BANK DHOFAR SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2019

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2019

Dear Shareholders,

At the outset, on behalf of the Board of Directors of Bank Dhofar, we would like to express our sincerest congratulations and best wishes to His Majesty Sultan Haitham Bin Tariq of good health, happiness and success and leading the Omani people towards further progress and prosperity.

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2019.

Financial overview in year 2019

In the midst of current challenging economic and financial situation driven by volatile oil prices and rising interest rates in the local market, the bank reported a net profit of OMR 30.24 million (USD 78.55 million) for the year-to-date (YTD) 31st December 2019 compared to RO 50.28 million (USD 130.60 million) achieved during similar period of last year, a year-on-year decline of 39.86%. This decline is resulting from increase in net provisions by OMR 15.74 million (USD 40.88 million) from classification of certain large exposures (reflecting the current economic environment). Bank's Islamic Banking Window, Maisarah Islamic Banking Services reports strong Profits before tax growth of 17.36% reaching RO 6.98 million (USD 18.13 million) in 2019 compared to RO 5.94 million (USD 15.43 million) in 2018. Total assets of the Bank reached RO 4.33 billion (USD 11.25 billion) in December 2019 as compared to RO 4.21 billion (USD 10.94 billion) at end of 2018, 2.85% increase. The Net Loans, Advances and Financing to customers reached RO 3.06 billion (USD 7.95 billion) at December 2019, compared to RO 3.16 billion (USD 8.21 billion) at the end of 2018, 3.16% decline year-on-year, continuing the cautious approach on increasing the loan and financing book and focusing on credit quality. Customer deposits, including Islamic deposits increased by 0.68% from RO 2.92 billion (USD 7.58 billion) at the end of 2018 to reach RO 2.94 billion (USD 7.64 billion) at the end of 2019.

The Net Interest Income and income from Islamic Financing activities earned were RO 94.83 million (USD 246.31 million) for the year 2019 as compared to RO 97.43 million (USD 253.06 million) during 2018, a decrease of 2.67%. However, Non-funded income increased by 2.03% year-on-year reaching RO 35.13 million (USD 91.25 million) in 2019 as against RO 34.43 million (USD 89.43 million) for 2018. The total operating income is RO 129.96 million (USD 337.56 million) for the year 2019 as compared to RO 131.85 million (USD 342.47 million) for the year 2018, year-on-year decrease of 1.43%.

Total Operating Expenses increased to RO 71.47 million (USD 185.64 million) for the year 2019 as compared to RO 65.46 million (USD 170.03 million) for the year 2018, 9.18%. This resulted in increase of the cost to income ratio to 55% in 2019 from 50% in 2018.

Net provisions (Expected Credit Loss 'ECL') increased by OMR 15.74 million (USD 40.88 million) from RO 6.65 million reported in 2018 to RO 22.39 million for the year 2019, this includes classification of certain large exposures (reflecting the current economic environment), as stated above. Correspondingly, gross NPL (Non-performing loans) increased to 4.67% as at 31st December 2019 from 3.68% as at 31st December 2018. Net NPL, net of interest reserve is 3.91% at 31 December 2019 vs. 1.99% at 31 December 2018; Net NPL, net of interest reserve and ECL provision is 2.14% as at 31 December 2019 compared to 0.74% at 31 December 2018. NPL is based on funded non-performing exposure over total funded exposure.

Maisarah- Islamic Banking Services

Bank's Islamic Banking Window, Maisarah Islamic Banking Services has achieved a remarkable growth in profitability during 2019. For the year 2019, Maisarah Islamic Banking Services posted a profit before tax of RO 6.97 million (USD

18.10 million) compared to RO 5.94 million (USD 15.43 million) earned in 2018, reflecting strong 17.34%, year-on-year growth.

Maisarah key financial metrics showed significant growth compared to the previous year. The gross income from Financing, Placement and Investment increased by 11.66% to RO 26.24 million (USD 68.16 million) in 2019 from RO 23.50 million (USD 61.04 million) reported in 2018. The net financing income (after cost of funds) increased by 8.47%, to RO 12.42 million (USD 32.26 million) for 2019 as compared to RO 11.45 million (USD 29.74 million) reported in 2018. Non-Funded income increased significantly by 41.67% to RO 2.38 million (USD 6.18 million) in 2019 from RO 1.68 million (USD 4.36 million) in 2018. Cost to income ratio continue to improve and reduced to 47.92% for 2019 from 50.83% last year. Maisarah net provisions (ECL including bad debts) for 2019 is RO 0.737 million compared to RO 0.516 million for 2018, an increase of 42.83%

Maisarah gross financing portfolio has grown 12.44% to RO 451.44 million (USD 1.17 billion) at 31 December 2019 from RO 401.49 million (USD 1.04 billion) at 31 December 2018. The Sukuk investment portfolio increased by 48.28% from RO 42.15 million (USD 109.48 million) as at 31 December 2018 to RO 62.50 million (USD 162.34 million) as at 31 December 2019.

The total customer deposits of Maisarah increased to RO 405.22 million (USD 1.05 billion), registering a growth of 14.67% compared to OMR 353.39 million (USD 0.92 billion) at 31 December 2018, to support the strong financing growth. Maisharah total assets increased by 14.15% to OMR 584.93 million (USD 1.52 billion) at December 2019 from OMR 512.43 million (USD 1.33 billion) at 31 December 2018.

Funding and Capital Raising initiatives

In continuation of its capital augmentation to strengthen the capital base, the Bank has approved the issue of, subject to Regulatory approval, Tier 1 Capital instrument (Additional Tier 1 perpetual bonds (AT-1)) in an indicative amount of USD 300 Million or equivalent in OMR 115.5 Million for the next five years to be listed Euronext Dublin or in the Muscat Securities Market. Country's debut issuance of AT-1 Bond in the international market in May 2015 is coming up for first call date in May 2020.

Bank's Core Equity Tier-1 (CET-1) Ratio has strengthened and increased from 11.88% at 31 December 2018 to 12.59% as at 31 December 2019; Tier 1 is at 16.40% 31 December 2019 vs. 15.52% last year; total capital adequacy ratio (CAR) is 17.86% at 31 December 2019 vs. 17.33% last year. The Regulatory minimum requirements are a) 9.5% CET-1, 11.5% Tier 1 and 13.5% CAR as at 31 December 2019.

Top Management Changes

As part of Bank's long term strategy, the following senior management changes took place during the year 2019:

In the Annual General Meeting of shareholders held on 27 March 2019 following members are elected to the new Board for a term of three years:

- Sheikh Tariq Salim Al Mashani
- Sheikh Khalid Said Al Wahaibi

- Appointments of banks top team management
  - Dr Tariq Taha is appointed as Deputy General Manager and Chief Digital Banking and information officer in July 2019.
  - Appointment of Mr. Ali Al-Alawi as Assistant General Manager & Head of Compliance in May 2019.

- Resignation of top team management:

Resignation of DGM and Chief Risk Officer Mr Jose in August 2019 and currently the Risk management division is headed by Mr Praveen Bokolia as Acting Head of Risk.

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2019.

In compliance with Article (197) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2019 as sitting fees was RO 84,800 and the proposed remuneration & sitting fees is RO 115,200 complying with total cap of RO 200,000.

Distributed &Proposed Dividends

The Board of Directors in their meeting held on 28th January 2020 proposed a total cash dividend of 7% (RO 20.98 million) for the year 2019 (2018: 10%, RO 28 million), made up of a) 3% (amounting to RO 8.99 million) from the Retained Earnings and b) 4% (amounting to RO 11.99 million) from the Special Reserve Account and nil bonus shares issue for year 2019 (2018: 7%). (2018: 196,022,991 shares) of RO 0.100 each, subject to the approval of Central Bank of Oman and shareholders.

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2014	2015	2016	2017	2018
Cash Dividends	5%	15%	13.5%	12%	10%
Bonus Shares	15%	10%	7.5%	8%	7%

Corporate Social Responsibility (CSR) Initiatives

During the year 2019 Bank Dhofar continued to focus on supporting the community contributed RO 19,300 as Bank's support to the citizens to various campaigns including various social programs and other CSR initiatives. In 2018, the board of directors donated OMR 1 Million in Dhofar and Wusta governorates to support the repair and restoration efforts for the damages caused by Cyclone Mekunu that hit southern part of Oman.

Awards and Accolades during 2019

Bank Dhofar won the following rewards during the year 2019 and those awards are testimony to the continued efforts put in by the Bank:

- Best Corporate Advisory - Oman 2019" award by Global Business Awards
- Best Islamic bank in Oman - Maisarah Islamic Banking Services at the Middle East Banking Awards 2018 (EMEA Finance)
- Best Customer Experience Transformation Strategy Award – by Customer Experience - Middle East Awards 2019
- Customer Delight Awards by MENAA Awards - 2018
- Best CEO in GCC's Banking Industry by Business Worldwide 2018 Global Corporate Excellence Awards
- Corporate & Investment Bank of the Year – Oman by the ABF Corporate & Investment Banking Awards 2019
- Equity Deal of the Year – Oman by the ABF Corporate & Investment Banking Awards 2019
- Best Mobile Banking Application Oman 2019 by Global Banking & Finance Review Awards
- Excellence Award for CSR initiatives and programs by the Arab Organization for Social Responsibility

The Year Ahead (2020)

The Financial Year 2020 Oman budget represents the final year of the Ninth Five-Year Development Plan (2016-2020) and paves the way for the Tenth Five-Year Development Plan (2021-2025) which underpin the Oman Vision 2040 development objectives. The budget sets a prudent and measured tone in both its revenue and expenditure projections with a resultant deficit of OMR 2.5 billion. Revenue is budgeted to increase by 6% to OMR 10.7 billion (cf.

FY19 OMR 10.1 billion), with oil & gas revenue representing c.72% (OMR 7.7 billion). The FY20 revenue forecast assumes a precautionary average oil price of $58 per barrel, which was also used as the basis for the FY19 budget, despite the fact that actual realized oil price in FY19 was $65 per barrel. Expenditure is budgeted to increase by 2% to OMR 13.2 billion (cf. FY19 OMR 12.9 billion), with a commitment to complete a number of strategic infrastructure projects to help incentivize economic growth. There is continued focus on the need to enhance the contribution of non-oil revenue, and the budget includes allocations for the five sectors identified by the National Program for Enhancing Economic Diversification (Tanfeedh): manufacturing, logistics, tourism, fisheries and mining. The Government acknowledges that revenues from these sectors depend significantly on private sector investment, and is committed to improving the business environment to facilitate this. In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure and with the aim of bringing improved efficiency and cost savings. GDP grew by 2% in 2019 and is expected to grow by 3% in 2020. Inflation for the period January to November 2019 stood at 2% and is expected to remain low during 2020.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and Chairman, members of Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their efforts and contributions in the year 2019.

The Board of Directors also wishes to thank the Central Bank of Oman the Capital Market Authority for its valuable guidance to the local banking sector.

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2019 RO'000	2018 RO'000
Assets			
Cash and balances with Central Bank of Oman	*5*	**300,405**	301,505
Investment securities	*8*	**378,551**	304,332
Loans, advances and financing to banks	*6*	**471,158**	329,059
Loans, advances and financing to customers (conventional)	*7*	**2,617,345**	2,761,760
Islamic financing receivables	*7*	**446,005**	397,084
Other assets	*11*	**92,812**	104,039
Intangible asset	*9*	**397**	794
Property and equipment	*10*	**19,172**	14,917
Total assets		**4,325,845**	4,213,490
Liabilities and equity			
Liabilities			
Due to banks	*12*	**490,179**	368,983
Deposits from customers (conventional)	*13*	**2,537,967**	2,571,119
Islamic customers deposits	*13*	**405,221**	353,385
Other liabilities	*14*	**131,093**	144,156
Tax Liabilities	*24 (e)*	**11,355**	13,810
Subordinated loans	*15*	**63,875**	63,875
Total liabilities		**3,639,690**	3,515,328
Equity			
Shareholders' equity			
Share capital	*16(a)*	**299,635**	280,033
Share premium	*17*	**95,656**	95,656
Legal reserve	*18(a)*	**58,966**	55,878
Special reserve	*18(d)*	**18,488**	18,488
Special reserve for restructured loans	*18(e)*	**1,281**	1,281
Special Impairment reserve	*18(f)*	**4,654**	4,562
Special revaluation reserve – Investment	*18(g)*	**(709)**	(709)
Subordinated loan reserve	*18(b)*	**42,875**	30,100
Investment revaluation reserve	*18(c)*	**(627)**	(1,789)
Retained earnings	*19*	**10,436**	59,162
Total equity attributable to the equity holders of the Bank		**530,655**	542,662
Perpetual Tier 1 capital securities	*16 (b)*	**155,500**	155,500
Total equity		**686,155**	698,162
Total liabilities and equity		**4,325,845**	4,213,490
Net assets per share (Rial Omani)	*20*	**0.177**	0.194
Contingent liabilities and commitments	*28*	**810,930**	1,010,814

The financial statements including notes and other explanatory information on pages 12 to 100 were approved and authorised for issue by the Board of Directors on 28 January 2020 and were signed on their behalf by:

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Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

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BANK DHOFAR SAOG

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2019 RO'000	2018 RO'000
Interest income	21	**170,134**	174,766
Interest expense	22	**(85,485)**	(86,848)
Net interest income		**84,649**	87,918
Income from Islamic financing / Investments	21	**24,004**	21,556
Unrestricted investment account holders' share of profit and profit expense	22	**(13,822)**	(12,047)
Net income from Islamic financing and investment activities		**10,182**	9,509
Fees and commission income		**18,398**	20,603
Fees and commission expense		**(4,171)**	(4,999)
Net fees and commission income	29	**14,227**	15,604
Other operating income	22	**20,906**	18,822
Operating income		**129,964**	131,853
Staff and administrative costs	23	**(65,778)**	(61,788)
Depreciation	10	**(5,696)**	(3,668)
Operating expenses		**(71,474)**	(65,456)
Net impairment losses on financial assets	7	**(22,394)**	(6,650)
Bad debts written-off		**(4)**	(4)
Profit before taxation		**36,092**	59,743
Income tax expense	24	**(5,848)**	(9,462)
Profit for the year		**30,244**	50,281
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Movement in fair value reserve (FVOCI equity instrument)	18(d)	**(482)**	(759)
Items that are or may be reclassified to profit or loss in subsequent periods:			
Movement in fair value reserves			
- FVOCI debt instruments	18(d)	**1,644**	(1,537)
Other comprehensive income / (loss) for the year		**1,162**	(2,296)
Total comprehensive income for the year		**31,406**	47,985
Earnings per share (basic and diluted) (Rial Omani)	25	**0.006**	0.016

The notes on pages 12 to 100 are an integral part of these financial statements.
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BANK DHOFAR SAOG

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balance at 1 January 2019		**280,033**	**95,656**	**55,878**	**18,488**	**1,281**	**4,562**	**(709)**	**30,100**	**(1,789)**	**59,162**	**542,662**	**155,500**	**698,162**
Profit for the year		-	-	-	-	-	-	-	-	-	**30,244**	**30,244**	-	**30,244**
Other comprehensive income for the year:														
Net changes in fair value reserve														
- FVOCI equity instrument	*18(c)*	-	-	-	-	-	-	-	-	**(482)**	-	**(482)**	-	**(482)**
- FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	**1,644**	-	**1,644**	-	**1,644**
Total comprehensive income for the year		-	-	-	-	-	-	-	-	**1,162**	**30,244**	**31,406**	-	**31,406**
Reversal of special impairment reserve to IFRS 9 provision (Net Tax)	*18(f)*	-	-	-	-	-	**(4,562)**	-	-	-	-	**(4,562)**	-	**(4,562)**
Transfer to special impairment reserve IFRS 9	*18(f)*	-	-	-	-	-	**4,654**	-	-	-	**(4,654)**	-	-	-
Transfer to legal reserve	*18(a)*	-	-	**3,024**	-	-	-	-	-	-	**(3,024)**	-	-	-
Excess of receipts over right issue expenses	*18(a)*	-	-	**64**	-	-	-	-	-	-	-	**64**	-	**64**
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	**12,775**	-	**(12,775)**	-	-	-
Transfer to sub-loan reserve	*18(b)*	-	-	-	-	-	-	-	-	-	-	-	-	-
Perpetual Tier 1 capital securities:														
- Proceeds from issuance		-	-	-	-	-	-	-	-	-	-	-	-	-
- Issuance cost		-	-	-	-	-	-	-	-	-	-	-	-	-
- Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	**(10,912)**	**(10,912)**	-	**(10,912)**
Transactions with owners recorded directly in equity														
Issue of right shares		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	*35*	-	-	-	-	-	-	-	-	-	**(28,003)**	**(28,003)**	-	**(28,003)**
Bonus shares issued	*35*	**19,602**	-	-	-	-	-	-	-	-	**(19,602)**	-	-	-
Balances as at 31 December 2019		**299,635**	**95,656**	**58,966**	**18,488**	**1,281**	**4,654**	**(709)**	**42,875**	**(627)**	**10,436**	**530,655**	**155,500**	**686,155**

The notes on pages 12 to 100 are an integral part of these financial statements.

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BANK DHOFAR SAOG

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2018		**225,786**	**77,564**	**50,254**	**18,488**	**1,281**	**-**	**-**	**42,325**	**507**	**55,302**	**471,507**	**115,500**	**587,007**
Adjustment on initial application of IFRS 9, net of tax	*2.7*	**-**	**-**	**-**	**-**	**-**	**3,527**	**(709)**	**-**	**-**	**709**	**3,527**	**-**	**3,527**
Restated balance on 1 January 2018		**225,786**	**77,564**	**50,254**	**18,488**	**1,281**	**3,527**	**(709)**	**42,325**	**507**	**56,011**	**475,034**	**115,500**	**590,534**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,281**	**50,281**	**-**	**50,281**
Other comprehensive income for the year:														
Net changes in fair value reserve														
- FVOCI equity instrument	*18(c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(759)**	**-**	**(759)**	**-**	**(759)**
- FVOCI debt instruments	*18(c)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,537)**	**-**	**(1,537)**	**-**	**(1,537)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,296)**	**50,281**	**47,985**	**-**	**47,985**
Transfer to special impairment reserve IFRS 9	*18(f)*	**-**	**-**	**-**	**-**	**-**	**1,035**	**-**	**-**	**-**	**(1,035)**	**-**	**-**	**-**
Transfer to legal reserve	*18(a)*	**-**	**-**	**5,028**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,028)**	**-**	**-**	**-**
Excess of receipts over right issue expenses	*18(a)*	**-**	**-**	**596**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**596**	**-**	**596**
Transfer to subordinated loan reserve		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,775**	**-**	**(12,775)**	**-**	**-**	**-**
Transfer to retained earnings	*18(b)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,000)**	**-**	**25,000**	**-**	**-**	**-**
Perpetual Tier 1 capital securities:														
- Proceeds from issuance		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,000**	**40,000**
- Issuance cost		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(223)**	**(223)**	**-**	**(223)**
- Payment towards perpetual additional Tier 1 coupon		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,912)**	**(7,912)**	**-**	**(7,912)**
Transactions with owners recorded directly in equity														
Issue of right shares		**36,184**	**18,092**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**54,276**	**-**	**54,276**
Dividend for 2017	*35*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,094)**	**(27,094)**	**-**	**(27,094)**
Bonus shares issued for 2017	*35*	**18,063**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,063)**	**-**	**-**	**-**
Balances as at 31 December 2018		**280,033**	**95,656**	**55,878**	**18,488**	**1,281**	**4,562**	**(709)**	**30,100**	**(1,789)**	**59,162**	**542,662**	**155,500**	**698,162**

The notes on pages 12 to 100 are an integral part of these financial statements.

Independent auditor's report - pages 1 to 5

BANK DHOFAR SAOG

STATEMENT OF CASH FLOWS
For the year ended 31 December

	2019	2018
	RO'000	RO'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before taxation	**36,092**	59,743
Adjustment for:		
Depreciation and amortisation	**6,093**	4,065
Net impairment on financial asset	**22,398**	6,650
Dividend Income	**(289)**	(286)
End of service benefits provision for the year	**299**	332
Gain on disposal of property and equipment	**(6)**	(46)
Interest Expense on Subordinated Loans	**3,578**	3,634
(Gain) / loss on sale of investments	**(155)**	299
Operating profit before working capital changes	**68,010**	74,391
Change in working capital:		
Due to banks	**121,351**	(18,641)
Due from banks	**(129,175)**	8,609
Loans & advances and financing	**68,905**	87,529
Other assets	**11,258**	(33,521)
Customer deposits	**18,684**	(143,905)
Other liabilities	**(13,147)**	39,623
Cash generated from operations before tax and end of service benefits	**145,886**	14,085
Taxes paid	**(7,681)**	(7,357)
End of service benefits paid	**(215)**	(360)
Net cash generated from operating activities	**137,990**	6,368
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(10,163)**	(9,061)
Dividends received from investment securities	**289**	286
Purchase of investments	**(229,921)**	(247,053)
Proceeds from sale/maturities of investments	**155,579**	230,981
Proceeds from sale of property and equipment	**218**	46
Net cash used in investing activities	**(83,998)**	(24,801)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) of subordinated loans	-	(25,000)
Dividend paid	**(28,003)**	(27,094)
Proceeds from Tier 1 perpetual subordinated bond	-	40,000
Perpetual Tier 1 capital securities issuance cost	-	(223)
Proceeds from rights issue of share capital, net of expense	-	54,872
Interest on Tier 1 perpetual subordinated bond	**(10,912)**	(7,912)
Interest expense on subordinated loans	**(3,578)**	(3,634)
Excess of Rights Issue Receipt	**64**	-
Net cash (used in) /generated from financing activities	**(42,429)**	31,009
NET CHANGE IN CASH AND CASH EQUIVALENTS	**11,563**	12,576
Cash and cash equivalents at 1 January	**427,455**	414,879
Cash and cash equivalents at 31 December	**439,018**	427,455
Cash and cash equivalent comprises of:		
Cash and balances with Central Bank of Oman	**300,405**	301,505
Capital deposit with Central Bank of Oman	**(500)**	(500)
Due from banks	**139,425**	126,917
Due to banks	**(312)**	(467)
	439,018	427,455

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

Reconciliation of liabilities and equity arising from financing activities:

	December 2019 RO'000	December 2018 RO'000
Subordinated loan		
Balance at beginning of the period	**63,875**	88,875
Cash flows	**-**	(25,000)
Balance at end of the period	**63,875**	63,875
Retained earnings		
Balance at beginning of the period	**59,162**	55,302
Changes on initial application of IFRS 9	**-**	709
Profit for the year	**30,244**	50,281
Transfer to legal reserve	**(3,024)**	(5,028)
Transfer to subordinate reserve	**(12,775)**	(12,775)
Transfer from subordinated loans to retained earning	**-**	25,000
Additional Tier 1 coupon	**(10,912)**	(7,912)
Perpetual tier 1 capital securities issuance cost	**-**	(223)
Transfer to special reserve (IFRS 9)	**(4,654)**	(1,035)
Bonus shares issued	**(19,602)**	(18,063)
Dividend transfer	**(28,003)**	(27,094)
Balance at end of the period	**10,436**	59,162

Non cash Transaction

The principal non-cash transactions for the year ended 31 December 2019 consist mainly of the following:

- Impact of the application of IFRS 16 amounting to RO 2.03 million that has been charged to right-of-use assets (note 3).
- Impact of bonus shares issued for 2018 amounting to RO 19.60 million that has been deducted from retained earnings (note 14).

The notes on pages 12 to 100 are an integral part of these financial statements.
Independent auditor's report - pages 1 to 5

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, "Maisarah Islamic Banking services" has an allocated capital of RO 55 million from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Securities Market ("MSM"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Irish Stock Exchange ('ISE") and Muscat Securities Market ("MSM"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended, the disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman ("CBO").

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

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI).

This is the first set of the Bank's annual financial statements in which IFRS 16 "Leases" have been applied. The statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Bank's operations.

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani ("RO"), which is the Bank's functional (currency of primary economic environment in which the Bank operates) and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.4 Use of estimates and judgements

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

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

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

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations to IFRS effective in 2019 and relevant for the Bank's operation.

For the year ended 31 December 2019, the Bank has adopted applicable all 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 Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments
- Definition of Material - Amendments to IAS 1 and IAS 8.

Bank also elected to adopt the following amendments early:

- Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7

The Bank had to change its accounting policies as a result of adopting IFRS 16. The Bank elected to adopt the new rules but has not restated comparatives for the 2018 reporting period. This is disclosed in note 2.7. 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.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2019:

There are no relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2019 that would be expected to have a material impact on the financial statements of the Bank.

2.7 Changes in accounting policies

A. IFRS 16 Leases

The Bank has adopted IFRS 16 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 statement of financial position on 1 January 2019. The new accounting policies are disclosed in note 36.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Bank recognized 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 5.5%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- 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
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 BASIS OF PREPARATION (continued)

2.7 Changes in accounting policies (continued)

A. IFRS 16 Leases (continued)

The Bank 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 Bank relied on its assessment made by applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	Consolidated 2019 (RO'000)
Operating Lease Commitments as at 31 December 2018	3,783
Discounted lease commitments at the date of initial application	2,341
(Less): short-term leases not recognized as a liability	(1,018)
Lease liability recognized as at 1 January 2019	**1,323**
Of which are :	
Current lease liabilities	342
Non-current lease liabilities	981
	1,323

(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 balance sheet 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 2,535 thousands
- Prepayment - decrease by RO 1,212 thousands
- Lease liabilities - increase by RO 1,323 thousands

There was no impact on opening retained earnings.

B. *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 Bank has Loans and Advances and Due from Banks , Due to Banks, Perpetual Tier I capital securities, Interest rate swaps, which are exposed to the impact of LIBOR.

2 BASIS OF PREPARATION (continued)

2.7 Changes in accounting policies (continued)

B. Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 (continued)

The Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency using the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3.2.2 Classification

(a) Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Classification (continued)

(a) Financial assets (continued)

Financial assets measured at amortised cost

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 business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income

i) Debt Instruments

Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- 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.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

ii) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. It is initially recognised at fair value with transaction costs recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss.

Business model assessment

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

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

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

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

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

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

Modifications of financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL) to Stage 2 (Lifetime ECL) or Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets.

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as impairment as described in note 3.3. The Bank has issued no loan commitment that are measured at FVTPL. Impairment arising from financial guarantee and loan commitments are included within impairment allowance under other liabilities in statement of financial position.

Loans & advances and financing receivables

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for impairment losses which are recognised in the statement of profit or loss.

3.2.3 Recognition

The Bank initially recognises loans, advances and financing to customers, deposits from customers, 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 Bank becomes a party to the contractual provisions of the instrument.

3.2.4 De-recognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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 de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.2.5 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognized. Where a modification does not result in de-recognition, the date of origination continues to be used to determine significant increase in credit risk (SICR). Where a modification results in de-recognition, the new financial asset is recognized at its fair value on the modification date. The modification date is also the date of origination for this new asset.

The Bank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets modifications of the contractual terms may result in de-recognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorized amount, term, or type of underlying collateral. The original loan is derecognized and the new loan is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized in the statement of profit or loss.

For all loans, performing and credit-impaired, where the modification of terms did not result in the de-recognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the statement of profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.6 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.7 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.

3.2.8 Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 31.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank.

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

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

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

3.2.9 Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Bank designates certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.3 Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with banks
- Due from banks
- Debt investment securities
- Loans, advances & financings to customers
- Loan commitment
- Financial guarantee

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

- Other assets (acceptances and interest receivables)

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

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

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons. While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguish between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank's own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

(a) 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 Bank expects to receive); and
- 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.

However for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: at the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(b) 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 de-recognition 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 de-recognition 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 de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

(c) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(c) Credit-impaired financial assets *(continued)*

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. Credit impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data regarding the following events:

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is an evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (refer note 3.3 (g)) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(d) *Forward-looking information*

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

(e) Macroeconomic factors

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(f) Assessment of significant increase in credit risk

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

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

(g) Definition of default

The Bank considers a financial asset to be in default when:

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

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

Overdrafts are considered as being in default if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where there are not enough credits in the account to cover the interest charged or unauthorized drawings have frequently been allowed.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(h) Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortized cost: as a reduction from the gross carrying amount of the financial assets;
- 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; and
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as an impairment allowance on off-balance sheet items on other liabilities.

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; and
- industry.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

(i) Write-off

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the financing impairment account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss. The policy on write off's remains unchanged.

The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Impairment *(continued)*

(j) ***Hedge accounting***

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management objectives and strategy with more qualitative approach to assess hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The types of hedge accounting relationships that the Bank currently designates meet the requirements of IFRS 9 and are aligned with the Bank's risk management strategy and objective.

Based on the Bank's assessment, there is no impact from the adoption of new standard on hedge accounting.

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balance with CBO, balances with Bank, treasury bills, money market placements and deposits with original maturity of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.5 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks includes nostro balances, placements and loans to banks.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 Property and equipment

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.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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 proceeds with the carrying amount and are recognised within 'Other income' in the statement of profit or loss.

Repairs and renewals are charged to the statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of profit or loss as an expense as incurred.

3.7 Collateral pending sale

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

3.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.9 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest rate (EIR).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 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 or in other comprehensive income.

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/liabilities 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.

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase 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 re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to 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 financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.14 Derivative financial instruments and hedging activities

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

- 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).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Derivative financial instruments and hedging activities *(continued)*

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

- 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).

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the profit or loss in the period in which the hedged transaction impacts the profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss.

The Bank does not have any derivatives designated as hedging instruments.

3.15 Leases

As explained in note 2.7, the Bank has changed its accounting policy for leases where the Bank is the lessee. The new policy is described in note 36 and the impact of the change in note 2.7.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Bank as lessee were classified as operating leases (note 18). 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.

3.16 Employee benefits

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

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

The Bank'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.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of profit or loss the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.18 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 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 rate 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. 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, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.19 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the regulators and 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 reporting date.

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

I. Interest income and expense

Interest income and expense is recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

I. Interest income and expense *(continued)*

Interest income and expense presented in the statement of comprehensive income include:
(i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
(ii) Interest on debt investment securities on an effective interest rate basis.

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

II. Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

3.22 Dividends

Dividend income is recognised in the statement of profit or loss in ‘Other income’, when the Bank’s right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank 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.

3.24 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank’s primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank’s chief operating decision maker (CODM). The Bank’s main business segments are corporate, retail banking, Treasury and Investment. Segmental information pertaining to Islamic Banking Window is also disclosed in note 34.

3.25 Earnings per share

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IFRS 9: Financial Instruments. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Impairment of Loans and Advances

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. 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 Bank and the relevant tax authority.

4.3 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Euronext Dublin (formerly trading as Irish Stock Exchange) and Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINT *(continued)*

4.3 Classification of the Equity Tier 1 instrument under IAS 32 *(continued)*

The determination of equity classification of these instruments requires significant judgement as certain Clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event.. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.4 Determination of lease term under IFRS 16

In determining the lease term, the Bank 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 Bank 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 Bank 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 Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

4.5 Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

5. Cash and balances with Central Bank of Oman

	2019	2018
	RO'000	RO'000
Cash in hand	**31,223**	31,422
Balances with the Central Bank of Oman	**171,007**	126,863
Placements with Central Bank of Oman	**98,175**	143,220
	300,405	301,505

Balances with CBO includes capital deposit of RO 500,000 (2018: RO 500,000). This is not available for day to day operations of the Bank and cannot be withdrawn without the Central Bank of Oman approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves is RO 85.77 million (2018: RO 92.49 million)

6. Loans, advances and financing to banks
At Amortised Cost

	2019	2018
	RO'000	RO'000
Syndicated loans to other banks	**86,662**	81,104
Placements with other banks	**343,997**	230,060
Current clearing accounts	**41,752**	18,732
	472,411	329,896
Less: impairment allowance	**(1,253)**	(837)
	471,158	329,059

At 31 December 2019, No placement with any bank individually represented 20% or more of the Bank's placements (2018: One local bank - 30.3%).

Movement of the impairment allowance is analysed below:

	2019	2018
	RO'000	RO'000
Opening balance as on 1 January	**837**	409
IFRS 9 transition impact	**-**	495
Charge for the year	**416**	
Less: Reversal during the year	**-**	(67)
Closing balance as on 31 December	**1,253**	837

7. Loans, advances and financing to customers – Conventional Banking

	2019	2018
(a) Conventional Banking	**RO'000**	RO'000
Loans	**2,425,730**	2,547,049
Overdrafts	**137,827**	165,880
Loans against trust receipts	**109,865**	99,393
Bills discounted	**46,898**	70,969
Advance against credit cards	**9,450**	8,921
Gross loans, advances and financing to customers	**2,729,770**	2,892,212
Less: Impairment allowance including reserved interest	**(112,425)**	(130,452)
Net Loans, advances and financing to customers	**2,617,345**	2,761,760

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

(b) Islamic Banking Window Financing

	2019	2018
	RO'000	RO'000
Housing finance	**162,731**	158,610
Corporate finance	**276,851**	232,301
Consumer finance	**12,245**	10,822
	451,827	401,733
Less: Impairment allowance	**(5,822)**	(4,649)
Net financing to customers	**446,005**	397,084

Impairment allowance includes the amount of profit reserve of RO 392 thousand and RO 249 thousand for 2019 and 2018 respectively.

(c) The movement in the impairment allowance is analysed below:

i. Allowance for loan impairment (conventional and Islamic)

	2019	2018
	RO,000	RO,000
1 January	**79,308**	90,740
IFRS 9 transition impact,	**-**	(16,370)
Reversal of special impairment reserve to IFRS 9 provision	**5,185**	-
Allowance for the year	**30,151**	11,320
Released to profit or loss during the year	**(7,996)**	(6,354)
Written off during the year	**(12,570)**	(28)
31 December	**94,078**	79,308

ii. Reserved interest

	2019	2018
1 January	**55,793**	47,212
Reserved during the year	**12,519**	10,146
Recoveries to profit or loss during the year	**(1,623)**	(1,398)
Written-off during the year	**(42,520)**	(167)
31 December	**24,169**	55,793
Total impairment allowance	**118,247**	135,101

As of 31 December 2019, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 6.86 million (2018: RO 3.13 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

In 2019, the Bank has written off RO 51.78 million which includes RO 12.51 million of principal amount and RO 39.36 million of reserve interest (2018 - Nil) as technical write off.

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

(c) The movement in the impairment allowance is analysed below *(continued)***:**

In accordance with CBO requirements, where the aggregate provision on portfolio & specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

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

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

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

At 31 December 2019

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	2,211,386	27,109	11,586	15,523	2,184,277	2,199,800	-	-
Standard	Stage 2	581,389	7,668	8,281	(613)	573,721	573,108	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,792,775	34,777	19,867	14,910	2,757,998	2,772,908	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		240,240	5,194	17,776	(12,582)	235,046	222,464	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
Subtotal		19,899	5,245	8,723	(3,478)	13,905	11,176	-	749
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
Subtotal		57,340	24,413	18,313	6,100	29,579	39,027	-	3,348
	Stage 1	-	-	-	-	-	-		
Loss	Stage 2	-	-	-	-	-	-		
	Stage 3	71,343	43,227	29,399	13,828	8,044	41,944		20,072
Subtotal		71,343	43,227	29,399	13,828	8,044	41,944	-	20,072
Total loans and advances		3,181,597	112,856	94,078	18,778	3,044,572	3,087,519	-	24,169
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,722,430	428	5,909	(5,481)	1,722,002	1,716,521	-	-
	Stage 2	423,510	-	8,643	(8,643)	423,510	414,867	-	-
	Stage 3	2,452	-	-	-	2,452	2,452	-	-
Subtotal		2,148,392	428	14,552	(14,124)	2,147,964	2,133,840	-	-
Total (31st December 2019)	Stage 1	3,933,816	27,537	17,495	10,042	3,906,279	3,916,321	-	-
	Stage 2	1,245,139	12,862	34,700	(21,838)	1,232,277	1,210,439	-	-
	Stage 3	151,034	72,885	56,435	16,450	53,980	94,599	-	24,169
	Total	5,329,989	113,284	108,630	4,654	5,192,536	5,221,359	-	24,169

* Net of provision and reserve interest as per CBO norms.

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

(c) Allowance for loan impairment (conventional and Islamic) *(continued)*

iv. Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

At 31 December 2018

RO'000

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

* Net of provision and reserve interest as per CBO norms

(d) Restructured Loans

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

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

(d) Restructured Loans *(continued)*

iv. Comparison of provision held as per IFRS 9 and required as per CBO norms *(continued)*

At 31 December 2019

RO'000

Asset Classification as per CBO Norms 31st December 2019	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**38,013**	**449**	**2,649**	**(2,200)**	**37,564**	**35,364**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
Sub total		**4,760**	**2,953**	**1,881**	**1,072**	**704**	**2,879**	**-**	**1,103**
Total (31st December 2019)	**Stage 1**	5,941	56	14	42	5,885	5,927	-	-
	Stage 2	32,072	393	2,635	(2,242)	31,679	29,437	-	-
	Stage 3	4,760	2,953	1,881	1,072	704	2,879	-	1,103
	Total	**42,773**	**3,402**	**4,530**	**(1,128)**	**38,268**	**38,243**	**-**	**1,103**

* Net of provision and reserve interest as per CBO norms

At 31 December 2018

RO'000

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

* Net of provision and reserve interest as per CBO norms

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

(d) Restructured Loans *(continued)*

v. Impairment charge and provisions held 2019

	As per CBO Norms RO'000	**As per IFRS 9 RO'000**	**Difference RO'000**
Impairment loss charged to profit and loss account (net of recoveries)	-	22,394	(22,394)
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	113,284	108,630	4,654
Gross NPL ratio	4.67%	4.67%	-
Net NPL ratio	1.62%	2.14%	(0.52%)

Gross NPL (Non-performing Loans) is 4.67% and Net NPL is 2.14% based on funded non-performing exposure over funded exposure (Net NPL exclude interest reserve and ECL Provision).

Note 1 : Excluding Interest Reserve of RO 24,169 thousand.

V(a) Special impairment reserve

During 2019 certain adjustments were made including transfer from retained earnings resulting in 31 December 2019 balance amounts to RO 4,654 thousand under the special impairment reserve as per IFRS 9 representing the difference of provisions required as per CBO – BM977 of RO 113,284 thousand and provisions held as per IFRS 9 of RO 108,630 thousands.

Impairment charge and provisions held 2018

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

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

Note 1 : Excluding Interest Reserve of RO 55,793 thousand.

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

vi. Financial assets and financial liabilities *(continued)*

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

				RO'000
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central Bank balances	131,583	-	-	131,583
Due from Banks	472,411	-	-	472,411
Sovereign	196,415	-	-	196,415
Investment Securities at amortized cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,545	-	-	60,545
Loans and advances	2,211,386	821,629	148,582	3,181,597
Accrued profit	13,535	4,690	-	18,225
Total funded gross exposure	**3,106,802**	**826,319**	**148,582**	**4,081,703**
Letters of credit/guarantee	524,725	283,753	2,452	810,930
Acceptances	44,675	10,892	-	55,567
Loan commitment / unutilised limits	257,614	124,175	-	381,789
Total non-funded gross exposure	**827,014**	**418,820**	**2,452**	**1,248,286**
Total gross exposure	**3,933,816**	**1,245,139**	**151,034**	**5,329,989**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	1,253	-	-	1,253
Sovereign	-	-	-	-
Investment Securities at amortized cost	-	-	-	-
Investment Securities at FVOCI	186	-	-	186
Loans and advances	11,586	26,057	56,435	94,078
Accrued profit	59	136	-	195
Total funded impairment	**13,084**	**26,193**	**56,435**	**95,712**
Letters of credit/guarantee	2,442	7,297	-	9,739
Acceptances	78	18	-	96
Loan commitment/unutilised limits	1,891	1,192	-	3,083
Total non-funded impairment	**4,411**	**8,507**	**-**	**12,918**
Total impairment	**17,495**	**34,700**	**56,435**	**108,630**
Net exposure				
Central Bank balances	131,583	-	-	131,583
Due from Banks	471,158	-	-	471,158
Sovereign	196,415	-	-	196,415
Investment Securities at amortized Cost	20,927	-	-	20,927
Investment Securities at FVOCI	60,359	-	-	60,359
Loans and advances	2,199,800	795,572	92,147	3,087,519
Accrued Profit	13,476	4,554	-	18,030
Total funded net exposure	**3,093,718**	**800,126**	**92,147**	**3,985,991**
Letter of credit/guarantee	522,283	276,456	2,452	801,191
Acceptances	44,597	10,874	-	55,471
Loan commitment / unutilised limits	255,723	122,983	-	378,706
Total net non-funded exposure	**822,603**	**410,313**	**2,452**	**1,235,368**
Total net exposure	**3,916,321**	**1,210,439**	**94,599**	**5,221,359**

Gross exposure of loans and advances of RO 148,582 thousands under stage 3 includes reserved interest of RO 24,168 thousand. Accordingly, the principal outstanding of RO 65,506 was subject to ECL.

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

vi. Financial assets and financial liabilities *(continued)*

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

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

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

vi. Financial assets and financial liabilities *(continued)*

(d) Classification of financial assets and financial liabilities

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance (Day 1 impact) – as at 1 January 2019				
- Due from banks	837	-	-	837
- Loans and advances to customers	13,350	29,743	41,400	84,493
- Investment securities at FVOCI (Debt)	266	-	-	266
- Loan commitments and financial guarantees	3,258	6,722	-	9,980
- Acceptances	92	35	-	127
- Unutilised	1,343	1,596	-	2,939
- Interest Accrued	61	103	-	164
Total	**19,207**	**38,199**	**41,400**	**98,806**
Net transfer between stages				
- Loans and advances to customers	1,297	(4,726)	3,429	-
- Loan commitments and financial guarantees	(18)	18	-	
- Acceptances	5	(5)	-	-
- Unutilised	(11)	11	-	-
- Interest accrued	-			
Total	**1,273**	**(4,702)**	**3,429**	**-**
Charge for the Period (net)				
- Due from banks	416	-	-	416
- Loans and advances to customers	(3,061)	1,040	24,176	22,155
- Investment securities at FVOCI (Debt)	(80)	-	-	(80)
- Loan commitments and financial guarantees	(798)	557	-	(241)
- Acceptances	(19)	(12)	-	(31)
- Unutilised	559	(415)	-	144
- Interest accrued	(2)	33	-	31
Total	**(2,985)**	**1,203**	**24,176**	**22,394**
Written-off during the year	**-**	**-**	**(12,570)**	**-**
Closing Balance – as at 31 December 2019				
- Due from banks	1,253	-	-	1,253
- Loans and advances to customers	11,586	26,057	56,435	94,078
- Investment securities at FVOCI (Debt)	186	-	-	186
- Loan commitments and financial guarantees	2,442	7,297	-	9,739
- Acceptances	78	18	-	96
- Unutilised	1,891	1,192	-	3,083
- Interest accrued	59	136	-	195
Total net exposure	**17,495**	**34,700**	**56,435**	**108,630**

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

vi. Financial assets and financial liabilities *(continued)*

(d) Classification of financial assets and financial liabilities *(continued)*

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

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

vi. Financial assets and financial liabilities *(continued)*

(e) Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

RO'000

31 December 2019	**Notes**	**FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instrument**	**Amortised cost**	**Total carrying amount**
Cash and balances with CBO	*5*	**-**	**-**	**-**	**300,405**	**300,405**
Loans and advances to banks	*6*	**-**	**-**	**-**	**471,158**	**471,158**
Loans and advances to customers	*7*	**-**	**-**	**-**	**3,063,350**	**3,063,350**
Investment securities	*8*	**4,263**	**3,643**	**70,370**	**300,275**	**378,551**
Other assets	*11*	**1,435**	**-**	**-**	**88,834**	**90,269**
		5,698	**3,643**	**70,370**	**4,224,022**	**4,303,733**
Due to banks	*12*	**-**	**-**	**-**	**490,179**	**490,179**
Deposits from customers	*13*	**-**	**-**	**-**	**2,943,188**	**2,943,188**
Subordinated liabilities	*15*	**-**	**-**	**-**	**63,875**	**63,875**
Other liabilities	*14*	**-**	**-**	**-**	**116,649**	**116,649**
		-	**-**	**-**	**3,613,891**	**3,613,891**

Other assets include RO 1,435 thousand of derivatives financial instruments mandatorily measured at FVPTL.

31 December 2018	Notes	FVTPL	FVOCI – debt instruments	FVOCI – equity instrument	Amortised cost	Total carrying amount
Cash and balances with CBO	*5*	-	-	-	301,505	301,505
Loans and advances to banks	*6*	-	-	-	329,059	329,059
Loans and advances to customers	*7*	-	-	-	3,158,844	3,158,844
Investment securities	*8*	4,140	45,147	4,118	250,927	304,332
Other assets	*11*	642	-	-	99,271	99,913
		4,782	45,147	4,118	4,139,606	4,193,653
Due to banks	*12*	-	-	-	368,893	368,893
Deposits from customers	*13*	-	-	-	2,924,504	2,924,504
Subordinated liabilities	*15*	-	-	-	63,875	63,875
Other liabilities	*14*	-	-	-	129,474	129,474
		-	-	-	3,486,746	3,486,746

Other assets includes RO 642 thousands of derivatives financial instruments mandatorily measured at FVPTL.

8 Investment securities

	2019 RO'000	2018 RO'000
Equity investments:		
Measured at FVTPL	**1,884**	1,882
Measured at FVOCI	**3,643**	4,118
Gross equity investments	**5,527**	6,000
Less: Impairment losses on investments	**-**	-
Net equity investments	**5,527**	6,000
Debt investments:		
Designated at FVTPL	**2,379**	2,258
Measured at FVOCI	**70,556**	45,413
Measured at amortized cost	**300,275**	250,927
Gross debt investments	**373,210**	298,598
Total investment securities	**378,737**	304,598
Less: Impairment loss allowance	**(186)**	(266)
Total investment securities	**378,551**	304,332

Investment securities measure as at FVTPL	**4,263**	4,140
Investment securities measured at FVOCI	**74,013**	49,265
Debt investments measured at amortised cost	**300,275**	250,927
	378,551	304,332

The movement of investment securities is summarised as below page 46 and 48.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement

As at 31 December 2019	**FVTPL**	**FVOCI**	**Amortized cost**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Quoted Equities:				
Other services sector	**-**	**1,082**		**1,082**
Unit funds	**153**	**-**	**-**	**153**
Financial services sector	**-**	**155**	**-**	**155**
Industrial sector	**-**	**1,685**	**-**	**1,685**
	153	**2,922**	**-**	**3,075**
Unquoted Equities:				
Local securities	**-**	**721**	**-**	**721**
Unit funds	**1,731**	**-**	**-**	**1,731**
	1,731	**721**	**-**	**2,452**
Gross Equity investments	**1,884**	**3,643**	**-**	**5,527**
Quoted Debt:				
Government Bonds and sukuk	**-**	**41,127**	**269,358**	**310,485**
Foreign Bonds	**2,379**	**393**	**-**	**2,772**
Local bonds and sukuks	**-**	**29,036**	**917**	**29,953**
Treasury Bills	**-**	**-**	**30,000**	**30,000**
Gross debt investments	**2,379**	**70,556**	**300,275**	**373,210**
Total Investment Securities	**4,263**	**74,199**	**300,275**	**378,737**
Less: Impairment losses on investments	**-**	**(186)**	**-**	**(186)**
	4,263	**74,013**	**300,275**	**378,551**

Government Development Bonds represents Oman Government Bonds having face value of RO 256.89million (2018: RO 237.52 million) at average coupon rate of 4.82% maturing between 2020 and 2029.

Omani Treasury bills represents RO 30 Mil average yield of 1.99%.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investment RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2019	**45,413**	**4,118**	**250,927**	**4,140**	**304,598**
Additions	**50,418**	**7**	**179,371**	**88**	**229,884**
Disposals and redemption	**(26,948)**		**(130,023)**	**(77)**	**(157,048)**
Gain /(loss) from change in fair value	**1,681**	**(482)**	**-**	**112**	**1,311**
Realised gains on sale	**(8)**	**-**	**-**	**-**	**(8)**
At 31 December 2019	**70,556**	**3,643**	**300,275**	**4,263**	**378,737**
Less: Impairment losses on investments	**(186)**	**-**	**-**	**-**	**(186)**
31 December 2019	**70,370**	**3,643**	**300,275**	**4,263**	**378,551**

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

The Bank has designated some investments in equity instruments at FVOCI as these are investments that the bank plans to hold in the long-term for strategic reasons.

8. Investments securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investments RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2018	29,529	6,283	255,043	-	290,855
Reclassification on transition to IFRS 9	(3,092)	(1,733)	-	4,825	-
At 1 January (reclassified)	26,437	4,550	255,043	4,825	290,855
Additions	30,840	-	215,917	-	246,757
Disposals and redemption	(10,011)	(19)	(220,033)	(86)	(230,149)
Loss from change in fair value	(1,853)	(413)	-	(599)	(2,865)
At 31 December 2018	45,413	4,118	250,927	4,140	304,598
ECL	(266)	-	-	-	(266)
Total	45,147	4,118	250,927	4,140	304,332

9. Intangible asset

	2019 RO'000	2018 RO'000
1 January	**794**	1,191
Impaired during the year	**(397)**	(397)
31 December	**397**	794

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman during 2001 and merger with Majan International Bank during 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank. An impairment change of RO 397 thousand (2018: 397 thousand) was recognised during the year.

10. Property and equipment

31 December 2019	**Freehold land**	**Buildings**	**Furniture and fixtures**	**Motor vehicles**	**Computer equipment**	**Capital work-in-progress**	**Right use of Asset**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cost								
1 January 2019	**140**	**1,573**	**15,248**	**1,326**	**27,970**	**4,650**	**2,535**	**53,442**
Additions	**-**	**-**	**2,633**	**35**	**7,908**	**(3,053)**	**105**	**7,628**
Disposals	**-**	**-**	**(716)**	**(35)**	**(334)**	**-**	**-**	**(1,085)**
31 December 2019	**140**	**1,573**	**17,165**	**1,326**	**35,544**	**1,597**	**2,640**	**59,985**
Depreciation								
1 January 2019	**-**	**1,292**	**12,318**	**1,059**	**21,321**	**-**	**-**	**35,990**
Charge for the year	**-**	**59**	**1,307**	**145**	**3,368**	**-**	**817**	**5,696**
Disposals	**-**	**-**	**(678)**	**(35)**	**(160)**	**-**	**-**	**(873)**
31 December 2019	**-**	**1,351**	**12,947**	**1,169**	**24,529**	**-**	**817**	**40,813**
Carrying value								
31 December 2019	**140**	**222**	**4,218**	**157**	**11,015**	**1,597**	**1,823**	**19,172**

10. Property and equipment *(continued)*

31 December 2018	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2018	140	1,573	14,138	1,308	23,726	1,612	42,497
Additions	-	-	1,466	212	4,345	3,038	9,061
Disposals	-	-	(356)	(194)	(101)	-	(651)
31 December 2018	140	1,573	15,248	1,326	27,970	4,650	50,907
Depreciation							
1 January 2018	-	1,234	11,455	1,112	19,172	-	32,973
Charge for the year	-	58	1,219	141	2,250	-	3,668
Disposals	-	-	(356)	(194)	(101)	-	(651)
31 December 2018	-	1,292	12,318	1,059	21,321	-	35,990
Carrying value							
31 December 2018	140	281	2,930	267	6,649	4,650	14,917

As of 31 December 2019, cost of Computer and includes acquired software of RO 21.71 Million (31 December 2018: RO 16.39 Million). Accumulated depreciation against these software is RO 13.66 Million (31 December 2018: RO 11.36 Million).

11. Other assets

	2019 RO'000	2018 RO'000
Acceptances	**55,567**	74,590
Interest receivable	**18,794**	16,575
Prepaid expenses	**1,710**	3,262
Positive fair value of derivatives (note 30)	**1,435**	642
Deferred tax assets (note 24)	**1,028**	1,028
Other receivables	**14,473**	8,106
Less: impairment allowance	**(195)**	(164)
	92,812	104,039

12. Due to banks

Syndicated Inter bank borrowings	**192,500**	201,041
Inter bank borrowings	**297,368**	167,475
Payable on demand	**311**	467
	490,179	368,983

At 31 December 2019, Inter bank borrowings includes Islamic Banking Window's inter bank borrowings with other banks of RO 38.88 million (2018: RO 38.88 million). The bank has complied with the financial covenant of its borrowing facilities during the year 2019 and 2018.

At 31 December 2019, inter bank borrowings with one bank individually represented 20% of the Inter bank's borrowings (2018: one bank, 39%). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

13. Deposits from customers – Conventional Banking

Current accounts	**621,320**	568,332
Savings accounts	**457,380**	456,011
Time and certificate of deposits	**1,449,677**	1,531,677
Margin accounts	**9,590**	15,099
	2,537,967	2,571,119

Deposits from customers - Islamic Banking window

Current accounts	**112,498**	56,040
Savings accounts	**39,319**	34,026
Time deposits	**253,404**	263,319
	405,221	353,385

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,160.6 million as at 31 December 2019 (2018: RO 1,180.1 million).

14. Other liabilities

	2019 RO’000	2018 RO’000
Acceptances	**55,567**	74,590
Interest payable	**17,798**	15,632
Creditors and accruals	**42,325**	39,251
Lease liabilities	**764**	-
Employee terminal benefits (i)	**1,721**	1,637
Impairment allowance on off-balance sheet items (note 7) (ii)	**12,918**	13,046
	131,093	144,156

Impairment allowance on off-balance sheet items consists of Loan commitments and financial guarantees, Acceptances and Unutilised credit limit. Refer (note 7) (ii)

(i) Employee terminal benefits

The Bank’s net liability and the movement in the employee terminal benefits during the year are as follows:

	2019 RO’000	2018 RO’000
1 January	**1,637**	1,665
Charge for the year	**299**	332
Payments made during the year	**(215)**	(360)
	1,721	1,637

15 Subordinated loans

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.

	2019 RO’000	2018 RO’000
Subordinated loan - RO (i) & (ii)	**35,000**	35,000
Subordinated loan - US Dollar (iii)	**28,875**	28,875
	63,875	63,875

i. In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenure of 66 months. This carries fixed interest rate of interest, payable half yearly with principal being repaid on maturity.
ii. In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries fixed interest rate payable half yearly, with principal being repaid on maturity.
iii. Details regarding subordinated loan reserve are set out in note 18(b).

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate sensitivity of subordinated liabilities are disclosed in noted 32.

16 (a) Share capital

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

In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue resulting in an increase of share capital (refer note 17). Further, the Bank also issued 196,022,991 bonus shares in 2019 (2018: 180,628,618 bonus shares).

At 31 December 2019, the issued and paid up share capital comprise 2,996,351,436 ordinary shares of RO 0.100 each (2018: 2,800,328,445 ordinary shares of RO 0.100 each).

Shareholders

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

	2019 No. of shares	**%**	2018 No. of shares	%
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.4%**	682,776,167	24.4%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**702,668,215**	**23.4%**	653,699,269	23.3%
Civil Service Employees' Pension Fund	**314,256,261**	**10.5%**	289,825,834	10.3%
Total	**1,747,494,974**	**58.3%**	1,626,301,270	58.0%
Others	**1,248,856,462**	**41.7%**	1,174,027,175	42.0%
	2,996,351,436	**100%**	2,800,328,445	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 55,000,000 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2019 and 2018.

16 (b) Perpetual Tier 1 Capital Securities

	2019 RO'000	2018 RO'000
Tier 1 USD Securities	**115,500**	115,500
Tier 1 RO Securities	**40,000**	40,000
	155,500	155,500

Tier 1 USD Securities

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

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

16 (b) Perpetual Tier 1 Capital Securities *(continued)*

Tier 1 USD Securities *(continued)*

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

Tier 1 RO Securities

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

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

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

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

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

Refer to the Critical Accounting Judgments and Key Sources Of Estimation Uncertainty in note 4.3

17 Share premium

i. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36,184 thousand and RO 18,092 thousand, respectively.

ii. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21,622 thousand and RO 17,946 thousand, respectively.

iii. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20,000 thousand and RO 19,600 thousand, respectively.

iv. In 2013, the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to RO 13,311 thousand (133,114,993 shares of par value RO 0.100 each) from the share premium account.

v. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17,692 thousand and RO 53,076 thousand, respectively.

18 Reserves

(a) Legal reserve

	2019 RO'000	2018 RO'000
1 January	**55,878**	50,254
Appropriation for the year (i)	**3,024**	5,028
Increase in legal reserve (ii),	**64**	596
31 December	**58,966**	55,878

(i) In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(ii) During the year 2018, the Bank received RO 724 thousand towards rights issue expenses and incurred RO 128 thousand towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 64 thousand (2018: RO 596 thousand) has been transferred to the legal reserve.

(b) Subordinated loans reserve

	2019 RO'000	2018 RO'000
1 January	**30,100**	42,325
Appropriation for the year:		
Subordinated loan reserve	**12,775**	12,775
Transfer to retained earnings (refer note 15)	**-**	(25,000)
31 December	**42,875**	30,100

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

	2019 RO,000	2018 RO,000
1 January	**(1,789)**	507
Increase/(decrease) in fair value	**1,162**	(2,296)
31 December	**(627)**	(1,789)

18 Reserves *(continued)*

(d) Special reserve

During 2013, the Bank recognised in profit or loss, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

(e) Special reserve – restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC's/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution.

Requirement to create special reserve at 15% has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve IFRS 9

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 provisions, under CBO norms are higher than IFRS 9 provisions.

(g) Special investment revaluation reserve IFRS 9

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the impairment allowance of RO 709 thousand charged to statement of profit or loss. A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

20 Net assets per share

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2019	2018
Net assets (RO)	**530,655,000**	542,662,000
Number of shares outstanding at 31 December	**2,996,351,436**	2,800,328,445
Net assets per share (RO)	**0.177**	0.194

21 Net interest income

Conventional Banking	**2019 RO'000**	2018 RO'000
Loans and advances	**153,126**	162,274
Due from banks	**16,534**	12,128
Investments	**474**	364
Total	**170,134**	174,766

Islamic Banking	**2019 RO'000**	2018 RO'000
Islamic financing receivables	**23,851**	21,255
Islamic due from banks	**153**	301
Total	**24,004**	21,556

22. Interest expense / distribution to depositors

Conventional Banking	**2019 RO'000**	2018 RO'000
Customers' deposits	**69,468**	72,413
Subordinated liabilities / mandatory convertible bonds	**3,578**	3,634
Bank borrowings	**12,439**	10,801
Total	**85,485**	86,848
Islamic Banking		
Customer Deposits	**12,343**	11,428
Islamic bank borrowings	**1,479**	619
Total	**13,822**	12,047

Included in interest expenses on deposits from customers and related parties is interest on subordinated loan against related parties and customer of RO 3,578 thousand (2018: RO 3,634 thousand). Interest expense on customer's deposits include cost of prize schemes of RO 1,800 thousands belong to conventional bank and Islamic Bank of RO 662 thousands (2018: RO 1,811.thousand and Islamic Bank RO 460 thousands offered by the Bank to its saving deposit holders).

22 (a) Other operating income

	2019 RO'000	2018 RO'000
Foreign exchange	**4,268**	4,562
Investment income *22 (b)*	**14,671**	11,315
Miscellaneous income	**1,967**	2,945
	20,906	18,822

(b) Investment income

	2019 RO'000	2018 RO'000
Dividend income	**289**	286
Gain /(Loss) on disposals	**155**	(299)
Income on Sukuk investments including government Sukuk	**2,236**	1,942
Interest income on Government Development Bonds and other bonds	**11,991**	9,386
	14,671	11,315

23 Staff and administrative costs

(a) Staff costs

	2019 RO'000	2018 RO'000
Salaries and allowances	**36,205**	33,992
Other personnel costs	**11,294**	8,365
Non-Omani employees terminal benefit	**299**	332
	47,798	42,689

At 31 December 2019, the Bank had 1,586 employees (2018: 1,600 employees).

(b) Administrative costs

	2019 RO'000	2018 RO'000
Occupancy costs	**4,003**	4,816
Operating and administration cost	**12,069**	13,192
Impairment of goodwill	**397**	397
Others	**1,511**	694
	17,980	19,099
Total staff and administrative cost	**65,778**	61,788

24 Income tax

	2019 RO'000	2018 RO'000
(a) Income tax expense:		
Current tax		
Current year charge	**4,895**	9,436
Prior years	**331**	1,615
	5,226	11,051
Deferred tax		
Current year	**609**	(153)
Prior years	**13**	(1,436)
	622	(1,589)
Tax expense for the year	**5,848**	9,462

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2019. The Bank sought confirmation from the Secretariat General for Taxation (SGT) of the Bank's position on the deductibility of interest expense in Additional Tier1 securities. However, in view of no confirmation received from the SGT in this regard, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bank 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 16.20% (2018: 15.84%).

The difference between the applicable tax rate of 15 % (2018: 15%) and effective tax rate of 16.20 % (2018: 15.84%) 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.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 36.1 million (2018: RO 59.7 million) and the taxation charge in the consolidated financial statements is as follows:

	2019 RO'000	2018 RO'000
Profit before tax	**36,092**	59,743
Income tax as per rates mentioned above	**5,414**	8,961
Tax exempt revenue	**(43)**	(43)
Non-deductible expenses	**146**	365
Prior years	**331**	179
Tax expense for the year	**5,848**	9,462

24 Income tax *(continued)*

(c) 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, Impairment allowance on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax liability are as follows:

Particulars	**2019**	**Recognised in SCI**	**Recognised in SOCI**	**2019**
				RO '000
Property and equipment	**(294)**	**(202)**	**-**	**(496)**
Impairment allowance on financial instruments	**1,920**	**(720)**	**-**	**1,200**
Investment revaluation reserve (Non listed)	**121**	**-**	**-**	**121**
Fair value derivatives	**(96)**	**-**	**-**	**(96)**
Special impairment reserve for loan loss IFRS 9	**(623)**	**-**	**622**	**(1)**
Provision for legal claim	**-**	**375**	**-**	**375**
Right of Use Asset and Finance Liability	**-**	**(75)**	**-**	**(75)**
Net deferred tax asset/(liability)	**1,028**	**(622)**	**622**	**1,028**

Particulars	**2018**	**Recognised in SCI**	**Recognised in SOCI**	**2018**
				RO '000
Property and equipment	(461)	167	-	(294)
Impairment allowance on financial instruments	523	1,397	-	1,920
Investment revaluation reserve (Non listed)	-	121	-	121
Fair value derivatives	-	(96)	-	(96)
Special impairment reserve for loan loss IFRS 9	-		(623)	(623)
Net deferred tax asset/(liability)	62	1,589	(623)	1,028

(d) **Status of previous year returns:**

The tax returns of the Bank for the years 2014 to 2018 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2019.

(e) **tax liability**

The movement in the income tax liability is summarised as follows:

	2019	2018
	RO'000	RO'000
At 1 January	**13,810**	10,116
Charge for the year	**5,226**	11,051
Payments during the year	**(7,681)**	(7,357)
At 31 December	**11,355**	13,810

25 Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2019 RO	2018 RO
Profit for the year (RO)	**30,244,000**	50,281,000
Less : Additional Tier 1 Coupon	**(10,912,000)**	(7,912,000)
Profit for the period attributable to equity holders of the Bank	**19,332,000**	42,369,000
Weighted average number of shares outstanding during the year	**2,996,351,436**	2,706,910,285
Earnings per share basic and diluted (RO)	**0.006**	0.016

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding, to include 7% bonus shares and bonus element (196,022,991 shares) in respect of bonus shares issued during the year.

26 Related parties transactions

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

	2019 RO'000	2018 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**42,445**	35,993
Other related parties	**25,755**	26,055
	68,200	62,048
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**23,663**	23,663
Other related parties	**19,775**	19,775
	43,438	43,438
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**125,597**	143,240
Other related parties	**213,739**	161,701
	339,336	304,941
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**3,305**	562
Other related parties	**5,201**	6,203
	8,506	6,765

26 Related parties transactions *(continued)*

Remuneration paid to Directors		
Chairman		
– remuneration paid	**15**	16
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**100**	108
– sitting fees paid	**75**	66
	200	200
Other transactions		
Rental payment to related parties	**564**	486
Other transactions	**2,894**	3,288
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**48**	43
Key management compensation		
- salaries and other short-term benefits	**1,740**	1,612

The Bank conducts certain transactions with its Directors, the interest rates on loan and advances start ranges from 2.75% to 7%. and for Deposits the interest rates ranges from 0% to 4.85%.

27 Single borrower and senior members

	2019	2018
	RO'000	RO'000
(a) Single borrower		
Total direct exposure	**157,798**	157,162
Number of members	**4**	4
(b) Senior members		
Total exposure:		
Direct	**74,534**	67,434
Indirect	**8,507**	6,764
	83,041	74,198
Number of members	**47**	44

28 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments provided by the Bank to the customers are as follows:

Letters of credit	**88,954**	91,920
Guarantees and performance bonds	**721,976**	918,894
	810,930	1,010,814

28 Contingent liabilities and commitments *(continued)*

At 31 December 2019, letters of credit, guarantees and other commitments amounting to RO 264,699 thousand (2018: RO 292,171 thousand) are counter guaranteed by other banks.

At 31 December 2019, the unutilised limits towards the loans, advances and financing to customer amount to RO 786,983 thousand (2018: 822,935 thousand).

(b) Capital and investment commitments

Contractual commitments for property and equipment	**4,269**	1,902

(c) Non-cancellable leases

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 but may have extension options

From 1 January 2019, the Bank has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 8(b) and note 26 for further information.

	2019	2018
	RO'000	RO'000
Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:		
Within one year	**2,014**	1,295
Later than one year but not later than five years	**-**	2,517
Later than five years	**-**	762
	2,014	**4,574**

Rental expense relating to leases

	2019	2018
	RO'000	RO'000
Minimum lease payments	**2,440**	3,227
Contingent rentals	**-**	-
Total rental expense relating to leases	**2,440**	**3,227**

29 Disaggregation of net fees and commission income 2019

	Retail banking	Corporate banking	Treasury and investment banking	Total
	RO'000	RO'000	RO'000	RO'000
Transactional services	**3,400**	**-**	**62**	**3,462**
Trade services	**13**	**8,130**	**279**	**8,422**
Syndication and other financing related services	**862**	**2,608**	**202**	**3,672**
Advisory and asset management services	**-**	**263**	**209**	**472**
Net fee and commission income	**4,275**	**11,001**	**752**	**16,028**

The total of RO 16,028 thousands includes service charges income of RO 1,801 thousand included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 159 thousands.

29 Disaggregation of net fees and commission income 2018

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

The total of RO 18,483 thousands includes service charges income of RO 2,879 thousand included under other income as miscellaneous income (note 22). The reversal of long outstanding provision & written back of other assets is RO 66 thousands.

30 Derivative financial instruments

The Bank uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

30 Derivative financial instruments *(Continued)*

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 amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2019						**RO 000's**
	Positive	**Negative**	**Notional**	**Notional amounts by term to maturity**		
		Fair	**amount**	**within 3**	**4-12**	**> 12**
	fair value	**Value**	**total**	**months**	**months**	**months**
Derivatives:						
Interest rate swaps	**-**	**3,419**	**83,244**	**-**	**-**	**83,244**
IRS customer	**3,419**	**-**	**83,244**	**-**	**-**	**83,244**
Currency options bought	**-**	**-**	**-**	**321**	**-**	**-**
Currency options sold	**-**	**-**	**-**	**321**	**-**	**-**
Forward purchase contracts	**3,150**	**-**	**-**	**587,197**	**495,420**	**217,042**
Forward sales contracts	**-**	**1,715**	**-**	**586,747**	**491,890**	**213,490**
Total	**6,569**	**5,134**	**166,488**	**1,174,586**	**987,310**	**597,020**

31 December 2018						**RO 000's**
	Positive	**Negative**	**Notional**	**Notional amounts by term to maturity**		
		Fair	**amount**	**within 3**	**4-12**	**> 12**
	fair value	**Value**	**total**	**months**	**months**	**months**
Derivatives:						
Fair value hedge	**-**	**-**	**-**	**-**	-	**-**
Cash flow hedge	**-**	**-**	**-**	-	-	**-**
Interest rate swaps Purchase	**652**	**-**	**41,609**	**-**	**-**	**41,609**
Interest rate Swaps Contract	**-**	**652**	**41,609**	**-**	**-**	**41,609**
Forward purchase contracts	**1,095**	**-**	**-**	**518,127**	**516,773**	**1,217,263**
Forward sales contracts	**-**	**453**	**-**	**518,043**	**513,131**	**1,209,823**
Total	**1,747**	**1,105**	**83,218**	**1,036,170**	**1,029,904**	**2,510,304**

30 Derivative financial instruments *(Continued)*

The following table indicates the positive fair values of derivatives (net) associated with derivatives that are recognised in the statement of comprehensive income.

	Assets		Liabilities	
	2019	2018	**2019**	2018
	RO'000	RO'000	**RO'000**	RO'000
Expected cash flows	**1,435**	642	**-**	-

31 Fair value information

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Fair value measurements recognised in the statement of financial position

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

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

At 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost**
	RO '000	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Financial assets					
Investments at FVOCI	**73,478**	**-**	**721**	**74,199**	**74,825**
Investments at FVTPL	**2,532**	**-**	**1,731**	**4,263**	**4,485**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**1,435**	**-**	**1,435**	**-**
Total	**-**	**1,435**	**-**	**1,435**	**-**
	76,010	**1,435**	**2,452**	**79,897**	**79,310**

At 31 December 2018					
Investment at FVOCI	48,810	-	721	49,531	51,319
Investment at FVTPL	2,478	-	1,662	4,140	4,440
Derivative financial instruments					
Forward foreign exchange contracts	-	642	-	642	-
Total	-	642	-	642	-
	51,288	642	2,383	54,313	55,759

31 Fair value information *(Continued)*

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:

Level 3 movement

	2019	2018
	RO 000's	RO 000's
At 1 January	2,383	3,116
Total losses	(19)	(86)
Purchases	88	-
Transfer from level 3	-	(647)
At 31 December	**2,452**	**2,383**

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

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

Transfer between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the year.

32 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

32 Financial risk management (continued)

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. Bank has an independent credit risk management function which identifies, assess and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Management Credit Committee ("MCC") is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using leading external rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines.

1. Credit Exposure

The following table informs about the Credit Exposure to customers of the Bank:

(i) Geographical concentrations

	Assets			Liabilities		
	Gross loans, advances and financing to banks	**Gross loans, advances and financing to customers**	**Investment securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2019						
Sultanate of Oman	**87,202**	**3,181,597**	**375,965**	**2,941,485**	**85,704**	**688,744**
Other GCC countries	**209,776**	**-**	**2,076**	**1,390**	**352,692**	**32,321**
Europe and North America	**103,914**	**-**	**-**	**4**	**26,950**	**56,858**
Africa and Asia	**71,519**	**-**	**696**	**309**	**24,833**	**33,007**
	472,411	**3,181,597**	**378,737**	**2,943,188**	**490,179**	**810,930**
31 December 2018						
Sultanate of Oman	87,610	3,287,406	299,531	2,922,039	51,855	883,964
Other GCC countries	102,311	5,664	1,555	2,024	253,940	40,622
Europe and North America	80,415	875	2,809	4	40,280	58,029
Africa and Asia	59,560	-	703	437	22,908	28,199
	329,896	3,293,945	304,598	2,924,504	368,983	1,010,814

Other assets and liabilities are predominately concentrated in the Sultanate of Oman.

32. Financial risk management

A. Credit risk *(continued)*

(ii) Customer concentrations

	Assets			Liabilities		
	Gross loans, Advances and financing to banks	**Gross Loans, Advances and financing to customers**	**Investment Securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2019						
Personal	**-**	**1,286,585**	**-**	**641,452**	**-**	**3,875**
Corporate	**472,411**	**1,646,270**	**37,335**	**1,141,100**	**490,179**	**788,609**
Government	**-**	**248,742**	**341,402**	**1,160,636**	**-**	**18,446**
	472,411	**3,181,597**	**378,737**	**2,943,188**	**490,179**	**810,930**
31 December 2018						
Personal	-	1,375,140	-	625,887	-	174
Corporate	329,896	1,650,688	48,101	1,118,535	368,983	999,970
Government	-	268,117	256,497	1,180,082	-	10,670
	329,896	3,293,945	304,598	2,924,504	368,983	1,010,814

(iii) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers	**Deposits from customers**	**Contingent Liabilities**
	RO'000	**RO'000**	**RO'000**
31 December 2019			
Personal	**1,286,585**	**641,452**	**3,875**
International trade	**103,650**	**69,642**	**25,662**
Construction	**534,641**	**179,670**	**379,395**
Manufacturing	**184,372**	**42,017**	**44,491**
Wholesale and retail trade	**28,178**	**13,298**	**21,661**
Communication and utilities	**165,769**	**59,668**	**19,722**
Financial services	**146,916**	**89,089**	**236,531**
Government	**248,742**	**1,160,636**	**18,446**
Other services	**176,315**	**128,099**	**31,339**
Others	**306,429**	**559,617**	**29,808**
	3,181,597	**2,943,188**	**810,930**

32. Financial risk management *(continued)*

A. Credit risk *(continued)*

(iii) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2018			
Personal	1,375,140	625,887	174
International trade	107,375	51,174	35,718
Construction	496,901	172,005	465,775
Manufacturing	213,220	39,277	49,235
Wholesale and retail trade	60,798	22,248	32,727
Communication and utilities	144,420	20,044	100,138
Financial services	140,850	89,281	248,862
Government	268,117	1,180,082	10,670
Other services	199,183	169,101	38,319
Others	287,941	555,405	29,196
	3,293,945	2,924,504	1,010,814

(iv) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2019	2018	**2019**	2018
	RO'000	RO'000	**RO'000**	RO'000
Overdrafts	**137,827**	165,880	**158,227**	177,624
Loans	**2,425,730**	2,547,049	**2,448,399**	2,549,067
Loans against trust receipts	**109,865**	99,393	**101,088**	119,580
Bills discounted	**46,898**	70,969	**59,893**	70,772
Advance against credit cards	**9,450**	8,921	**9,207**	8,833
Islamic Banking Window financing	**451,827**	401,733	**423,868**	381,140
Total	**3,181,597**	3,293,945	**3,200,682**	3,307,016

32. Financial risk management *(continued)*

A. Credit risk *(continued)*

(v) Geographical distribution of exposures:

	Sultanate of Oman	**Other countries**	**Total**
31 December 2019	**RO'000**	**RO'000**	**RO'000**
Overdrafts	**137,827**	**-**	**137,827**
Loans	**2,425,730**	**-**	**2,425,730**
Loans against trust receipts	**109,865**	**-**	**109,865**
Bills discounted	**10,334**	**-**	**10,334**
Advance against credit cards	**9,450**	**-**	**9,450**
Others	**36,564**	**-**	**36,564**
Islamic Banking Window financing	**451,827**	**-**	**451,827**
	3,181,597	**-**	**3,181,597**
31 December 2018			
Overdrafts	165,880		165,880
Loans	2,541,596	5,453	2,547,049
Loans against trust receipts	99,393	-	99,393
Bills discounted	10,552	1,086	11,638
Advance against credit cards	8,921	-	8,921
Others	59,331	-	59,331
Islamic Banking Window financing	401,733	-	401,733
	3,287,406	6,539	3,293,945

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

	Overdrafts	**Loans including Islamic financing**	**Bills discounted**	**Others**	**Total**	**Off balance sheet exposure**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2019						
Import trade	**10,972**	**79,776**	**-**	**12,588**	**103,336**	**25,662**
Export trade	**188**	**121**	**-**	**5**	**314**	**59**
Wholesale/retail trade	**4,821**	**21,008**	**-**	**2,349**	**28,178**	**21,661**
Mining and quarrying	**1,859**	**16,723**	**162**	**13**	**18,757**	**619**
Construction	**53,015**	**399,072**	**4,683**	**77,871**	**534,641**	**379,395**
Manufacturing	**16,933**	**121,123**	**3,527**	**42,789**	**184,372**	**44,491**
Electricity, gas and water	**715**	**161,826**	**-**	**169**	**162,710**	**14,675**
Transport and Communication	**1,048**	**1,455**	**-**	**556**	**3,059**	**5,047**
Financial institutions	**1,248**	**143,728**	**1,940**	**-**	**146,916**	**236,531**
Services	**25,200**	**149,100**	**-**	**2,015**	**176,315**	**31,339**
Personal loans	**1,625**	**1,276,017**	**-**	**8,943**	**1,286,585**	**3,875**
Agriculture and allied Activities	**4,022**	**4,543**	**22**	**1,782**	**10,369**	**813**
Government	**-**	**248,739**	**-**	**3**	**248,742**	**18,446**
Non-resident lending	**-**	**-**	**-**	**-**	**-**	
Others	**16,181**	**254,326**	**-**	**6,796**	**277,303**	**28,317**
	137,827	**2,877,557**	**10,334**	**155,879**	**3,181,597**	**810,930**

32 Financial risk management *(continued)*

A. Credit risk *(Continued)*

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

31 December 2018						
Import trade	15,573	76,260	-	15,314	107,147	29,026
Export trade	172	51	-	5	228	6,692
Wholesale/retail trade	13,086	44,356	-	3,356	60,798	32,727
Mining and quarrying	5,722	30,481	1,930	1,612	39,745	1,719
Construction	62,741	338,266	6,598	89,296	496,901	465,775
Manufacturing	21,372	161,416	1,307	29,125	213,220	48,994
Electricity, gas and water	586	137,917	-	-	138,503	92,763
Transport and Communication	2,420	3,114	-	383	5,917	7,375
Financial institutions	1,987	138,606	257	-	140,850	248,862
Services	24,845	171,743	-	2,595	199,183	38,319
Personal loans	1,045	1,365,684	-	8,411	1,375,140	174
Agriculture and allied					12,123	
Activities	4,004	6,231	-	1,888		696
Government	-	268,114	-	3	268,117	10,670
Non-resident lending	-	5,453	1,086	-	6,539	241
Others	12,327	201,090	460	15,657	229,534	26,781
	165,880	2,948,782	11,638	167,645	3,293,945	1,010,814

(vii) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2019	2018
	RO' 000	RO' 000
Treasury bill	**30,000**	-
Loans, advances and financing to banks	**471,158**	329,059
Loan, advances and financing to customers	**3,063,350**	3,158,844
Government development bonds and Sukuk	**310,485**	262,580
Foreign bonds	**2,772**	15,077
Local bonds and sukuks	**29,953**	20,941
	3,907,718	3,786,501
Off-balance sheet items		
Financial guarantees	**721,976**	918,894
	4,629,694	4,705,395

As at 31 December 2019, Bank has total gross impaired loans of RO 148,582 (RO 121,299) thousand which includes interest reserved of RO 24,169 (2018: RO 55,594) thousand against principal outstanding of RO 124,413 (2018: RO 65,705) expected credit losses of RO 56,435 (2018: RO 41,400) thousands have been carried.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(viii) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

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.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2019

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
31 December 2019				
Exposure				
Banks	**734,029**	**3,080**	**-**	**737,109**
Sovereigns	**370,575**	**-**	**-**	**370,575**
Wholesale banking	**1,594,293**	**1,209,117**	**89,178**	**2,892,588**
Retail banking	**1,196,023**	**32,942**	**61,856**	**1,290,821**
Investments	**38,896**	**-**	**-**	**38,896**
Total	**3,933,816**	**1,245,139**	**151,034**	**5,329,989**
Provision for expected credit losses	**17,495**	**34,700**	**56,435**	**108,630**

(viii) Credit Quality Analysis

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3.3. The following table provides the exposure to non-trading financial assets measured at amortized cost & FVOCI. Exposure to financial asset includes outstanding as at 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000		RO'000
31 December 2018				
Exposure				
Banks	767,020	1,028	-	768,048
Sovereigns	239,384	-	-	239,384
Wholesale banking	2,084,903	1,001,862	63,099	3,149,864
Retail banking	1,282,342	38,646	58,990	1,379,978
Investments	56,330	-	-	56,330
Total	4,429,979	1,041,536	122,089	5,593,604
Provision for Expected credit losses	19,207	33,014	41,400	93,621

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

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

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

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

Incorporation of forward looking information

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

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2019 including the projections used is presented as under:

31st December 2019

Real GDP growth (%)	Present	2.10%	**Oil revenue (%GDP)**	Present	31.08%
	Year 1 Projection	1.10%		Year 1 Projection	27.07%
	Year 2 Projection	6.20%		Year 2 Projection	25.43%
	Year 3 Projection	2.80%		Year 3 Projection	27.74%

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

1 January 2019

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

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

b. Economic variable assumptions *(continued)*

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2019, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	ECL (RO' 000)	Impact on ECL due to Sensitivity (RO 000)
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	48,917	
Sensitivity:		
ECL if only Upside case happens - 100% probability	27,176	(21,740)
ECL if only Base case happens - 100% probability	45,835	(3,082)
ECL if only Downside case happens - 100% probability	58,745	9,828

** for computation of ECL (ie actual estimates), Bank considers three scenario viz. base case, upside case and downside case with weightage of 50%, 25% & 25% respectively.

c. Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolios
(i) GDP, given the significant impact it has on mortgage collateral valuations; and

(ii) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios
(i) GDP, given the significant impact on companies' performance and collateral valuations; and

(ii) Oil Price Index, given its impact on companies' likelihood of default.

(iix) Loss Allowance
The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers RO'000	Exposure RO'000	Reserved interest RO'000	Net exposure RO'000	ECL RO'000	% of ECL RO'000
31 December 2019						
Wholesale banking	**209**	**89,178**	**10,152**	**79,026**	**28,488**	**36.0%**
Retail banking	**2,378**	**61,856**	**14,017**	**47,839**	**27,946**	**58.4%**
Total	**2,587**	**151,034**	**24,169**	**126,865**	**56,434**	**44.5%**
31 December 2018						
Wholesale banking	218	63,099	40,968	22,131	15,463	69.9%
Retail banking	2,262	58,990	14,626	44,364	25,937	58.5%
Total	2,480	122,089	55,594	66,495	41,400	62.3%

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality

An analysis of credit quality of gross exposures as at 31 December 2019 and changes in gross exposure balances from 1 January 2019 to 31 December 2019 is set out in the following tables by class of financial assets

2019:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	184,633	-	-	184,633
Standard Grade (Ba1 to Ba2)	139,992	-	-	139,992
Satisfactory Grade (Ba3 to Caa3)	147,786	-	-	147,786
Total	**472,411**	**-**	**-**	**472,411**
Total (RO000')	**472,411**	**-**	**-**	**472,411**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	336,718	93,264	-	429,982
Standard Grade (Ba1 to Ba2)	508,402	364,670	-	873,072
Satisfactory Grade (Ba3 to Caa3)	174,469	330,753	-	505,222
Non-performing			89,178	89,178
Total	**1,019,589**	**788,687**	**89,178**	**1,897,454**
Total (RO'000)	**1,019,589**	**788,687**	**89,178**	**1,897,454**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	539,913	-	-	539,913
Standard Grade (Ba1 to Ba2)	626,381	7,603	-	633,984
Satisfactory Grade (Ba3 to Caa3)	25,504	25,339	-	50,843
Non-performing	-	-	61,856	61,856
Total	**1,191,798**	**32,942**	**61,856**	**1,286,596**
Total (RO'000)	**1,191,798**	**32,942**	**61,856**	**1,286,596**

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	9,861	-	-	9,861
Standard Grade (Ba1 to Ba2)	29,010	-	-	29,010
Satisfactory Grade (Ba3 to Caa3)	25	-	-	25
Non-performing	-	-	-	-
Total	**38,896**	**-**	**-**	**38,896**
Total (RO'000)	**38,896**	**-**	**-**	**38,896**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	70,556	-	-	70,556
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**70,556**	**-**	**-**	**70,556**
Total (RO'000)	**70,556**	**-**	**-**	**70,556**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	300,275	-	-	300,275
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**300,275**	**-**	**-**	**300,275**
Total (RO'000)	**300,275**	**-**	**-**	**300,275**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	15,145	1,702	-	16,847
Standard Grade (Ba1 to Ba2)	15,909	6,523	-	22,432
Satisfactory Grade (Ba3 to Caa3)	12,965	2,458	-	15,423
Sub Standard	-	-	-	-
Total	**44,019**	**10,683**	**-**	**54,702**
Total (RO'000)	**44,019**	**10,683**	**-**	**54,702**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	257,614	124,175	-	381,789
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**257,614**	**124,175**	**-**	**381,789**
Total (RO'000)	**257,614**	**124,175**	**-**	**381,789**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	524,725	283,753	2,452	810,930
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**524,725**	**283,753**	**2,452**	**810,930**
Total (RO'000)	**524,725**	**283,753**	**2,452**	**810,930**

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Profit - Amortised cost*				
High Grade (Aaa to Baa3)	13,535	4,690	-	18,225
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**13,535**	**4,690**	**-**	**18,225**
Total (RO'000)	**13,535**	**4,690**	**-**	**18,225**

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

2018:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade (Aaa to Baa3)	214,348	-	-	214,348
Standard Grade (Ba1 to Ba2)	194,734	-	-	194,734
Satisfactory Grade (Ba3 to Caa3)	65,338	-	-	65,338
Total	**474,420**	**-**	**-**	**474,420**
Total (RO000')	**474,420**	**-**	**-**	**474,420**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	421,893	41,723	-	463,616
Standard Grade (Ba1 to Ba2)	629,506	256,535	-	886,041
Satisfactory Grade (Ba3 to Caa3)	175,987	329,507	-	505,494
Non-performing	-	-	62,309	62,309
Total	**1,227,386**	**627,765**	**62,309**	**1,917,460**
Total (RO'000)	**1,227,386**	**627,765**	**62,309**	**1,917,460**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	604,230	-	-	604,230
Standard Grade (Ba1 to Ba2)	643,117	8,085	-	651,202
Satisfactory Grade (Ba3 to Caa3)	30,303	30,416	-	60,719
Non-performing	-	-	58,990	58,990
Total	**1,277,650**	**38,501**	**58,990**	**1,375,141**
Total (RO'000)	**1,277,650**	**38,501**	**58,990**	**1,345,141**

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment				
High Grade (Aaa to Baa3)	26,295	-	-	26,295
Standard Grade (Ba1 to Ba2)	30,010	-	-	30,010
Satisfactory Grade (Ba3 to Caa3)	24	-	-	24
Non-performing	-	-	-	-
Total	**56,329**	**-**	**-**	**56,329**
Total (RO'000)	**56,329**	**-**	**-**	**56,329**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	45,413	-	-	45,413
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**45,413**	**-**	**-**	**45,413**
Total (RO'000)	**45,413**	**-**	**-**	**45,413**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	250,927	-	-	250,927
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**250,927**	**-**	**-**	**250,927**
Total (RO'000)	**250,927**	**-**	**-**	**290,927**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	5,341	1,764	-	7,105
Standard Grade (Ba1 to Ba2)	42,795	2,138	-	44,933
Satisfactory Grade (Ba3 to Caa3)	12,750	9,265	-	22,015
Sub Standard	-	-	-	-
Total	**60,886**	**13,167**	**-**	**74,053**
Total (RO'000)	**60,886**	**13,167**	**-**	**74,053**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Unutilized / Amortised cost				
High Grade (Aaa to Baa3)	281,539	149,434	-	430,973
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Total	**281,539**	**149,434**	**-**	**430,973**
Total (RO'000)	**281,539**	**149,434**	**-**	**430,973**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit guarantee - Amortised cost*				
High Grade (Aaa to Baa3)	313,454	44,011	790	358,255
Standard Grade (Ba1 to Ba2)	331,026	67,027	-	398,053
Satisfactory Grade (Ba3 to Caa3)	156,363	98,681	-	255,044
Non-performing	-	-	-	-
Total	**800,843**	**209,719**	**790**	**1,011,352**
Total (RO'000)	**800,843**	**209,719**	**790**	**1,011,352**

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Profit - Amortised cost*				
High Grade (Aaa to Baa3)	13,405	2,951	-	16,356
Standard Grade (Ba1 to Ba2)	-	-	-	-
Satisfactory Grade (Ba3 to Caa3)	-	-	-	-
Non-performing	-	-	-	-
Total	**13,405**	**2,951**	**-**	**16,356**
Total (RO'000)	**13,405**	**2,951**	**-**	**16,356**

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans	Non-performing loans	Expected Credit Loss for Stage 1 & 2 Exposure	Expected Credit Loss for Stage 3 Exposure	Interest reserve	Stage 3 Expected Credit Loss during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2019							
Import trade	96,476	6,860	786	1,369	4,080	515	1,059
Export trade	308	6	20	3	3	-	-
Wholesale/retail trade	19,067	9,112	2,547	3,564	337	3,777	4,908
Mining and quarrying	18,745	12	578	6	7	3	-
Construction	510,681	23,960	5,481	8,066	1,764	7,320	-
Manufacturing	183,671	701	1,541	221	256	203	-
Electricity, gas and water	162,671	39	1,230	9	4	-	-
Transport and communication	2,400	659	286	269	80	394	-
Financial institutions	146,916	-	944	-	-	-	-
Services	174,526	1,789	1,195	697	468	223	-
Personal loans	1,222,275	64,310	13,414	28,669	14,199	10,546	2,174
Agriculture and allied activities	10,359	10	40	5	4	-	-
Government	248,742	-	8	-	-	-	
Non-resident lending	-	-	-	-	-	49	4,429
Others	236,178	41,124	9,573	13,557	2,967	12,571	-
	3,033,015	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**
31 December 2018							
Import trade	94,488	12,659	871	1,743	10,548	596	1
Export trade	222	6	17	4	3	2	-
Wholesale/retail trade	30,598	30,200	230	4,906	25,045	(90)	-
Mining and quarrying	39,735	10	689	3	5	(37)	-
Construction	488,548	8,353	5,907	2,416	3,253	1,519	1
Manufacturing	213,039	181	1,175	31	141	16	-
Electricity, gas and water	138,467	36	761	9	1	8	-
Transport and communication	5,709	208	202	84	6	108	-
Financial institutions	140,850	-	310	-	-	10	-
Services	197,750	1,433	797	537	306	-	-
Personal loans	1,316,151	58,989	16,885	25,937	14,625	8,252	26
Agriculture and allied activities	12,114	9	43	5	4	-	-
Government	268,117	-	234	-	-	-	-
Non-resident lending	1,086	5,453	1	4,380	1,027	-	-
Others	225,772	3,762	9,786	1,345	829	35	-
	3,172,646	**121,299**	**37,908**	**41,400**	**55,793**	**10,419**	**28**

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans *(continued)*

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2 RO'000	Exposure to Stage 3 RO'000	Stage 1 & 2 ECL RO'000	Stage 3 `ECL RO'000	Interest reserve RO'000	Stage 3 ECL during the year RO'000	Advances written off during the year RO'000
31 December 2019							
Sultanate of Oman	**3,033,015**	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**8,141**
Other countries	**-**	**-**	**-**	**-**	**-**		**4,429**
	3,033,015	**148,582**	**37,643**	**56,435**	**24,169**	**35,601**	**12,570**
31 December 2018							
Sultanate of Oman	3,171,560	115,846	37,907	37,020	54,766	10,419	28
Other countries	1,086	5,453	1	4,380	1,027	-	-
	3,172,646	121,299	37,908	41,400	55,793	10,419	28

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:

	2019 RO 000's	2018 RO 000's
Against individually impaired		
Property	**37,996**	18,483
Equities	**-**	-
Others	**869**	17
	38,865	18,500

32 Financial risk management *(continued)*

B. Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15%, 20% and 25% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2019						
Cash and balances with Central Bank of Oman	299,905	-	-	-	500	300,405
Loan and advances to customer	248,200	347,818	165,902	791,902	1,509,528	3,063,350
Loans and advances to banks	224,416	181,404	39,126	26,212	-	471,158
Investments FVTPL	-	-	4,263	-		4,263
Investments FVOCI Equity	-	-	3,643	-		3,643
Investments FVOCI-Debt Instrument	-	-	-	34,245	36,125	70,370
Investments at amortized cost	79,844	10,074	57,681	75,691	76,985	300,275
Intangible asset	-	-	-	-	397	397
Property and equipment	-	-	-	-	19,172	19,172
Other assets	18,943	50,955	4,462	-	18,452	92,812
Total Assets Funded	**871,308**	**590,251**	**275,077**	**928,050**	**1,661,159**	**4,325,845**
Total Assets Non Funded (Forward, Option and Commitments)	**503,635**	**426,548**	**277,717**	**217,042**	**-**	**1,424,942**
Total Assets Funded and Non Funded	**1,374,943**	**1,016,799**	**552,794**	**1,145,092**	**1,661,159**	**5,750,787**
Due to banks	239,929	77,000	-	173,250	-	490,179
Deposits from customers	235,674	681,756	567,155	908,479	550,124	2,943,188
Other liabilities	55,419	57,448	5,107	7,974	16,500	142,448
Subordinated loans	-	28,875	-	35,000	-	63,875
Total equity**	-	-	-	-	686,155	686,155
Total liabilities and shareholders' equity	**531,022**	**845,079**	**572,262**	**1,124,703**	**1,252,779**	**4,325,845**
Total Liabilities Non Funded (Forward , Unutilized)	**387,764**	**432,218**	**276,688**	**338,615**	**-**	**1,435,285**
Total Liabilities Funded and Non Funded	**918,786**	**1,277,297**	**848,950**	**1,463,318**	**408,380**	**5,761,130**
Cumulative Liabilities	918,786	1,277,297	848,950	1,463,318	408,380	
Gap	456,157	(260,492)	(296,150)	(318,226)	1,252,779	
Cumulative Gap	456,157	195,659	(100,497)	(418,723)	834,056	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

B.Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2018						
Cash and balances with Central Bank of Oman	301,005	-	-	-	500	301,505
Loan and advances to customer	305,432	333,556	139,074	834,571	1,546,211	3,158,844
Loans and advances to banks	105,474	179,559	23,041	20,985	-	329,059
Investments FVTPL	-	-	4,140	-	-	4,140
Investments FVOCI Equity	-	-	4,118	-	-	4,118
Investments FVOCI-Debt Instrument	-	-	-	26,585	18,562	45,147
Investments at amortized cost	-	22,989	21,791	126,109	80,038	250,927
Intangible asset	-	-	-	-	794	794
Property and equipment	-	-	-	-	14,917	14,917
Other assets	16,662	63,024	12,166	280	11,907	104,039
Total assets Funded	728,573	599,128	204,330	1,008,530	1,672,929	4,213,490
Total Assets Non Funded (Forward, Option and Commitments)	542,131	260,406	436,418	182,363	-	1,421,318
Total Assets Funded and Non Funded	1,270,704	859,534	640,748	1,190,893	1,672,929	5,634,808
Due to banks	213,250	59,483	-	96,250	-	368,983
Deposits from customers	225,298	530,666	380,152	960,549	827,839	2,924,504
Other liabilities	48,936	73,785	12,842	8,466	13,937	157,966
Subordinated loans	-	-	-	63,875	-	63,875
Total equity**	-	-	-	-	698,162	698,162
Total liabilities and shareholders' equity	487,484	663,934	392,994	1,129,140	1,539,938	4,213,490
Total Liabilities Non Funded (Forward, Unutilized)	387,819	268,421	434,292	344,199	-	1,434,731
Total Liabilities Funded and Non Funded	875,303	932,355	827,286	1,473,339	1,539,938	5,648,221
Cumulative Liabilities	875,303	932,355	827,286	1,473,339	1,539,938	
Gap	395,401	(72,821)	(186,538)	(282,446)	132,991	
Cumulative Gap	395,401	322,580	136,042	(146,404)	(13,413)	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

C. Market risk

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

I. Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2019	2018
	RO'000	RO'000
Net assets denominated in US Dollars	**94,327**	163,412
Net assets denominated in UAE Dirham (AED)	**278**	14,020
Net assets denominated in other foreign currencies	**1,327**	1,320
	95,932	178,752

II. Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		**+ or – 2%**	
	2019	2018	**2019**	2018
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**7,825**	8,859	**15,649**	17,718
US Dollars	**3,948**	4,083	**7,896**	8,165
Others currencies	**537**	232	**1,075**	464
	12,310	13,174	**24,620**	26,347

The impact of statement in changes of equity due to interest rate risk in the banking book is not material to the financial statements

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. Interest rate risk *(continued)*

Interest rate sensitivity gap

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

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2019								
Cash and balances with Central Bank of Oman	**1.2%**	98,175	-	-	-	500	201,730	300,405
Loans, advances and financing to banks	**3.8%**	224,162	181,404	39,128	26,212		252	471,158
Loans, advances and financing to customers	**5.7%**	512,781	1,204,195	113,202	659,603	573,569	-	3,063,350
Investments - FVTPL		-	-	4,263	-	-	-	4,263
Investment – FVOCI Equity		-	-	3,643	-	-	-	3,643
Investment FVOCI – Debt Instrument	**6.4%**	-	-	-	34,245	36,125	-	70,370
Investments at amortized cost	**4.1%**	79,844	2,167	48,656	105,066	56,635	7,907	300,275
Intangible asset		-	-	-	-	-	397	397
Property and equipment		-	-	-	-	-	19,172	19,172
Other assets		-	-	-	-	-	92,812	92,812
Total assets		**914,962**	**1,387,766**	**208,892**	**825,126**	**666,829**	**322,270**	**4,325,845**
Due to banks	**3.3%**	239,928	77,000	-	173,251	-	-	490,179
Deposits from customers	**2.9%**	179,059	579,517	965,017	644,302	101,390	473,903	2,943,188
Other liabilities		-	-	-	-	-	142,448	142,448
Subordinated loan	**5.6%**	-	28,875	-	35,000	-	-	63,875
Shareholders' equity		-	145,744	-	40,000	-	500,411	686,155
Total liabilities and Equity**		**418,987**	**831,136**	**965,017**	**892,553**	**101,390**	**1,116,762**	**4,385,845**
On-balance sheet gap		**495,975**	**556,630**	**(756,125)**	**(67,427)**	**565,438**	**(794,492)**	**-**
Cumulative interest sensitivity gap		**495,975**	**1,052,605**	**296,480**	**229,053**	**794,492**	**-**	

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2018								
Cash and balances with Central Bank of Oman	1.9%	143,220	-	-	-	500	157,785	301,505
Loans, advances and financing to banks	3.7%	102,702	223,317	-	-	-	3,040	329,059
Loans, advances and financing to customers	5.7%	643,680	1,155,615	108,895	683,481	567,173	-	3,158,844
Investments - FVTPL		-	-	-	-	-	4,140	4,140
Investment – FVOCI Equity		-	-	-	-	-	4,118	4,118
Investment FVOCI – Debt Instrument	5.1%	-	-	-	26,585	18,562	-	45,147
Investments at amortized cost	4.0%	-	30,315	58,952	67,156	80,039	14,465	250,927
Intangible asset		-	-	-	-	-	794	794
Property and equipment		-	-	-	-	-	14,917	14,917
Other assets		-	-	-	-	-	104,039	104,039
Total assets		889,602	1,409,247	167,847	777,222	666,274	303,298	4,213,490
Due to banks	3.6%	367,250	1,733	-	-	-	-	368,983
Deposits from customers	2.8%	162,127	432,824	412,224	972,594	40,420	904,315	2,924,504
Other liabilities		-	-	-	-	-	157,966	157,966
Subordinated loan	5.6%	-	-	-	63,875	-	-	63,875
Shareholders' equity		-	50,281	-	155,500	33,006	459,375	698,162
Total liabilities and Equity**		529,377	484,838	412,224	1,191,969	73,426	1,521,656	4,213,490
On-balance sheet gap		360,225	924,409	(244,377)	(414,747)	592,848	(1,218,358)	-
Cumulative interest sensitivity gap		360,225	1,284,634	1,040,257	625,510	1,218,358	-	-

** Including Perpetual Tier 1 capital securities

32 Financial risk management *(continued)*

C. Market risk *(continued)*

III. Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However the Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on Level 1 portfolio, the value of the portfolio may decrease by RO 1,045 thousand (2018: decrease by RO 906 thousand).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 36,030 thousand (2018: decrease / increase by RO 36,029 thousand).

D. Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of 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.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2019, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on “Potential Losses” has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank’s bottom-line.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate ‘risk awareness’ and to spread the general ‘risk management culture’ in the Bank. Professional training in diversified forms is also imparted to improve the employees’ risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- The Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- The Bank-wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment’s, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

Business Continuity Planning (BCP) *(continued)*

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

33. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.875% (including the capital conservation buffer) as at 31 December 2019 and with effect from 1 January 2019, to maintain minimum capital adequacy ratio of 13.5% (including capital conservation buffer).

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 15, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 16 to 19

33 Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2019 is 17.86% (2018: 17.33%).

Capital structure	**2019**	2018
	RO'000	RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	280,033
Legal reserve	**58,966**	55,878
Share premium	**95,656**	95,656
Special reserve	**18,488**	18,488
Subordinated loan reserve	**42,875**	30,100
Retained earnings	**1,447**	11,557
Proposed bonus shares	**-**	19,602
CET I/Tier I Capital	**517,067**	511,314
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(1,028)**	(1,029)
Goodwill	**(397)**	(794)
Negative investment revaluation reserve	**(2,245)**	(2,271)
Total CET 1 capital	**513,397**	507,220
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**668,897**	662,720
TIER II CAPITAL		
Investment revaluation reserve	**370**	134
General provision	**38,315**	43,606
Subordinated loan	**21,000**	33,775
Total Tier II capital	**59,685**	77,515
Total eligible capital	**728,582**	740,235
Risk weighted assets		
Banking book	**3,671,420**	3,936,646
Trading book	**143,412**	75,779
Operational risk	**263,487**	258,086
Total	**4,078,319**	4,270,511
Total Tier 1 Capital (T1=CET1+AT1)	**668,897**	662,720
Tier II capital	**59,685**	77,515
Total regulatory capital	**728,582**	740,235
Common Equity Tier 1 ratio	**12.59%**	11.88%
Tier I capital ratio	**16.40%**	15.52%
Total capital ratio	**17.86%**	17.33%

34 Segmental information

The Bank is organised into three main business segments:

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

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment which are included in "Treasury and investments" segment.

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

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

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

At 31 December 2019	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**75,988**	**100,989**	**17,161**	**194,138**
Other revenues (net of commission expense)	**4,279**	**11,160**	**19,694**	**35,133**
Total	**80,267**	**112,149**	**36,855**	**229,271**
Interest, Islamic Window Deposit expenses	**(30,205)**	**(51,089)**	**(18,013)**	**(99,307)**
Net operating income	**50,062**	**61,060**	**18,842**	**129,964**
Segment cost				
Operating expenses including depreciation	**(35,867)**	**(30,130)**	**(5,477)**	**(71,474)**
Impairment for loans and investment net recoveries from allowance for loans impairment	**(719)**	**(21,424)**	**(251)**	**(22,394)**
Bad Debts Written	**(4)**			**(4)**
Profit from operations after provision	**13,472**	**9,506**	**13,114**	**36,092**
Income tax expenses	**(2,183)**	**(1,540)**	**(2,125)**	**(5,848)**
Net profit for the year	**11,289**	**7,966**	**10,989**	**30,244**
Segment assets	**1,376,470**	**2,071,420**	**997,836**	**4,445,726**
Less: Impairment allowance	**56,332**	**62,110**	**1,439**	**119,881**
Total segment assets	**1,320,138**	**2,009,310**	**996,397**	**4,325,845**
Segment liabilities	**675,099**	**2,385,730**	**565,943**	**3,626,772**
Add: Impairment allowance	**124**	**11,898**	**896**	**12,918**
Segment liabilities	**675,223**	**2,397,628**	**566,839**	**3,639,690**

34 Segmental information *(continued)*

At 31 December 2018	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	82,641	100,746	12,935	196,322
Other revenues (net of commission expense)	4,738	12,991	16,697	34,426
Total	87,379	113,737	29,632	230,748
Interest, Islamic Window Deposit expenses	(37,490)	(56,264)	(5,141)	(98,895)
Net operating income	49,889	57,473	24,491	131,853
Segment cost				
Operating expenses including depreciation	(31,119)	(29,168)	(5,169)	(64,456)
Impairment for loans and investment net recoveries from allowance for loans impairment	(6,650)	349	(353)	(6,654)
Profit from operations after provision	12,120	28,654	18,969	59,743
Income tax expenses	(1,920)	(4,538)	(3,004)	(9,462)
Net profit for the year	10,200	24,116	15,965	50,281
Segment assets	1,444,926	2,086,191	818,742	4,349,859
Less: Impairment allowance	(57,590)	(77,676)	(1,103)	(136,369)
Total segment assets	1,387,336	2,008,515	817,639	4,213,490
Segment liabilities	659,296	2,408,677	434,309	3,502,282
Add: Impairment allowance	9	12,023	1,014	13,046
Segment liabilities	659,305	2,420,700	435,323	3,515,328

34 Segmental information *(continued)*

Islamic Banking Window

At 31 December 2019	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**9,073**	**14,778**	**153**	**24,004**
Other revenues	**223**	**1,465**	**2,929**	**4,617**
Total	**9,296**	**16,243**	**3,082**	**28,621**
Unrestricted investment account holders' share of profit and profit expense	**(1,777)**	**(10,566)**	**(1,479)**	**(13,822)**
Net operating income	**7,519**	**5,677**	**1603**	**14,799**
Segment cost				
Operating expenses including depreciation	**(3,676)**	**(2,446)**	**(970)**	**(7,092)**
Impairment allowance	**(58)**	**(737)**	**61**	**(734)**
Bad Debts Written	**(3)**	**-**	**-**	**(3)**
Profit before tax	**3,782**	**2,494**	**694**	**6,970**
Segment assets	**175,792**	**282,850**	**132,286**	**590,928**
Less: Impairment allowance	**(456)**	**(5,413)**	**(127)**	**(5,996)**
Total segment assets	**175,336**	**277,437**	**132,159**	**584,932**
Segment liabilities	**63,995**	**350,385**	**36,327**	**450,707**
Add: Impairment allowance	**1**	**268**	**-**	**269**
Segment liabilities	**63,996**	**350,653**	**36,327**	**450,976**

34 Segmental information *(continued)*

At 31 December 2018	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**8,531**	**12,724**	**301**	**21,556**
Other revenues	**234**	**786**	**2,600**	**3,620**
Total	**8,765**	**13,510**	**2,901**	**25,176**
Unrestricted investment account holders' share of profit and profit expense	**(1,047)**	**(10,381)**	**(619)**	**(12,047)**
Net operating income	**7,718**	**3,129**	**2,282**	**13,129**
Segment cost				
Operating expenses including depreciation	**(2,633)**	**(3,114)**	**(927)**	**(6,674)**
Impairment allowance	**(133)**	**(242)**	**(141)**	**(516)**
Profit before tax	**4,952**	**(227)**	**1,214**	**5,939**
Segment assets	**170,063**	**235,315**	**111,659**	**517,037**
Less: Impairment allowance	**(382)**	**(4,040)**	**(188)**	**(4,610)**
Total segment assets	**169,681**	**231,275**	**111,471**	**512,427**
Segment liabilities	**28,432**	**299,472**	**82,884**	**410,788**
Add: Impairment allowance	**3**	**528**	**-**	**531**
Segment liabilities	**28,435**	**300,000**	**82,884**	**411,319**

35 Dividends – proposed and declared

The Board of Directors in their meeting held on 28th January 2020 proposed a total cash dividend of 7% (RO 20.98 million) for the year 2019 (2018: 10%, RO 28 million), made up of a) 3% (amounting to RO 8.99 million) from the Retained Earnings and b) 4% (amounting to RO 11.99 million) from the Special Reserve Account and nil bonus shares issue for year 2019 (2018: 7%). (2018: 196,022,991 shares) of RO 0.100 each, subject to the approval of Central Bank of Oman and shareholders. The Bank received Central Bank of Oman approval for a total cash dividend of 3% (RO 8.99 million) against the proposal of total cash dividend of 7% (RO 20.98 million). A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 23 March 2020. Board of Directors in their meeting held on 28 January 2020 approved a distribution of RO 15 million from Maisarah Islamic Banking Services, Bank's Islamic Banking Window to the Head Office and also approved increase in paid up capital from Bank's core capital to Maisarah Islamic Banking Services an amount RO 15 million.

During the year, unclaimed dividend amounting to RO 3,864 (2018: RO 22,449) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

The shareholders of the Bank in the annual general meeting held during March 2019 approved the issuance of 7% bonus shares comprising 196,022,991 shares of par value RO 0.100 each (2018: 180,628,618 shares of par value RO 0.100 each) and 10% (2018 – 12%) as cash dividend of the paid share capital of the Bank amounting to RO 28 million for the year ended 31 December 2018 (2017 – RO 27.09. million for the year ended 31 December 2017).

36 Leases

This note provides information for leases where the Bank is a lessee.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2019 RO'000	2018 RO'000
Right-of-use assets		
Leased Premises	**1,823**	**2,535**
Lease liabilities		
Current	**26**	**552**
Non-current	**738**	**771**
	764	**1,323**

Additions to the right-of-use assets during the 2019 financial year were RO 105 thousands.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 RO'000	2018 RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**817**	**-**
Interest expense (included in finance costs)	**56**	**-**
Expense relating to short-term leases	**1,929**	**-**

The total cash outflow for leases in 2019 was RO 2,151 thousand.

(iii) The Bank'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 but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Bank 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. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, 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.
From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

36 Leases (continued)

(iii) The Bank's leasing activities and how these are accounted for (Continued)

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 to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate is used, 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.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to profit or loss 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, and
- any restoration costs.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. 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).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).

36 Leases (continued)

(iv) ***Extension and termination options*** (continued)

- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

As at 31 December 2018, potential future cash outflows of RO 1.34 million have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The 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 of reasonable certainty 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 lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

37 Comparative figures

Certain comparative figures have been reclassified in order to conform the presentation for the current year. These have no impact on the profit for the year or total equity. The details are as follows:

a) Expenses reclassified;

	2019	2018	2018
		Revised	
	RO 000	*RO 000*	*RO 000*
Interest expense	**85,485**	86,848	85,037
Unrestricted investment account holders' share of profit and profit expense	**13,822**	12,047	11,587
General and administrative expenses	**65,778**	61,788	64,059

b) Cash flows from investing activities statements:

The cash flows in 2018 from investment securities were previously presented under operating activities on a net basis amounting to RO 16.072 million. These cash flows are currently reclassified and presented on a gross basis under investing activities.

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