	10,922	330,714	-	-
	Stage 3	11,028	4,907	4,952	45	6,076	326	326
		1,431,089	21,326	21,767	441	1,409,322	326	326

	As per CBO norms		AS per IFRS 9		Difference	
	2019	2018	2019	2018	2019	2018
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Impairment loss charged to profit and loss account	4,492	4,044	4,492	4,044	-	-
Provisions required as per CBO norms/ held as per IFRS 9	25,045	21,326	26,474	21,767	1,429	441
Gross NPL ratio	1.25%	0.96%	1.25%	0.96%	-	-
Net NPL ratio	0.58%	0.52%	0.58%	0.52%	-	-

Concentration of Credit Risk

The table below analyses the concentration of financial assets by various sectors:

	Due from banks		Islamic Financing		Debt type securities		Financing commitments & Guarantees issued	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross amount/ Commitments & Guarantees	43,059	20,832	1,191,932	1,131,809	122,843	63,126	96,890	111,365
Concentration by sector								
Corporate:								
Services	-	-	131,010	138,732	-	-	7,078	-
Mining and quarrying	-	-	22,923	21,285	-	-	-	-
Manufacture	-	-	159,158	81,186	-	-	46,541	60,925
Wholesale and retail trade	-	-	20,116	20,981	-	-	1,510	20,061
Import trade	-	-	252	293	-	-	933	28
Utilities	-	-	-	-	-	-	48	-
Transport & Communication	-	-	146,120	195,652	-	-	-	400
Construction & related activities	-	-	177,860	145,275	-	-	30,709	3,615
Agriculture and allied activities	-	-	-	-	-	-	-	-
Others	-	-	-	-	12,465	12,260	10,071	22,751
Sovereign:								
Government	-	-	-	-	110,378	50,866	-	3,585
Financial institutions	43,059	20,832	-	-	-	-	-	-
Retail:								
Personal and housing finance	-	-	534,493	528,405	-	-	-	-
Gross amount	43,059	20,832	1,191,932	1,131,809	122,843	63,126	96,890	111,365
Expected credit losses (ECL)	(27)	(7)	(26,084)	(21,379)	(153)	(68)	(210)	(313)
Net carrying amount	43,032	20,825	1,165,848	1,110,430	122,690	63,058	96,680	111,052

(d) Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events that will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on grouping Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

As the management of all other risks, operational risk for Meethaq is managed centrally at the Head office level. The detailed operational risk management approach is disclosed in the consolidated financial statements of the Bank.

24. Capital management

Central Bank of Oman (CBO), sets and monitors capital requirements for the Bank as whole as well as individually for Meethaq being a window operation. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Meethaq. The regulatory capital of Meethaq is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office.
- Tier II capital, which includes stage 1 and 60% of stage 2 provision as calculated under IFRS 9 subject to ceiling of 1.25% of credit risk weighted assets and also not exceeding the amount of Tier II capital as of 31 Dec 2017.

The following table sets out the capital adequacy position of Meethaq:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
301,747	330,008	Tier I Capital	127,053	116,173
21,660	21,607	Tier II Capital	8,319	8,339
323,407	351,615	Total regulatory capital	135,372	124,512
		Risk weighted assets (RWA)		
2,109,578	2,286,208	Credit risk	880,190	812,187
70,310	30,165	Market risk	11,613	27,069
134,110	137,838	Operational Risk	53,068	51,633
2,313,998	2,454,211	Total RWA	944,871	890,889
		Capital ratios		
13.98%	14.33%	Total capital as a % of total RWA	14.33%	13.98%
13.04%	13.45%	Total tier I capital as a % of total RWA	13.45%	13.04%

25. Fair value of assets and liabilities

Following is an overview of carrying value of financial assets and liabilities held by Meethaq as of reporting date which, in the opinion of the management, are not materially different from the fair value:

31 December 2019

Carrying amount	Fair value		Carrying amount	Fair value
US\$'000	US\$'000		RO'000	RO'000
		Assets:		
111,771	111,771	Due from banks	43,032	43,032
194,514	194,514	Murabaha and other receivables	74,888	76,131
2,357,491	2,357,491	Musharaka	907,634	922,701
262,387	262,387	Ijarah Muntahia Bittamleek	101,019	102,696
213,784	213,784	Wakala Bil Istithmar	82,307	83,673
341,210	341,210	Investments	131,366	131,475
19,993	19,993	Other assets	7,697	7,697
3,501,150	3,501,150	Total	1,347,943	1,367,405
		Liabilities:		
418,571	418,571	Due to banks	161,150	161,150
350,699	350,699	Current accounts	135,019	135,019
34,225	34,226	Other liabilities	13,177	13,177
234,299	234,299	Sukuk	90,205	89,670
2,337,353	2,337,353	Equity of Investment Account Holders	899,881	899,881
3,375,147	3,375,148	Total	1,299,432	1,298,987

31 December 2018

Carrying amount	Fair value		Carrying amount	Fair value
US\$'000	US\$'000		RO'000	RO'000
		Assets:		
54,109	54,109	Due from banks	20,832	20,832
141,824	141,824	Murabaha and other receivables	54,602	55,192
2,233,128	2,233,128	Musharaka	859,754	869,039
293,336	293,336	Ijarah Muntahia Bittamleek	112,934	114,154
215,948	215,948	Wakala Bil Istithmar	83,140	84,038
187,919	187,919	Investments	72,349	72,415
17,831	17,831	Other assets	6,865	6,865
<u>3,144,095</u>	<u>3,144,095</u>	Total	<u>1,210,476</u>	<u>1,222,535</u>
		Liabilities:		
510,000	510,000	Due to banks under Wakala	196,350	196,350
455,696	455,696	Current accounts	175,443	175,443
110,626	110,626	Other liabilities	42,591	42,591
115,865	115,865	Sukuk	44,608	40,147
<u>2,039,056</u>	<u>2,039,055</u>	Equity of Investment Account Holders	<u>785,036</u>	<u>785,036</u>
<u>3,231,243</u>	<u>3,231,242</u>	Total	<u>1,244,028</u>	<u>1,239,567</u>

Fair value hierarchy

Fair values of quoted securities/sukuku are derived from quoted market prices in active markets, if available. For unquoted securities/sukuku, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Meethaq uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2019:

31 December 2019	Level 1	Level 3	Total
	RO'000	RO'000	RO'000
Investments carried at fair value through equity			
Quoted securities	7,614	-	7,614
Unquoted securities	-	1,672	1,672
Investments carried at fair value through P&L			
Quoted securities	-	259	259
Unquoted securities	-	539	539
	<u>7,614</u>	<u>2,470</u>	<u>10,084</u>

31 December 2018	Level 1	Level 3	Total
	RO'000	RO'000	RO'000
Investments carried at fair value through equity			
Quoted securities	8,316	-	8,316
Unquoted securities	-	1,672	1,672
Investments carried at fair value through P&L	-		
quoted securities	-	507	507
	<u>8,316</u>	<u>2,179</u>	<u>10,495</u>

During the year ended 31 December 2019 and 2018 there were no transfers between Level 1 and Level 3 fair value measurements, and no transfers into or out of Level 2 fair value measurement.

Level 3 equity securities are valued on the basis of fair valuation provided by investment managers.

26. Fiduciary activities

These activities consist of investment management activities conducted under Wakalah agreements (Non-Discretionary) with the customers. The aggregate amounts of funds managed are as follows:

2018	2019		2019	2018
US\$'000	US\$'000		RO'000	RO'000
<u>37,205</u>	<u>53,200</u>	Funds under management	<u>20,482</u>	<u>14,324</u>

27. Comparative figures

Certain corresponding figures for 2018 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and do not affect previously reported net income or owners' equity.

Notes

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The background of the page is white with horizontal dotted lines. There are two diagonal gray bands crossing the page from the top-left to the bottom-right. The bands are semi-transparent and overlap each other and the dotted lines.

Notes

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