Annual Report

بنك عُمان العربي
OMAN ARAB BANK

’19

"We shall march forward on this road so that Oman can maintain its prominent place in which late His Majesty Sultan Qaboos bin Said bin Taimour wished to position it, the goal he worked to realise."

His Majesty Sultan Haitham Bin Tarik
Speech on January 2020

"We offer thanks and praise to the Almighty Allah for the guidance and virtues with which He has endowed us so that we could take this march forward for the building of a modern, well-founded state, advancing in full determination towards a bright future that is promising of progress and prosperity."

His Majesty The Late Sultan Qaboos bin Said
Speech on November 2014

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Chairman's Report

Dear partners,

On behalf of the Board of Directors, I am pleased to present the consolidated financial statements for the year ended 31 December 2019, together with relevant financial statements reflecting the Bank's results and achievements over the past year.

Despite the economic and financial challenges we faced as a result of the fluctuations in oil prices and the high-interest rates of deposits during the past year, Oman Arab Bank has recorded an outstanding performance. This is indicated by a rise of 6% in net income, reaching a value of OMR 92,960 million.

Operating costs have slightly increased by 4%, resulting in an increase of 8% in net profit on an annual basis, to the value of OMR 32,560 million by the end of 2019. In comparison, the value for the same period in 2018 was OMR 30,140 million. Net interest income saw an increase of 9%, amounting to OMR 71.3 million. Loan value has also increased by 10%, amounting to over OMR 2 billion. This is complemented by a 7% increase in customer deposits, which achieved OMR 1.99 billion.

In regards to assets, the Bank's total assets increased by 7% by the end of 2019, which is approximately OMR 2.5 billion. Meanwhile, the Capital Adequacy Ratio reached 15.2%, higher than the regulatory percentage set at 14.50%.

This positive growth is thanks to the Bank's strategy, which relies on four main pillars.

The first is to enhance the overall and integrated experience for the customer, both within branches or through digital channels. Over the year, we have seen the addition of several new and advanced services that help establish the Bank's position as a lifelong banking partner for its customers.

The second pillar is to enhance our approach to work in an innovative manner, and build a team capable of creating and introducing innovative products that best meet the needs of the customer. Efforts have continued to establish the first innovation laboratory for Oman's banking sector, set to officially open in the first quarter of 2020. This will go hand-in-hand, simultaneously, with the launch of the second edition of Oman Arab Bank Innovation Hub which targets different segments including college students, Fintechs, as well as the Bank's employees.

The third pillar of OAB's strategy focuses on building strategic partnerships that help the Bank provide new value-added services and products to the customer, through the Bank's partners. OAB succeeded in establishing several alliances throughout 2019, their impact appearing in the year-end results.

The fourth strategic pillar is managing talents and competencies within the Bank, so that a clear work plan for career advancement is set on the basis of competence training and qualification. The past year (2019) witnessed the implementation of many training programmes and workshops to raise the efficiency of employees at all levels and to qualify them for larger and more diverse tasks, with the ultimate goal to enhance customer satisfaction. In line with our commitment to Omanisation, the Bank has maintained its accomplishments by maintaining the highest Omanisation rate in the sector, at 96%.

Last year, Oman Arab Bank initiated a proposal to merge with Alizz Islamic Bank and to form a larger banking entity, operating in both the commercial and Islamic banking sector. At the end of the year, the Bank received a letter of acceptance for the proposal from Alizz Islamic Bank management. We look forward to completing approvals from shareholders and supervisory and regulatory authorities to move forward with this strategic step in the year 2020.

The year 2020 started with the tragic loss of the founder of Oman's modern renaissance, the late His Majesty Sultan Qaboos bin Said bin Taimur, who passed away on January 10, 2020. Hope was renewed when His Majesty Sultan Haitham bin Tarik took office, to lead the Sultanate into a future of continued growth, prosperity and development. We, in turn, are fully aware of the role assigned to the private sector at this stage, and look forward to contribute consistently to the ongoing development at all levels. We have full confidence in the national economy and the 'Oman 2040' future vision.

Allow me to express my sincere congratulations to His Majesty Sultan Haitham bin Tarik. We pledge loyalty to him and his wise leadership, and the future of our dear country. May Allah protect him, Oman and its people.

I would like to thank the management of Central Bank of Oman for its valuable guidance and successful leadership of the local banking sector, as well as all customers, partners and shareholders. Your confidence has been the cornerstone of our path to success.

Lastly, I would like to extend my gratitude and appreciation for the executive management at the Bank and all employees. It is their valuable contributions and efforts that have allowed us to achieve the desired goals for the year 2019. On behalf of the members of the Board of Directors, please accept my sincere thanks for your commitment to making Oman Arab Bank better.

Rashad Al Zubair
Chairman of the Board of Directors

Chief Executive Officer Report

Oman Arab Bank has achieved impressive results in 2019 despite the challenges brought on by global economic conditions and strong competition at a local level. The net profit of the Bank for 2019 of OMR 32.5 Million grew by 8% from 2018 supported by a healthy growth of 8% in Net interest income and the non-interest income increased by 6%. The operating expenses have been controlled with a nominal increase of 4% year-on-year while the net impairment provision increased by 12%. The Bank maintains a comfortable level of liquidity under tight market conditions with net loans to deposits ratio of around 100%. The Capital Adequacy at 15.20% as at 31 Dec-19 is well above the minimum regulatory requirement of 12.625%. The Bank is planning to increase additional capital during 2020.

OAB's strategy is to enhance the customer experience through innovative solutions and alliances delivered by capable employees. We adopted the Scaled Agile Framework (SAFe) for the enterprise with a clear roadmap to execute the strategic initiatives. Agile Centers of Excellence have been set up in the Bank to promote the new work culture and deliver the strategic objectives at a regular cadence.

Customer Experience

The Retail Banking Group accomplished an impressive performance throughout the year, keeping pace with technological progress and enhancing overall customer experience. The 'Partner for Life' concept was launched to let customers know that we are here to cater to their various needs both online and offline. The enhancement of digital banking channels with biometric login, Tap and Cash ATMs, integration with service providers for payments, feature to donate and instant reward redemption on PoS terminals across Oman offer a wider range of services to our customers. The launch of the apps- OAB Rewards, Gifti and Robosaver are part of our 'Step to Future' campaign in providing the customers greater choice in shopping and sharing the rewards. The automation of loan processing through the E-loans and E-cards has reduced the Turnaround Time significantly for the customers. The revamped Hassad Prize scheme of OAB with Save & Win monthly cash prize and campaign of 100 winners per month aims to provide a greater chance of reward for the customer.

We have reached out to the small and medium enterprises (SMEs) through specialised workshops in Muscat, Salalah, Sur and Sohar to help them manage their business activities more efficiently. Over 100 entrepreneurs and business owners from attended these workshops across the country. The Bank signed a deal to finance the SME Development Fund, which in turn will support SME sector. The Bank has also participated in financing some of large projects in the hospitality and manufacturing industries in Oman. Our Corporate Banking team is working on some innovative products and services, which are planned for launch during early 2020.

Talent Management

We are creating a vibrant workplace that embraces innovation and allows employees to motivate each other for enhanced performance. The HR team have launched various initiatives to promote the positive work culture in line with our emphasis on talent management.

In 2019, 20 employees completed the third edition of Leadership Enhancement and Development program (LEAD) program. The LEAD program aims to develop potential leaders offering them the best-in-class program. We have provided development opportunity to 59 employees since the launch of the program in 2017. We have collaborated with iconic international business schools like Columbia Business School and Wharton Business School in enrolling senior executives for executive and general management programs. During 2019, 280 young Omanis completed their internship programs at OAB, which includes on-the-job training in the branches and departments. We launched Women Mentoring Program to offer opportunities for development and empowering the women employees.

We are proud of the fact that the Bank continues to maintain one of the highest Omanisation rate in the sector at 96%, demonstrating our commitment to the national goals.

Alliances and Synergies

OAB has entered into several strategic alliances for offers and retail acceptance. In 2019, we launched digital insurance service with the largest insurance provider in Oman, who are our main bancassurance partner. Our alliance with major automotive dealers provided us opportunities to provide financing and insurance services to customers. We have signed an agreement with Zubair Small Enterprises Centre for adopting of one of the SME to offer financial support as well as guidance in management.

We have tie-ups with top hotels, airlines and logistics companies for discounts, rewards redemption and special offers for our Elite customers in addition to the expansion of our PoS network.

OAB signed a strategic memorandum of understanding with Innovation Development Oman SAOC (IDO) to identify and explore potential opportunities for Fintech innovations to be implemented in Oman. The strategic partnership will also facilitate the development of an innovation ecosystem for entrepreneurship in Oman. OAB collaborated with various local educational institutions to complete a nation-wide innovation roadshow that sought to inspire innovative thinking amongst local students.

Innovation

In 2019, the Bank launched the Innovation Hub, the biggest hackathon in Oman for Fintechs, students and OAB employees. The event saw the participation of over 350 people from various parts of the Sultanate and the region developing their innovative proof of concepts and smart solutions with the support of internal and partner mentors, developers and subject matter experts. The Bank adopted some of these ideas, turning them into minimum viable products that would deliver a superior customer experience.

OAB is well on its way to launch its Innovation Lab, a first-of-its-kind in the Sultanate, inspired by some of the top innovation labs in the world: Harvard's Innovation Lab and Barclays Rise Lab. The Innovation Lab will provide students, OAB staff and Fintech companies with access to industry experts with mentoring sessions and workshop to stimulate a design thinking approach and create innovative business models. The Bank seeks to establish itself as a hub for innovation that will expand across ecosystems to deliver superior customer experiences

Social Responsibility

We at Oman Arab Bank have always believe in integrating social responsibility in our everyday business by participating in several activities and initiatives targeting the various segments of our community. This includes the participation of Bank employees in voluntary activities, encouraging a community-focused culture at all levels. The Bank's social activities are presented in the CSR section of this report. I am also pleased to highlight that towards the end of 2019, Oman Arab Bank has successfully finalized its new sustainability strategy. Our aim is to enhance the sustainability of our social contributions, by focusing our efforts on the environment, community partnerships and financial inclusion moving forward. We take pride in contributing to the development of the nation through our engagement with local communities.

Proposed merger

The proposed merger with Alizz Islamic Bank (AIB) is under negotiation between the shareholders of the Bank following the completion of due diligence process and this is subject to necessary regulatory approvals. On 31 December 2019, OAB has made an offer to AIB for a swap ratio of 81% -19% for the respective shareholders of OAB and AIB subject to the approval of board of directors and shareholders.

I would like to extend my gratitude and appreciation to all our customers for their confidence in us over the years. I also like to thank the OAB family, who are the cornerstone of our incredible achievements. Together, we look forward to another year of success.

Rashad Ali Al Musafir
Chief Executive Officer

Management Discussion and Analysis Report 2019

Industry Structure & Development

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and various other regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition, banks must also comply with the requirements of the Commercial Companies Law, as amended from time to time and necessary requirements of the Capital Market Authority (CMA). A summary of the banking sector performance for the year ended 2020, based on the latest publication and other statistics issued by the Central Bank of Oman is as follows:

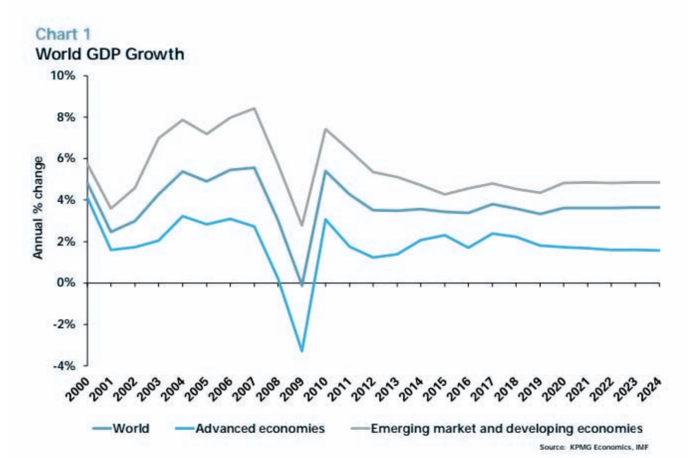
- Total assets of commercial banks grew by 3.7 per cent from RO 34 billion at 31-Dec-2018 to reach RO 35.2 billion at 31-Dec-2019.
- Loans and advances recorded growth of 3.1 per cent reaching RO 25.8 billion at 31-Dec-2019 from RO 25.1 billion at 31-Dec-2018.
- Customer deposits also grew relatively lesser by 1.7 per cent to RO 23.6 billion at 31-Dec-2019 from RO 23.3 billion at 31-Dec-2018.
- The Loan to deposit ratio slightly improved, crystallizing at 109 per cent as against 107.8 per cent at the end of 2018.
- The average deposit interest rate on Rial Omani deposits ended at 2.01 per cent an increase of 0.20 per cent compared to the previous year.
- The average Rial Omani lending rates increased to 5.50 per cent up 23 bps from 5.27 per cent at December 2018.

Economic Outlook

International

The US economy is tracking robust growth of around 3 per cent in 2019, with fiscal stimulus from large tax cuts contributing to the rapid expansion. However, the Federal Reserve is likely to continue gradually raising interest rates while US tariffs on imported goods will be a drag on growth, and the temporary boost from fiscal policy will diminish next year. By 2020, the United States will face a considerable fiscal drag, and this is expected to lead to much slower economic growth there. Meanwhile, the European economy is also facing a diminishing economy and a reduction in monetary stimulus that is likely to temper growth. As the advanced economies slip down a gear, global economic growth is likely to lose some momentum. Many emerging economies are likely to experience higher inflation, created by currency depreciation and other factors like tariffs (in the case of China), and this will lead to tighter monetary policy resulting in a slower in global economic growth.

The US economy is still in good shape and it remains at the top of the advanced-economy growth leader board in 2019. Heading into 2020, a further moderation of economic growth is anticipated, with US real GDP growth cooling to 1.6 per cent next year.



In December 2019, an agreement between the United States and China of a "Phase One" trade deal that avoids further tariff hikes was finalized, lowering some of the duties imposed by the US in September from 15 per cent to 7.5 per cent but leaving earlier tariffs in place. The deal is due to be signed in January and implemented from February. The Federal Reserve as expected left interest rates on hold at a range of 1.50-1.75 per cent also signalling the potential for no changes in interest rates in 2020.

The euro-area should deliver a solid gain this year, but a declining economy should lead the European Central Bank to wind down its bond-buying program and consider raising interest rates in 2020. The UK economy has been expanding at a respectable pace, but Brexit risks continue to loom as it negotiates a divorce from the European Union. The UK is set to formally exit the European Union at the end of January, into an 11-month 'transition' period, leaving decisions on a free trade agreement between the UK and Europe to be negotiated. Failure to sort out key issues, including tariff rates, could lead to another Brexit cliff edge at the end of the year, with all that entails for growth, new investments, along with business and consumer confidence. The terms of the future UK-EU trading relationship are still unclear and may not be resolved by the current end-2020 deadline.

Moreover, the US hopes to negotiate its own free trade deal with the UK in 2020 by pulling the UK closer to the US in terms of economic regulation. This would then create difficulties for the UK to close any meaningful deal with Europe.

Regional

Growth in the Middle East and North Africa is projected to remain subdued in 2019, at 1.3 per cent.

Despite positive momentum in non-oil sectors, oil production cuts and U.S. sanctions on Iran have weighted on activity, along with other geopolitical tensions and a further escalation of global trade tensions. Activity among oil importers has been supported by policy reforms and improved tourism prospects.

Interest rates in the GCC economies have moved broadly in tandem with U.S. rates, reflecting the general pegging of their currencies to the U.S. dollar. Central Banks will prioritize maintaining the currency peg to the US dollar, given the economic stability the fixed exchange-rate regime peg brings to the GCC.

Although economic growth is projected to gain steam next year, risks to the economic outlook are skewed to the downside. In an attempt to boost stubbornly weak prices amid a bearish global demand outlook, OPEC+ decided to extend the oil cut deal at the December in 2019 meeting cutting production by an additional 0.5 mb/d from 1.2 mb/d to 1.7 mb/d effective January 2020, on top of the current voluntary 0.4 mb/d cut by Saudi Arabia. The deal will be reassessed in March 2020. This cut would limit the expected recovery among those countries dependent on oil exports. Moreover, rising domestic political unrest could hit regional growth in 2020.

Non-oil activity is expected to accelerate in 2020 relative to 2019 in the three major economies - Saudi Arabia, UAE and Qatar - principally due to ongoing reforms to boost non-oil sector growth from continuing economic diversification with events coming up such as Dubai Expo 2020 in UAE, planned infrastructure spending related to FIFA world cup in 2022 in Qatar, subsidy reforms and prospects of improving domestic demand in Saudi Arabia.

Local

Following a recovery of 2.2 per cent in 2018, Oman's real GDP growth is estimated to decelerate to 0.3 per cent in 2019 as oil production remains capped by the OPEC+ production cut agreement. Brent crude prices also rose further above $60/bbl, though sentiment remains somewhat negative on a weak fundamental outlook going into 2020 and uncertainty over OPEC+ policy. Brent was further boosted to above $64/bbl in December by the surprise announcement that OPEC+ would cut production. Despite Oman's participation in the production cut agreement, the ongoing expansion in gas production should compensate the hydrocarbon sector growth and revenues.

Actual revenue for 2019 reached OMR 11.1 billion, compared to the budgeted revenue of OMR 10.1 billion.

This is attributable to a 12 per cent increase (OMR 635 million) in oil revenue and a 13 per cent increase (OMR 345 million) in non-oil revenue. The increase in oil revenue is mainly due to the fact that the realized oil price of USD 65/bbl was higher than the budgeted oil price of USD 58/bbl.

Five strategic sectors (manufacturing, transport and logistics, tourism, fisheries and mining) have been identified as key to diversification, moving the economy away from oil and gas. The total contribution to the GDP during 2019 from these sectors was 20.6 per cent -- close to what was previously planned for 2020.

Chart 5: Brent crude oil price

($ per barrel, end of month)

Source: Refinitiv

Oil sales generate more than 70 per cent of government revenue and almost all export earnings, reflecting slow progress on diversifying the economy. There will be increased pressure to accelerate the diversification programme, in order to increase employment and non-oil revenue.

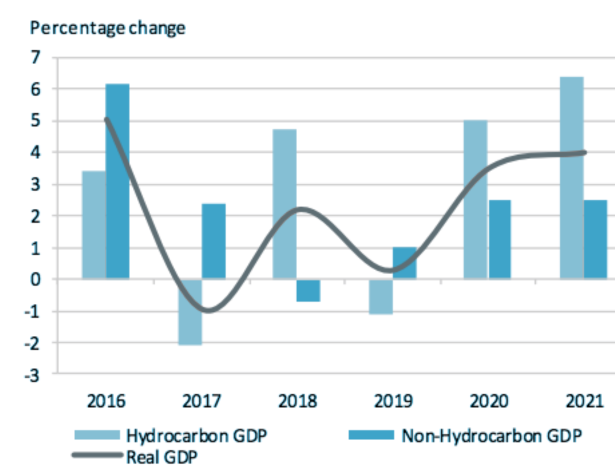
Non-oil activity should grow more rapidly in 2020, relative to 2019 in line with its Vision 2020 plan as the government pushes ahead with developing its tourism, manufacturing and logistics sectors.

Similarly, in an effort to help finance its public deficit and to boost non-oil revenues, the authorities as of mid-June have implemented an excise tax of 100 per cent on selected goods, including sugary drinks, alcohol and tobacco. However, a few days later, the government has revised down the rate of tax on alcohol down to 50 per cent. Similar to the United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA), Oman is now expected to expand the scope of excise tax to sweetened drinks during 2020. A 5 per cent VAT originally planned to happen at the start of 2018 as part of a GCC agreement is likely to follow in 2020. This in turn has a direct effect on inflation following excise tax in 2019 and the planned VAT 2021 to come into effect in 2020-2021.

Looking Forward

Growth is expected to accelerate to 3.7 per cent in 2020 driven largely by the rise in natural gas output as production from new fields comes on stream. The potential boost of the government's diversification efforts would continue to facilitate an increase in non-hydrocarbon growth to approximately 4 per cent annually in the medium-term. Inflation is expected to increase to almost 2 per cent in 2020, and to further accelerate to nearly 4 per cent in 2021, reflecting the possible introduction of VAT. Similarly, it was reported that the introduction of VAT will be delayed until 2021. A move that is unlikely to be viewed positively by the rating agencies given Oman's weak public finances.

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities; World Bank; and IMF staff projections.

The 2020 budget represents the final year of Oman Vision 2020, paving the way for the tenth five year development plan and Oman Vision 2040. In 2020, oil and gas revenues represent 72 per cent of total government revenues. Vision

2040, Oman's next long-term development plan envisages a significantly increased role for the private sector, both in helping to diversify the economy and providing employment for Omanis.

Oil and gas revenues are expected to increase by 3 per cent compared to the 2019 budget. Considering the recovery of oil prices in the international market, the 2020 budget is based on an oil price of US$58/bbl. As hydrocarbon revenue in Oman is capped by the OPEC+ production cut agreement, lower hydrocarbon production is estimated to weigh on the contribution of the sector to GDP growth this year.

Non-oil and gas revenues are projected to be OMR 3 billion in 2020 compared to OMR 2.65b in 2010, reflecting an increase of 13 per cent. Contribution from taxes and fees continues to grow rapidly. The government's focus on privatization is reflected in the planned income from sale of investments in state owned enterprises. During 2019, the government sold almost half of its stake in the Oman Electricity Transmission Company to China, raising around $1bn in pursue of its privatization agenda which is set to continue in 2020.

However, although increased attention is being paid to the development of the non-oil economy—including travel and tourism, manufacturing, mining and fisheries—a further expansion of hydrocarbon based activities will still form a crucial part of the government's overall strategy.

In the absence of further significant fiscal reform, the budget deficit is projected to remain high at an average of over 8 per cent of GDP in 2020-2021 which is anticipated to be OMR 300 million less than the 2019 budget at OMR 2.5 billion. The current account deficit is also projected to increase to an average of 8 per cent of GDP mainly due to higher imports.

Providing more job opportunities remains an important challenge given higher unemployment rates among youth Omanis, The government will continue to face this challenge of balancing the employment and social demands of Oman's young and growing population against the need for major fiscal consolidation. Structural problems, such as a lack of skilled nationals and differences in salaries and working conditions between the private and public sectors, will add to this challenge.

Discussion on Financial and Operational Performance

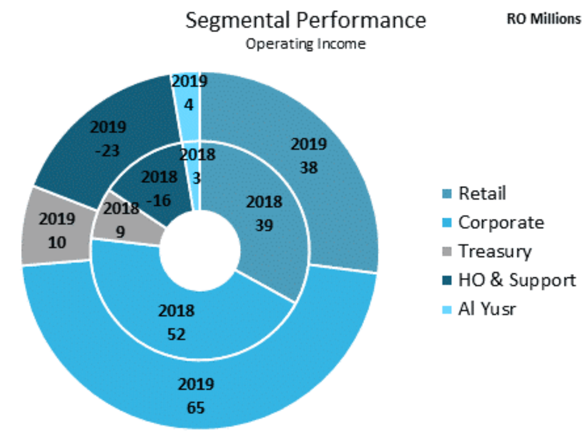
The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. It remains unclear how the economic and social environment will evolve through 2020.

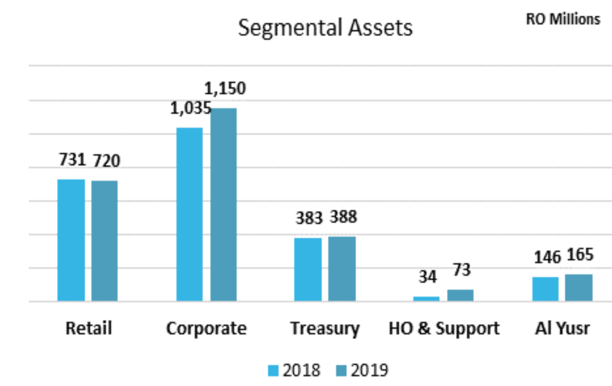
Economic activity in Oman has suffered due to the coronavirus and a national lockdown that commenced in late March 2020. Oman's economy is significantly concentrated and dependent on the price of crude oil. With global and domestic demand likely to remain subdued as coronavirus pressures persist and as lockdowns and restrictions on movement possibly continue, economic activity in Oman will likely remain lethargic going forward.

The Bank reports its performance under 5 segments namely Retail, Corporate, Treasury, Al Yusr and Head office & Support function.

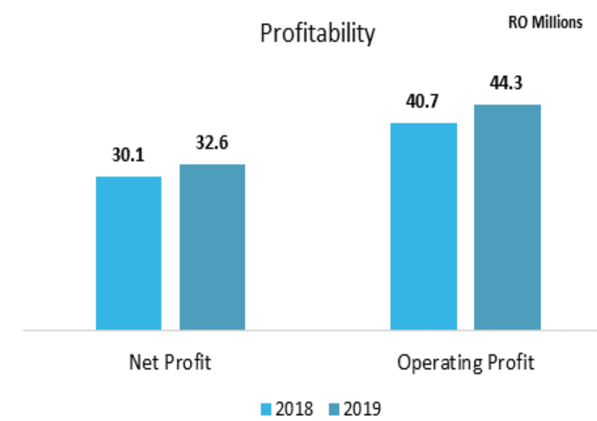
During 2019, total income of the corporate segment saw a growth of RO 13 million (24%) leading to overall increase in the Bank's profitability. The growth in corporate loans by 11% was a key contributing factor to the growth in total income. Income from retail banking reduced by RO 2 million as the non-funded income decreased year-on-year (YoY) by RO 1.3 million due to continued fragmentation in the cards business.

The Islamic window, Al Yusr, witnessed YoY growth of RO 0.57 million (19%) due to the growth in financing receivables. The income from Treasury has improved by 12% mainly due to interest on Oman Government





Development Bonds and income generated out of the liquid funds through interbank money market placements.



Net Profit

Net profit for the year ended 31 December 2019 was RO 32.5 million (2018 30.1 million), which was 8% higher than the previous year. The operating profit at RO 44.3 million (2018 40.7) was 9% higher than previous year.

The significant changes in income and expenses during 2019 were as follows:

- Net interest income increased during the period by RO 6 million, which is a growth of 8.7%. The main driver for this growth was the increase in interest income by 13% achieved with an equitable growth in loan portfolio re-priced effectively. The yield on loans increased marginally to 5.50% compared to 5.27% for 2018. The interest expense increased by 22%. The overall shape of deposits has not been consistent throughout the year, in terms of the product mix on an average basis, due to the decline in demand and call deposits and more reliance on fixed deposits which has resulted in the cost of deposits increasing to 2.01% (2018 1.73%).
- Increased investments in government bonds at higher yields has significantly increased the overall yields on the non-lendable funds.

- Yields on interest bearing assets also witnessed a similar increase at 5.28% compared to 5.01% for 2018 and the total cost of funds is 1.98% compared to 1.70% for 2018.
- This resulted in a marginal decline in net interest margin to 3.30% from 3.33% in 2018.
- Income from Al Yusr, Islamic window, has increased by 19%, however due to higher impairment allowances of RO 1.7 million, the Islamic window reported a net loss of RO 18K for the year.
- Overall commission and fee income, excluding Al Yusr, reduced by RO 1 million compared with the previous year mainly due to the reduction in income from retail banking and the bank's holdings in funds.
- The continued cost control measures by the management has resulted in the reduction in the growth rate of operating expenses. Operating costs, other than staff, increased by 0.4% compared to an increase of 4% in 2018. Staff costs increased by 5.8% in 2019 with the number of staff increasing to 1,241 from 1,190.
- The allowance for credit losses increased by RO 2.7 million to RO 13.7 million (2018 RO 11.1 million). Also, recoveries from allowances of RO 8.32 million (2018 6.3 million) increased by 33%.
- Credit losses on investments of RO 55K for 2019 (2018 RO 9K) related to corporate bonds.
- The Earnings Per Share (EPS) of 20 Baiza (2018 20 Baiza) has remained flat, as interest payout on perpetual bonds has increased compared to the previous year.

Assets

Total assets of RO 2.50 Billion as at 31 December 2019 are RO 0.17 Billion (7%) higher than RO 2.33 Billion as at 31 December 2018. The significant changes were as follows:

Loans and advances

Gross loans at RO 2.06 Billion were RO 0.17 Billion (9%) higher than RO 1.83 Billion as at December 2018. The growth in loans was higher than the growth in the overall banking sector of 3.1%.

The YoY growth consisted of RO 0.18 Billion (16%) increase in Corporate loans and a decrease RO 5 Million (-1%) in Personal loans.

Overall asset quality declined with an increase in the Non-Performing Loans (NPL) ratio to 3.59% from 2.73% as of 31 December 2018, given the higher growth in total NPL to RO 73.9 Million as at 31 December 2019 from RO 51.5 Million as at 31 December 2018. Retail NPL was 1.76% of the total retail loans compared to 1.47% as at 31 December 2018 while the corporate NPL was 4.66% of the total corporate loans compared to 3.59% as at 31 December 2018. The non-performing loans included corporate loans of RO 8 million granted under the Government Soft Loan scheme, the principal amount of which were guaranteed and a part of the interest was paid by the Government of Oman.

The total provision coverage at 31 December 2019 is 73% of the non-performing assets compared to 108% at 31 December 2018. The decline in the provision coverage ratio was due to an increase in impaired exposures with higher amount of collaterals. The specific provision was 41% of the NPL as the provision requirement was lower after considering the collaterals available for these loans. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

Investments

Investments in securities of RO 165 million (2018 RO 131 million) comprised mainly of Oman Government Bonds of RO 147 million (2018 RO 120 million) issued by the Central Bank of Oman and corporate bonds of RO 10.8 million (2018 RO 2.4 million). These investments were in accordance with the Bank's strategy to enhance profitability. The investment in equities was RO 7.4 million compared to RO 8.9 million as at 31 December 2018. The reduction in equity investment is consistent with the management's strategy of exiting the equity investment related activities.

Due from Banks

Due from Banks at RO 51 million reduced by 44% from RO 91 million as of 31 December 2018, with an objective of increasing the overall returns on assets while maintaining a liquidity buffer. The average yields on due from banks increased to 2.41% from 1.72% in 2018.

Liabilities

Customer Deposits

The customer deposits constituted 94% (2018 95%) of liabilities. Customer deposits at RO 2.0 Billion as at 31 December 2019 were 7% higher than the RO 1.9 Billion as at 31 December 2018. This is higher than the deposit growth in the overall banking sector of 1.7%. The growth comprised of an increase of RO 69 Million (10%) in Demand deposits (2018 decrease of RO 28 Million) while the Savings deposits increased by RO 16 million (6%) (2018 increase of RO 18 Million) and Term deposits increased by RO 42 million (5%) (2018 increase of RO 133 million).

Due to Banks

Due to Banks at RO 31 million, increased by RO 16 million during the year due to increased borrowings in the interbank market to manage the liquidity and overall cost of funds.

Shareholders' Funds

Shareholders' funds increased to RO 296 million from RO 284 million in the previous year. The paid-up share capital at RO 134.62 million was constant. Out of the total paid-up capital, RO 20 million has been assigned to the Bank's Islamic Banking Window, Al Yusr. The subordinated debt reserve of RO 16 million was for the subordinated debt of RO 20 million, which was scheduled to mature in 2021.

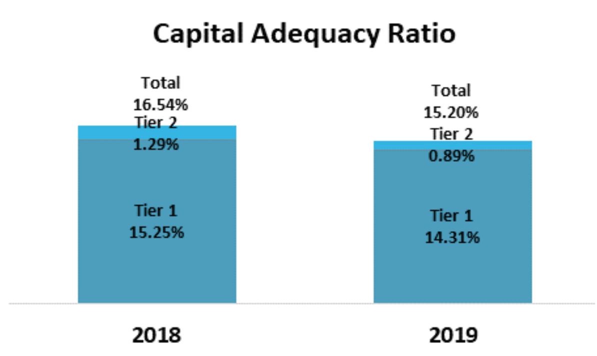
The Special Reserve remained static at RO 4 M. The Special Reserve was required to be held until the restructured accounts were upgraded. Accordingly, the Bank transferred no amount from retained earnings to Special Reserve in 2019 (2018: RO 1.5 million).

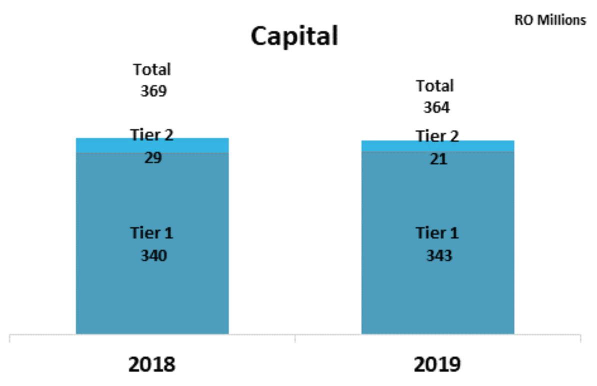
CBO regulations required an Impairment Reserve if the provisions requirement in accordance with the CBO guidelines was higher than the provisions as stipulated by IFRS 9. The difference net of tax was transferred to an 'Impairment Reserve' as an appropriation from net profit after tax. In 2019 an amount of RO 9 M (2018 Nil) was transferred to the Impairment Reserve.

Capital Adequacy

The Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlements (BIS) was 15.20% (2018: 16.54%). The Tier-1 Capital consisting mainly of Common Equity Tier1 (CET1) was 14.31% (2018: 15.25%).

The growth in the risk weighted assets by 7% mainly due to the growth in credit portfolio and a lower regulatory capital base due to the ineligibility of the Impairment Reserve resulted in a lower capital adequacy ratio compared to the previous year.





During 2019 the Bank maintained its capital base higher than the regulatory requirements. (including Capital Conservative Buffer (CCB)).

The details of the calculation and the Bank's policy for capital management were provided in the notes to the financial statements and the disclosures in accordance with Pillar 3 of the Basel II guidelines.

CSR Report

Takaful Account

OAB has, from its inception, always strived to maintain close bonds with local communities and help those in need. The Bank endeavours to offer its support to charity initiatives organised by NGOs and government organisations whenever possible.

The Bank's Takaful Account is one such initiative. It was launched earlier in 2019 in partnership with the Ministry of Social Development. The Takaful Account is managed by the Ministry and is primarily dedicated to supporting the social welfare of orphaned children and families in need. The account is also used to finance various NGOs, charity organisations and volunteer groups.

Later in the year, the Bank also introduced a new direct debit facility into its mobile banking app allowing customers to make donations to the Takaful Account, alongside other non-profit organisations such as Dar Al Atta'a, Al Noor Association for the Blind, and The Association for the Welfare of Handicapped Children. Using the app, customers can also sign up for a regular monthly donation to be transferred directly to the charity of their choice.

Earth Hour

Earth Hour is an initiative conducted by the World Wildlife Fund and other conservation organisations worldwide. It is held on the last Saturday of March every year. Individuals, communities and businesses around the world turn off non-essential electric lights for one hour, from 8:30pm to 9:30pm, in order to raise awareness on excessive energy consumption and its negative effects on the environment.

As it has done every year, OAB once again participated in Earth Hour in 2019. For one hour in the evening, on Saturday, March 30, the Bank switched off all lights at its Head Office for one hour. During this time, a live band, food corner, and board games kept people entertained. Children also enjoyed colouring on a large themed wall commemorating Earth Hour.

By participating in Earth Hour and hosting such an event, OAB hopes to encourage people to do the same and spread awareness on the impact of wasteful energy consumption. Moving forward we will continue to show our commitment and support towards the protection of our planet.

SME Financial Management Workshops

Given the importance of the SME sector as a key contributor to trade, employment and economic growth in the Sultanate, OAB believes that it is critical that the sector receives adequate support from established private entities. In fact, OAB has established that the support and development of small local businesses and fostering long-lasting partnerships with such companies is a key pillar of the Banks operational strategy.

To this end, the Bank offers a wide range of products and services specially catered to SMEs as well as consultation whenever possible. A recent example was a series of financial management workshops organised by the bank for SMEs across the country.

The first of these workshops was held in Muscat, followed another three in Salalah, Suhar, and Sur respectively. These workshops, which were attended by over 100 entrepreneurs and business owners from across the country, focused on how to manage business finances and provided the SME's with a deeper insight into the various financial products and services available to them, both from the Bank as well as from the government. They also showcased how to best make use of these tools and when.

Hayyakum Roadshow

Around the same time, it was conducting the SME Financial Management workshops, OAB was also hosting its Hayyakum Roadshow, a series of fun gatherings where the Bank interacted with various communities across the Sultanate, provided entertainment and showcased its range of products and services to attendees. Starting with Nizwa on June 27, the show then visited Suhar, Salalah and Sur.

These events were first and foremost a family event. As such, the bank organised a number of fun activities for visiting families to enjoy, including face painting, henna, games, magic and science shows and hundreds of prizes.

As a show of support to smaller businesses and budding entrepreneurs in Oman, the Bank also invited several SMEs from each of the roadshow locations to come and display their products and services at the event irrespective of whether or not they were banking with OAB. In doing so, the Bank provided them with a platform to receive exposure and expand their customer base.

Financial Inclusion

In line with our endeavours to provide a more inclusive environment for our customers with special needs, we have worked extensively over the last few years to improve our facilities and services. OAB has placed wheelchair accessible ramps, and allocated designated parking spots.

On the digital side, the Bank's online platforms and smartphone apps are made available to enable those with special needs to benefit from the services in an easy and convenient way. Additionally, a number of ATMs have been built at a height that enables wheelchair accessibility.

The Bank has also conducted a series of training courses for its customer service employees to educate them about special needs clients and the best way to cater to their needs.

OAB Signs MoU with Zubair SEC

As part of its ongoing efforts to support the SME sector, OAB signed a partnership agreement with Zubair Small Enterprises Center (Zubair SEC) in October. The signing ceremony took place during the launch of the sixth edition of the Zubair SEC Direct Support Programme (DSP). Under the agreement, the Bank outlined how it would adopt one of ten SMEs in 2020.

The Bank is offering its support and financing to selected members of the Programme. The Bank's SME team has extensive experience in finance and strategic management, and is putting its expertise to good use, offering the SMEs guidance on how to enhance the performance of their company, achieve sustainable growth, and take their business to the next level.

Oman Arab Bank Connect

OAB has always seen it as its responsibility to not only enhance its own business and add value to the banking sector but to contribute to Oman as a whole. It is with this in mind that OAB proudly launched its inaugural OAB Connect event in April followed by another in October. This event was aimed towards bringing international thought leaders to Oman, allowing them to share their knowledge and expertise with local business leaders and decision makers creating value for the local community.

The inaugural event saw the renowned Australian banking author and entrepreneur, Brett King, attend as the guest speaker for the evening. Over the course of the event, Brett King touched primarily on the world's continuing trend towards increased digitalisation and customer centric service in every aspect of business, covering everything from communication channels, product development, leveraging technology and more.

For the second event in October, OAB invited Zürich based entrepreneur Patrick Stäuble as the guest speaker. He is the CEO and Founder of Teylor AG – a company established in 2018 with the aim to revolutionise the lending process. Despite its young age, Teylor is already making waves in the fintech world, capturing the attention of Forbes Magazine and landing Patrick on the Forbes 30 most influential people under 30 list.

At the event, Patrick Stäuble shared his story with the attendees and talked about how we can leverage easily accessible technologies and connectivity to revolutionise how we all do business.

Both events saw the attendance of several SMEs, delegates, VIP customers, and business leaders from across the country. As a result, the forum has proven itself to be a perfect platform to stay in the know about the latest technological advancements in business while also facilitating networking opportunities with some of the most prominent entrepreneurs and companies operating in Oman.

Supporting Local Innovators

Hosts Open Day on Financial Responsibility

Oman Arab Bank has always strived to support the development of Omani youth. Among the several schools and colleges that the Bank supported throughout the year, one of the most prominent was the Um Al Fadhl School Girls School in Birkat Al Mouz. The school was notable for its digital and robotics courses, which are some of the most advanced in the country.

The students are extremely talented and hardworking, winning several science and robotics competitions both locally and internationally. The school's digital lab is also particularly impressive rivalling some you might find in colleges.

OAB always aims to support such talented youth. That is why, the Bank opted to support the further development and advancement of the digital lab at the school. In addition, as part of its support to the school, the Bank also hosted an open day for the students. The open day was focused on financial responsibility, with members from OAB's senior leadership hosting a workshop on how to manage finances and budget efficiently.

School Supplies Donation

OAB has always been a community-oriented organisation, consistently striving to help and support those in need and building lasting relationships, not just with its customers, but with everyone in the community. This is why, in August OAB donated school supplies to the Omani Women's Association. The Association then distributed these items to those in need in Al Amerat as part of the initiative.

OAB strongly believes that supporting charity drives such as these and operating in partnership with organisations like the Omani Women's Association, provide a great opportunity for the Bank to connect with the people and help spread awareness on just how rewarding charitable work can be. The Bank also strives to ensure that its contributions are carefully planned and evaluated in order to diversify and reach out to the maximum number of people especially those who need it most. In doing so, the Bank ensures the maximum number of recipients receive positive support and that it makes a meaningful change in their lives.

Women's Mentoring Program

Continuing with its efforts to support the growth and development of women within the financial sector, OAB launched an entirely new training program exclusively for its female staff members called the Women's Mentorship Programme. Launched as part of the Omani Women's day celebrations at the bank, the programme saw ten mentors from the staff at OAB, take a total of 26 high-potential female employees each under their wings.

Over the course of the following six months, the mentors helped them overcome any problems they may have faced either at work or in their daily lives.

Supporting Education

The future of Oman lies in the hands of its youth. This is why, in addition to connecting, discovering, nurturing and educating young talented Omanis through programmes such as its Innovation Hub, OAB also extends its support to several colleges and schools across the country.

This year alone, the bank has supported and sponsored over two dozen schools, colleges, and universities across the country such as the Nizwa University, College of Banking and Financial Studies, College of Pharmacy, Redan Private School, and many more. This support ranges from financial sponsorships to direct involvement in their events and initiatives. The Bank also organises several workshops and roadshows throughout the year, a number of which are directed towards students, with some even taking place directly on the school or college's premises.

The Bank strongly believes in the talent and potential Oman's youth and through its support, wishes to ensure they have every opportunity possible to nurture their ideas, promote innovation and further develop their capabilities.

Donation Campaign on World Food Day

As a part of its sustainability initiatives, Oman Arab Bank participated in a donation campaign on the occasion of World Food Day. The "Make a Difference on World Food Day" campaign was carried out in collaboration with Dar Al Atta'a last October. It included collecting donations in the form of dry food from Bank staff and distributing them to those in need through Dar Al Atta'a.

Community participation is one of the cornerstones of Oman Arab Bank's strategy. Therefore, the bank continuously supports the efforts of charities in achieving their goals to serve those in need.

The ultimate goal of this campaign was to help communities and raise awareness that all of us need to play a proactive role in our community. There was positive feedback from the Bank's employees, who showed solidarity with the initiative by not only donating but also helping with the sorting and packaging of 800 boxes of dry foods, before they went out for distribution.

Financial Highlights

Financial Highlights	2019 RO '000	2018 RO '000	2017 RO '000	2016 RO '000	2015 RO '000
Total Assets	2,497,129	2,328,818	2,138,999	2,065,972	1,982,699
Deposits	1,998,436	1,870,558	1,746,856	1,637,152	1,601,162
Net Loans	2,006,330	1,832,817	1,654,013	1,594,799	1,519,571
Shareholders' Equity	296,290	284,323	275,561		214,419
Net Profit	32,556	30,140	26,560	24,526	29,011
Net interest income	72,285	66,523	55,599	50,886	49,134
Other operating income	20,677	21,121	22,152	22,112	30,620
Net operating income	92,962	87,644	77,751	72,998	79,754
Operating expenses	(48,665)	(46,960)	(45,403)	(45,780)	(43,523)
Credit loss on investment securities	(55)	(9)	(728)	(2,336)	(406)
Profit from sale of non-banking asset	-	-	-	2	2,400
Provision for loan impairment	(13,795)	(11,142)	(8,276)	(14,384)	(13,327)
Release/recovery from provision for loan impairment	8,317	6,269	8,132	6,705	7,977
Taxation	(6,208)	(5,662)	(4,916)	(2,561)	(3,864)
Profit after tax for the year from discontinued operations	-	-	-	9,882	
Net Profit after taxation	32,556	30,140	26,560	24,526	29,011
Dividend	14,808	14,808	14,808	7,620	11,600
Total Assets	2,497,129	2,328,818	2,138,999	2,065,972	1,982,699
Gross Loans and advances	2,059,890	1,888,036	1,704,472	1,644,862	1,564,384
Provision for loan impairment	(53,560)	(55,219)	(50,459)	(50,063)	(44,813)
Net Loans and advances	2,006,330	1,832,817	1,654,013	1,594,799	1,519,571
Non-performing loans	73,933	51,501	50,273	47,938	44,842
Customer deposits	1,998,436	1,870,558	1,746,856	1,637,152	1,601,162
Shareholders' funds	296,290	284,323	275,561	245,479	214,419
Share Capital	134,620	134,620	134,620	127,000	116,000

Financial Highlights	2019 RO '000	2018 RO '000	2017 RO '000	2016 RO '000	2015 RO '000
Ratios					
1. Profitability					
Return on shareholders' funds	11.21%	10.77%	10.19%	10.67%	13.96%
Return on Total Assets	1.35%	1.35%	1.26%	1.21%	1.53%
Cost to income	52.35%	53.58%	58.40%	62.71%	54.57%
2. Capital					
Capital Adequacy (BIS standard)	15.20%	16.54%	15.69%	15.73%	14.22%
Shareholders' funds to Total Assets	11.87%	12.21%	12.88%	11.88%	10.81%
3. Asset Quality					
Non-performing loans to Total loans	3.59%	2.73%	2.95%	2.91%	2.87%
Provision coverage	72.44%	107.22%	100.37%	104.43%	99.94%
4. Liquidity					
Net loans to customer deposits	100.40%	97.98%	94.69%	97.41%	94.90%
Net loans to Total Assets	80.35%	78.70%	77.33%	77.19%	76.64%
Liquid Assets to Customer Deposits	19.44%	21.83%	22.60%	23.16%	23.25%
5. Others					
Dividend rate	11.00%	11.00%	11.00%	6.00%	10.00%
Dividends per share in RO	0.011	0.011	0.011	0.006	0.010
Basic Earnings per share in RO	0.020	0.020	0.019	0.020	0.025

Financial Trends (Graph)

Net Profit	32,556	30,140	26,560	24,526	29,011
Return on Shareholders' Funds	11.21%	10.77%	10.19%	10.67%	13.96%
Return on Assets	1.35%	1.35%	1.26%	1.21%	1.53%
Cost to income	0.523	0.536	0.584	0.627	0.546
Earnings per Share	0.020	0.020	0.019	0.020	0.025
Loans & Advances(net)	2,006,330	1,832,817	1,654,013	1,594,799	1,519,571
Customer Deposits	1,998,436	1,870,558	1,746,856	1,637,152	1,601,162
Capital Adequacy Ratio	15.20%	16.54%	15.69%	15.73%	14.22%

Financial Reports

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

EY Building a better working world

REPORT OF FACTUAL FINDING
TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

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

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2019. The Bank's Board of Directors has identified certain areas of non-compliance with the Code, which are included in the Bank's report.

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

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

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

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

Ernst & Young LLC

Muscat
4 March 2020

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

Statement of Financial Position
at 31 December 2019

	Notes	2019 RO'000	2018 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**179,664**	194,801
Due from banks	8	**50,802**	91,272
Loans and advances and financing to customers	9	**2,006,330**	1,832,817
Investment securities	10	**165,422**	131,176
Property and equipment	11	**39,725**	30,245
Other assets	12	**55,186**	48,507
Total assets		**2,497,129**	2,328,818
LIABILITIES			
Due to banks	13	**31,465**	15,207
Deposits from customers	14	**1,998,436**	1,870,558
Other liabilities	15	**71,698**	60,241
Subordinated debt	17	**20,000**	20,000
Taxation	18	**6,687**	5,936
Total liabilities		**2,128,286**	1,971,942
EQUITY			
Share capital	19	**134,620**	134,620
Legal reserve	20	**44,746**	41,490
General reserve	21	**25,560**	25,560
Subordinated debt reserve	22	**16,000**	12,000
Special reserve	23	**3,915**	3,915
Fair value reserve		**(1,951)**	(2,059)
Impairment reserve	9	**9,130**	-
Retained earnings		**64,270**	68,797
Total equity attributable to the equity holders of the Bank		**296,290**	284,323
Perpetual Tier 1 capital bonds	24	**72,553**	72,553
Total equity		**368,843**	356,876
Total equity and liabilities		**2,497,129**	2,328,818
Contingent liabilities and commitments	36(a)	**720,029**	785,370

The financial statements were authorised for issue by the Board of Directors on 27 January 2020 and signed by:

Rashad Muhammed Al Zubair
Chairman

Rashad Al-Musafir
Chief Executive Officer

The accompanying notes 1 to 43 form part of these financial statements.

Statement of Comprehensive Income
year ended 31 December 2019

	Notes	2019 RO'000	2018 RO'000
Interest income	26	**113,925**	100,584
Interest expense	27	**(41,640)**	(34,061)
Net interest income		**72,285**	66,523
Net fee and commission income	28	**14,135**	14,738
Net investment income	29	**77**	101
Other operating income	30	**6,465**	6,282
Total income		**92,962**	87,644
Operating expenses	31	**(48,665)**	(46,960)
Allowance for credit losses	8 & 9	**(13,795)**	(11,142)
Recoveries / release from allowance for credit losses	9	**8,317**	6,269
Credit loss on investment securities	10	**(55)**	(9)
Profit before tax		**38,764**	35,802
Income tax expense	18	**(6,208)**	(5,662)
Profit for the year		**32,556**	30,140
Other comprehensive expense:			
Items that will not be reclassified to profit or loss in the subsequent periods (net of tax):			
Revaluation gain (loss) on equity instruments at fair value through other comprehensive income (FVOCI)		**108**	(681)
Other comprehensive expense for the year		**108**	(681)
Total comprehensive income for the year		**32,664**	29,459
Earnings per share:			
Basic and diluted (RO)	32	**0.020**	0.020

The accompanying notes 1 to 43 form part of these financial statements.

Statement of Changes in Equity
year ended 31 December 2019

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2019		134,620	41,490	25,560	12,000	3,915	(2,059)	-	68,797	284,323	72,553	356,876
Dividends paid		-	-	-	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Profit for the year		-	-	-	-	-	-	-	32,556	32,556	-	32,556
Unrealised gain on FVOCI		-	-	-	-	-	108	-	-	108	-	108
Realised loss on FVOCI		-	-	-	-	-	-	-	(355)	(355)	-	(355)
Transfer to legal reserve	20	-	3,256	-	-	-	-	-	(3,256)	-	-	-
Impairment reserve	9	-	-	-	-	-	-	9,130	(9,130)	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	4,000	-	-	-	(4,000)	-	-	-
Interest distribution of Perpetual Tier 1 capital bonds		-	-	-	-	-	-	-	(5,534)	(5,534)	-	(5,534)
At 31 December 2019		134,620	44,746	25,560	16,000	3,915	(1,951)	9,130	64,270	296,290	72,553	368,843

The accompanying notes 1 to 43 form part of these financial statements.

Statement of Changes in Equity
year ended 31 December 2019

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Sub-ordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2018		134,620	38,476	25,560	8,000	2,760	(1,845)	67977	275,548	30,000	305,548
Impact of adopting IFRS 9		-	-	-	-	-	467	(3,575)	(3,108)	-	(3,108)
Restated opening balance under IFRS9		134,620	38,476	25,560	8,000	2,760	(1,378)	64,402	272,440	30,000	302,440
Dividends paid		-	-	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Profit for the year		-	-	-	-	-	-	30,140	30,140	-	30,140
Unrealised loss on FVOCI		-	-	-	-	-	(681)	-	(681)	-	(681)
Transfer to special reserve	23	-	-	-	-	1,155	-	(1,155)	-	-	-
Realised loss on FVOCI		-	-	-	-	-	-	(220)	(220)		(220)
Transfer to legal reserve	20	-	3,014	-	-	-	-	(3,014)	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	4,000	-	-	(4,000)	-	-	-
Issuance of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	-	-	42,553	42,553
Interest distribution of Perpetual Tier 1 capital bonds		-	-	-	-	-	-	(2,307)	(2,307)	-	(2,307)
Perpetual Tier 1 issuance cost		-	-	-	-	-	-	(241)	(241)	-	(241)
At 31 December 2018		134,620	41,490	25,560	12,000	3,915	(2,059)	68,797	284,323	72,553	356,876

The accompanying notes 1 to 43 form part of these financial statements.

Statement of Cash Flows
year ended 31 December 2019

	Notes	2019 RO'000	2018 RO'000
Operating activities			
Profit before tax		**38,764**	35,802
Adjustments:			
Depreciation	11	**5,812**	4,052
Impairment for credit losses	9	**13,979**	11,142
Recoveries/release from impairment for credit losses	9	**(8,317)**	(6,269)
Net impairment on due from banks		**(184)**	46
Allowance for impairment on Amortised Cost Securities		**55**	9
Income from held to collect investments	26	**(6,861)**	(4,895)
Dividend Income		**(189)**	(346)
Loss on sale of property and equipment		**31**	9
Interest on subordinated debt		**1,100**	1,100
Change in fair value of financial assets at fair value through profit or loss		**112**	245
Operating profit before working capital changes		**44,302**	40,845
Loans and advances and financing to customers		**(179,373)**	(187,273)
Due from banks		**-**	(2,000)
Other assets		**(6,680)**	(2,226)
Deposits from customers		**127,878**	123,701
Other liabilities		**3,999**	2,548
Cash (used in) / from operations		**(9,874)**	(24,355)
Tax paid		**(6,244)**	(4,376)
Net cash (used in) / from operating activities		**(16,118)**	(28,731)
Investing activities			
Held-to-maturity investments matured		**20,900**	126,102
Purchase of held-to-maturity investments		**(56,634)**	(123,629)
Purchase of investments FVOCI / available-for-sale		**(216)**	(113)
Financial assets at fair value through profit or loss		**-**	38
Proceeds from sale of investment securities		**1,307**	3,911
Income from maturing of held-to-maturity investments		**6,861**	4,895
Purchase of property and equipment	11	**(6,759)**	(4,877)
Proceeds from sale of property and equipment		**47**	1
Dividend Income		**189**	346
Net cash (used in) investing activities		**(34,305)**	6,674
Financing activities			
Proceeds from issuance of Perpetual Tier 1 capital bonds	24	**-**	42,553
Interest on subordinated debt		**(1,100)**	(1,100)
Interest on Perpetual Tier 1 capital bonds		**(5,534)**	(2,325)
Issue expenses of Perpetual Tier 1 capital bonds		**-**	(241)
Dividends paid		**(14,808)**	(14,808)
Net cash from (used in) financing activities		**(21,442)**	24,079
Net increase / (decrease) in cash and cash equivalents		**(71,865)**	2,022
Cash and cash equivalents at the beginning of the year		**250,366**	248,344
Cash and cash equivalents at the end of the year	34	**178,501**	250,366

The accompanying notes 1 to 43 form part of these financial statements.

Notes to the Financial Statements
year ended 31 December 2019

1. Legal status and principal activities

Oman Arab Bank SAOC ("the Bank" or "OAB") was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial banking activities through a network of branches in the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman ("CBO") and is covered by its deposit insurance scheme. The registered address of the bank is North Al Ghoubra, P. O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Bank's Islamic Banking window under the name – "Al Yusr", commenced operations from 14 July 2013 and operates under the Islamic banking licence granted by the CBO. The principal activities of Al Yusr is providing Shari'a compliant financing, accepting Shari'a compliant deposits and other activities permitted under CBO's regulated Islamic Banking Services as defined in the licensing framework.

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the CBO and the applicable requirements of the Commercial Companies Law, as amended.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

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

These are the first set of annual financial statements in which IFRS 16: Leases have been applied. Changes to significant accounting policies are described in note 2.29 and the related transition impact is set out in note 4.1.

2.2 Functional and presentation currency

The financial statements are presented in Omani Rials ("RO"), which is the Bank's functional and presentation currency.

2.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Bank presents its statement of financial position in descending order of liquidity, as this presentation is more appropriate to the Bank's operations.

2.4 Basis of measurement

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

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

The accounting policies have been consistently applied by the Bank and are consistent with those of the previous year, except for the adoption of IFRS 16: Leases with effect from 1 January 2019. The policies related to IFRS 16: Leases are set out in note 2.29.

The summary of significant accounting policies are set out below.

2.5 Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the settlement 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.

Classification

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Held to collect.

A financial asset is measured at held to collect if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a 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 on the principal amount outstanding.

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

– the asset is held within a 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.

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

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

Business model assessment

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

– the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Bank's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

– contingent events that would change the amount and timing of cash flows;

– leverage features;

– prepayment and extension terms;

– terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

– features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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

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

Loans and advances and financing activities for customers

Loans and advances and financing activities for customers' captions in the statement of financial position include:

– loans and advances and financing activities for customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

– loans and advances and financing activities for customers mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;

– the Bank has not designated its loans and advances at FVTPL.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Debt securities measured at FVOCI

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

- interest revenue using the effective interest method;
- Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

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

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

De-recognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired ("POCI").

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

De-recognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Modifications of financial assets and financial liabilities

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the 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. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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

Impairment

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

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

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

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

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

Overview of the ECL principles

The Bank records the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). The Bank considers following types of debts as 'low credit risk (LCR)':

- All Oman Government sovereign exposures
- All currency exposures to or guaranteed by the Government of Oman or CBO

It is assumed that the credit risk has not increased significantly for those debt securities who carry low credit risk.

Stage 2

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

Stage 3

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

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

Stage 1

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

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3

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

Purchased or originated credit impaired (POCI)

Assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective interest rate (EIR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

When estimating Lifetime ECLs for unutilised loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an unutilised commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

The calculation of ECLs

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost. The Bank has also applied a LGD of 0% on loans and advances and financing to customers aggregating to RO 57,472 thousand as of 31 December 2019 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

Restructured financial assets

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

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;

Write-off

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

2.6 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and non-restricted balances with the CBO, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, amounts due to other banks and short-term government securities. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.7 Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

2.8 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

	Years
Building	25
Leasehold improvements	5
Software	5
Equipment, furniture and fixtures	5
Motor vehicles	5

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred.

2.9 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

2.10 Collateral pending sale

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

2.11 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.12 Perpetual bonds

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

2.13 Employee terminal 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 2003 as amended. 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. These accruals are included in other liabilities.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statement of comprehensive income as incurred.

2.14 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

2.15 Deposits from customers

Deposits from banks and customers 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.

2.16 Taxation

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

The carrying amount of deferred income tax assets/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.

2.17 Fair value measurement principles

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.

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

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

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

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

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

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

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

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

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

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents. The Bank also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

2.18 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest distribution on perpetual bonds, which are classified as equity, are recorded in the statement of changes in equity, when declared.

2.19 Fee and commission income

Fees and commission income and expenses that are in integral to the effective interest rate on a financial asset or liabilities are included in the measurement of the effective interest rate. Other fees and commission income are accounted for in accordance with IFRS 15 and IFRS 9 and are recognised as the related services are performed. Fees that relate to transaction and service are expense as the services are received.

2.20 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.

2.21 Derivative financial instruments

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

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

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

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

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Changes in the fair value of any such derivative instruments are recognised immediately in the profit or loss within 'Other operating income'.

2.22 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 comprehensive income 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 profit or loss.

2.23 Dividends on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.24 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.25 Foreign currencies

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

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

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

2.26 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.

2.27 Directors' remuneration

The Directors' remuneration is governed as set out in the Articles of Association of the Bank, the Commercial Companies Law of the Sultanate of Oman and regulations issued by the Capital Market Authority.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.28 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. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and support and unallocated functions. The segment information is set out in note 41.

2.29 Leases (applicable as of 1 January 2019)

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

Bank as a lessee

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within note 11 and are subject to impairment in line with the Bank's policy as described in note 2.9 Impairment of non-financial assets.

Lease liabilities

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

Bank as a lessor

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

As of 31 December 2019 and 2018, the Bank is not a lessor in any of the lease arrangements.

2.30 Leases (applicable before 1 January 2019)

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates were on:

3.1 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

3.2 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The 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 taxable entity and the responsible tax authority.

3.3 Going concern

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

3.4 Classification of financial assets

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management. The Bank applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

3.5 Fair value of financial instruments

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

4. Adoption of new and revised International Financial Reporting Standards (IFRS)

4.1 New and amended standards and interpretations to IFRS relevant to the Bank

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

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual IFRS Improvement Process

  IFRS 3 Business Combinations - Previously held Interests in a joint operation

  IFRS 11 Joint Arrangements - Previously held Interests in a joint operation

  IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity

  IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

The above standards, other than IFRS 16, do not have an impact on the financial statements of the Bank. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16: Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal

Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Bank is the lessor. As of 31 December 2019 and 2018, the Bank does not have any leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparatives are not restated.

Nature of effect of adoption of IFRS 16:

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

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

Practical expedients:

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

Following additional practical expedients have been used by the Bank:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Impact on transition

As at 1 January 2019, the Bank recorded right-of-use assets of RO 8,609,380 and lease liabilities of RO 8,609,380 without any impact on retained earnings. When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate of 4.5% at 1 January 2019.

Reconciliation with operating lease commitments

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	RO'000
Assets	
Operating lease commitments as at 31 December 2018	9,630
Weighted average incremental borrowing rate as at 1 January 2019	4.5%
Discounted operating lease commitments as at 1 January 2019	8,609
Less:	
Commitments relating to short- term leases	-
Commitments relating to leases of low – value assets	-
Add:	
Commitments relating to leases previously classified as finance leases	-
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	-
Lease liabilities as at 1 January 2019	**8,609**

4.2 Standards issued but not yet effective

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:

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

5. Financial risk management

Effective risk management is of primary importance for the bank. The bank's risk management process evaluates, monitors and manages the risks associated with the businesses the bank conducts in line with the defined risk appetite. The principal types of risks that the bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational risk. The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

A bank risk committee, comprising the bank's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The bank risk committee also reviews all risk policies and limits. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks.

5.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

Definition of default

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date, and are calculated using the banks internal recovery data after consideration of the contractual maturities of exposures and estimated prepayment rates.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost. The Bank has also applied a LGD of 0% on loans and advances and financing to customers aggregating to RO 57,472 thousand as of 31 December 2019 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2019, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 66.66%:16.67%:16.67% respectively. These ratios have not changed when compared to 2018.

Credit risk profile

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal ratings map as follows:

Internal rating grade	Internal classification
Rating grade 1	High
Rating grade 2	High
Rating grade 3	High
Rating grade 4	High
Rating grade 5	High
Rating grade 6	Standard
Rating grade 7	Standard
Rating grade 8	Standard
Rating grade 9	Standard
Rating grade 10	Satifactory
SM	Satifactory

Internal rating grade	Internal classification
Classified	
SS	Sub-standard
DD	Doubtful
LS	Loss

The credit risk profile, based on internal credit ratings, was as follows:

	Due from banks RO'000	Investment securities RO'000	Loans and advances RO'000	Credit related contingent items RO'000
Stage 1 (12-month ECL)				
High	35,486	10,835	460,618	359,337
Standard	15,670	-	950,079	390,831
Satisfactory	-	-	141,426	235,645
Equity investments	-	7,421	-	-
Gross Carrying amount	**51,156**	**18,256**	**1,551,512**	**985,812**
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	34,356	42,850
Standard	-	-	89,315	143,254
Satisfactory	-	-	310,164	87,520
Gross Carrying amount	**-**	**-**	**433,835**	**273,624**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	6,051	-
Doubtful	-	-	10,721	-
Loss	-	-	57,161	-
Gross Carrying amount	**-**	**-**	**73,933**	**-**

*No ECL has been calculated on Government Development Bonds and Government Sukuk amounting to RO 147,166,058.

Provisions for impairment are as below:

Stage	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1	169	67	7,001	675
Stage 2	-	-	14,973	134
Stage 3	-	-	24,489	-
Total	**169**	**67**	**46,463**	**809**

Stage 3 financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

The credit risk profile for 2018, based on internal credit ratings, was as follows:

	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1 (12-month ECL)				
High	61,729	3,037	524,872	424,258
Standard	29,981	-	595,028	366,798
Satisfactory	100	-	32,709	64,502
Equity investments	-	9,380	-	-
Gross Carrying amount	**91,810**	**12,417**	**1,152,609**	**855,558**
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	104,483	110,681
Standard	-	-	209,465	312,803
Satisfactory	-	-	369,977	109,759
Gross Carrying amount	**-**	**-**	**683,926**	**533,242**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	2,976	-
Doubtful	-	-	6,978	-
Loss	-	-	41,548	-
Gross Carrying amount	**-**	**-**	**51,502**	**-**

Provisions for impairment are as below:

Stage	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1	332	12	7,248	279
Stage 2	-	-	24,121	291
Stage 3	-	-	15,738	109
Total	**332**	**12**	**47,107**	**679**

Stage 3 financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

The Bank's internal credit rating grades along with the respective PDs are as below:

Internal rating grades	Internal rating grade description	Internal rating	12 M PD (Corporate) (%)	12 M PD (Retail) (%)
1	Exceptional	High	0.079	0.03
2	Excellent	High	0.124	0.03
3	Very Strong	High	0.194	0.03
4	Strong	High	0.303	0.153
5	Strong	High	0.594	0.188
6	Acceptable	Standard	0.744	0.201
7	Acceptable	Standard	1.163	0.561
8	Average	Standard	1.817	1.132
9	Average	Standard	2.833	1.645
10	Marginal	Satifactory	4.503	18.919

Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2019.

Key drivers	ECL scenario and assigned weightage	2019	2020	2021	2022	2023
GDP growth (% change)	Base (66.6%)	0.19%	2.08%	4.17%	2.95%	3.41%
	Upside (16.7%)	6.81%	5.63%	3.91%	4.00%	4.21%
	Downside (16.7%)	2.06%	2.06%	2.06%	2.09%	2.83%
Oil revenue (%GDP)	Base (66.6%)	17.53%	15.73%	14.68%	27.84%	29.65%
	Upside (16.7%)	43.15%	38.49%	31.63%	32.02%	32.41%
	Downside (16.7%)	24.30%	24.30%	24.30%	24.43%	27.36%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5.1.1 Risk mitigation policies

The Bank manages limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year-end is set out in Note 36(a).

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Gross Loans RO'000
Loans and advances with collateral available	434,932	254,106	30,998	720,036
Loans and advances with guarantees available	311,998	-	19	312,017
Balance as at 31 December 2019	746,930	254,106	31,017	1,032,053
Balance as at 31 December 2018	519,492	90,369	44,395	654,256

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements

Items on the statement of financial position	**2019 RO' 000**	2018 RO' 000
Cash and balances with Central Bank of Oman	**179,664**	194,801
Due from banks	**50,802**	91,272
Loans and advances		
Corporate loans	**1,297,563**	1,120,627
Personal loans	**762,327**	767,409
Other assets	**55,186**	48,507
Held to collect investment		
Government Development Bonds / Government Sukuk	**147,166**	119,874
Corporate bonds	**10,836**	2,388
Other investments	**7,420**	8,914
	2,510,964	2,353,792
Off-Balance sheet items		
Letters of credit	**162,993**	210,776
Guarantees	**405,769**	437,579
Financial guarantees	**151,267**	137,015
	720,029	785,370

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2019 and 31 December 2018 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a. 55% (2018 – 61%) of the inter-bank placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b. Loans and advances represent 80% (2018 – 79%) of the total on-balance sheet items. Of the total loans and advances 66% (2018 - 45%) are neither past due nor impaired.

c. The impaired loans represent 3.6 %(2018 – 2.7 %) of the total loans as at 31 December 2019. The impaired personal loans constitute 0.65% of the total loans at 31 December 2019 compared to 0.60 % at 31 December 2018.

5.1.3 Loans and advances and due from banks

a) Loans and advances and due from banks are summarised as follows:

31 December 2019	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	1,359,980	51,156	1,411,136
Special Mention loans	371,871	-	371,871
Past due but not impaired	254,106	-	254,106
Impaired	73,933	-	73,933
Gross loans and advances	2,059,890	51,156	2,111,046
Less: expected credit loss	(53,560)	(354)	(53,914)
Net loans and advances and due from banks	2,006,330	50,802	2,057,132

31 December 2018	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	848,158	91,810	939,968
Special Mention loans	321,628	-	321,628
Past due but not impaired	666,749	-	666,749
Impaired	51,501	-	51,501
Gross loans and advances	1,888,036	91,810	1,979,846
Less: expected credit loss	(55,219)	(538)	(55,757)
Net loans and advances and due from banks	1,832,817	91,272	1,924,089

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the Bank are:

31 December 2019	Retail loans RO' 000	Corporate loans RO' 000	Total RO' 000
Standard loans (1 - 10)	746,408	867,678	1,614,086
Special mention loans	2,481	369,390	371,871
Substandard loans	1,622	2,676	4,298
Doubtful loans	3,545	8,929	12,474
Loss	8,271	48,890	57,161
	762,327	1,297,563	2,059,890

31 December 2018	Retail loans RO' 000	Corporate loans RO' 000	Total RO' 000
Standard loans (1 – 10)	752,166	762,741	1,514,907
Special mention loans	3,988	317,640	321,628
Substandard loans	1,853	1,125	2,978
Doubtful loans	3,438	3,770	7,208
Loss	5,964	35,351	41,315
	767,409	1,120,627	1,888,036

c) Age analysis of loans and advances past due but not impaired is set out below:

	2019 RO' 000	2018 RO' 000
Past due up to 30 days	87,105	551,154
Past due 30-60 days	82,553	59,221
Past due 60-90 days	84,448	56,374
Total	254,106	666,749
Fair value of collateral	207,244	127,218

d) Loans and advances individually impaired

	2019 RO' 000	2018 RO' 000
Individually impaired loans	73,933	51,501
Fair value of collateral	24,772	35,458

5.1.4 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The total restructured loans at 31 December 2019 amounted to RO 122,405 thousand (2018 – RO 54,521 thousand).

5.1.6 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

5.1.7 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2019 is RO 803,000 (2018 – RO 803,000).

5.2 Market risk

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

5.2.1 Price risk

The Bank holds listed securities classified as held-for-trading to take advantage of short-term and capital market movements. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are reviewed periodically by the management.

A significant portion of Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's profits at 31 December 2019 may increase by 0.24% (2018 – decrease by 1.14%) due to increase by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The Bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 38 summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EAR at 31 December 2019 is 1.21% (2018 – 2.49%).

5.2.3 Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board and entering into forward contracts based on the underlying commercial transactions with the customers.

Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO). The net open position of the Bank in foreign currency exposures at the yearend is set out below:

Net foreign currency exposure

	2019 RO'000	2018 RO'000
USD	**3,195**	6,827
AED	**1,253**	6,297
GBP	**9**	32
Others	**2,552**	3,663
	7,009	16,819

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the USD at $2.5975 per Omani Rial.

5.2.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 36 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

5.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimise the impact of operational risks.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2019. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short-term nature.

5.4.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.4.3 Investments at fair value through profit or loss

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements. Details are set out in note 10.

5.4.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

5.4.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position	Fair value through profit or loss (FVTPL) RO'000	Amortized Costs (AC) RO'000	Fair value through other comprehensive income (FVOCI) RO'000	Loans and receivables RO'000	Total RO'000
31 December 2019					
Bank balances and cash	-	-	-	179,664	179,664
Due from banks	-	-	-	50,802	50,802
Loans and advances & Financing activities	-	-	-	2,006,330	2,006,330
Investment securities	3,919	158,002	3,501	-	165,422
Other assets	-	-	-	55,186	55,186
	3,919	158,002	3,501	2,291,982	2,457,404
31 December 2018					
Bank balances and cash	-	-	-	194,801	194,801
Due from banks	-	-	-	91,272	91,272
Loans and advances	-	-	-	1,832,817	1,832,817
Investment securities	4,031	122,262	4,883	-	131,176
Other assets	-	-	-	48,507	48,507
	4,031	122,262	4,883	2,167,397	2,298,573

Liabilities as per statement of financial position	2019 RO'000	2018 RO'000
31 December 2019		
Due to banks	31,465	15,207
Deposits from customers	1,998,436	1,870,558
Other liabilities	71,698	60,241
Subordinated bonds	20,000	20,000
	2,121,599	1,966,006

6. Capital management

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

CBO requires the banks registered in the Sultanate of Oman to maintain the capital adequacy at a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. In addition, CBO mandated the banks in Oman to maintain a Capital Conservation Buffer (CCB) under Basel III of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 1 January 2019. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 1 January 2019.

	2019 RO'000	2018 RO'000
Capital		
Common Equity Tier 1 (CET 1)	270,283	267,942
Additional Tier 1	72,553	72,553
Total Tier 1	342,836	340,495
Tier 2	21,206	28,756
Total capital base	364,042	369,251
Risk weighted assets		
Credit risk	2,215,780	2,058,470
Market risk	18,288	25,775
Operational risk	161,463	148,375
Total risk weighted assets	2,395,531	2,232,620
Capital adequacy ratio %	15.20%	16.54%
CET 1 ratio	11.28%	12.00%
Tier 1 Capial ratio	14.31%	15.25%

The Tier 1 capital consists of paid-up capital, reserves and perpetual bonds. The Tier 2 capital consists of the subordinated bonds and ECL on stage 1 and stage 2 exposures in line with the circular BSD/CB/FLC/2018/17.

7. Cash and balances with the Central Bank of Oman

	2019 RO' 000	2018 RO' 000
Cash in hand	**42,511**	40,308
Balances with the Central Bank of Oman:		
- Clearing account	**94,303**	85,384
- Placements	**42,350**	68,609
- Capital deposit (note 34)	**500**	500
	179,664	194,801

i The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1.5% (2018 – 1.5%).

ii During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 62 million (2018: RO 59.328 million).

8. Due from banks

	2019 RO'000	2018 RO'000
Placements	**39,130**	84,516
Current accounts	**12,026**	7,294
Due from banks and other money market placements	**51,156**	91,810
Less: allowance for credit losses	**(354)**	(538)
	50,802	91,272

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

	2019 RO'000	2018 RO'000
Balance at the beginning of the period	**538**	492
(Released) / provided during the period	**(184)**	46
Balance at the end of the period	**354**	538

At 31 December 2019, 50% of the Bank's placements were with eight banks rated in the range of Aa3 to Baa3 and 50% of the placements were with Oman Housing Bank SAOC, which is owned by Government (2018– 71% of the Bank's placements were with Oman Housing Bank SAOC). There have been no significant changes in due from banks and other money market placements gross balances, which have contributed to significant changes to the ECL over the year.

The credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and the year-end staging classification is disclosed in note 5 to the financial statements.

9. Loans and advances and financing to customers

	2019 RO' 000	2018 RO' 000
Corporate loans		
Term loans	**995,377**	819,128
Overdrafts	**135,634**	136,148
Bills Discounted	**66,030**	79,355
Islamic Finance	**100,522**	85,996
	1,297,563	1,120,627
Personal loans		
Consumer loans	**418,766**	443,355
Mortgage loans	**299,008**	283,065
Overdrafts	**1,710**	612
Credit cards	**4,016**	3,815
Islamic Finance	**38,827**	36,562
	762,327	767,409
Gross loans and advances	**2,059,890**	1,888,036
Less: allowance for loan impairment and contractual interest not recognised	**(53,560)**	(55,219)
Net loans and advances	**2,006,330**	1,832,817

Allowance for the credit losses and contractual interest not recognised

The movements in the allowance for the credit losses and contractual interest not recognised on loans and advances were as follows:

2019	Allowance for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
Balance at 1 January 2019	47,596	7,623	55,219
Provided during the year	13,979	5,208	19,187
Amounts written off during the year	(8,902)	(3,627)	(12,529)
Amounts released / recovered during the year	(5,520)	(2,797)	(8,317)
Balance at end of year	47,153	6,407	53,560

Allowance for the credit losses and contractual interest not recognised (continued)

2018	Allowance for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
Balance at 31 December 2017	43,147	7,312	50,459
Impact of Adopting IFRS 9	2,612	-	2,612
Balance at 1 January 2018	45,759	7,312	53,071
Provided during the year	11,142	3,838	14,980
Amounts written off during the year	(4,424)	(2,139)	(6,563)
Amounts released / recovered during the year	(4,881)	(1,388)	(6,269)
Balance at end of year	47,596	7,623	55,219

Total allowance for the credit losses on the performing loans as at 31 December 2019 is RO 23,018,278 (2018: RO 32,284,000). The Central Bank of Oman regulation requires that the allowance for credit losses should be in accordance with IFRS 9 and if the provision requirement as per the Central Bank of Oman guidelines is higher than IFRS 9, the difference net of tax needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. In 2019, RO 9,130,301 (2018: Nil) has been transferred to impairment reserve.

Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 73,933,879 (2018: RO 51,509,684).

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

2019

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO 000	Provision required as per CBO Norms RO 000	Provision held as per IFRS 9 RO 000	Difference between CBO provision required and provision held RO 000	Net Amount as per CBO norms* RO 000	Net Amount as per IFRS 9 RO 000	Interest recognised in P&L as per IFRS 9 RO 000	Reserve interest as per CBO norms RO 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	1,449,793	2,162	6,784	(4,622)	1,447,631	1,443,009	-	-
	Stage 2	161,912	2,433	2,351	82	159,479	159,561	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,611,705	**4,595**	**9,135**	**(4,540)**	**1,607,110**	**1,602,570**	**-**	**-**
Special Mention	Stage 1	101,719	18,011	217	17,794	83,708	101,502	-	-
	Stage 2	271,923	2,534	12,622	(10,088)	269,008	259,301	-	381
	Stage 3	-	-	-	-	-	-	-	-
		373,642	**20,545**	**12,839**	**7,706**	**352,716**	**360,803**	**-**	**381**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,051	1,429	2,592	(1,163)	4,526	3,459	-	96
		6,051	**1,429**	**2,592**	**(1,163)**	**4,526**	**3,459**	**-**	**96**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	10,721	4,127	3,979	148	6,273	6,742	-	321
		10,721	**4,127**	**3,979**	**148**	**6,273**	**6,742**	**-**	**321**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	57,161	25,942	17,918	8,024	25,609	39,243	-	5,610
		57,161	**25,942**	**17,918**	**8,024**	**25,609**	**39,243**	**-**	**5,610**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,047,803	-	911	(911)	1,047,803	1,046,892	-	-
	Stage 2	273,624	-	134	(134)	273,624	273,490	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,321,427	**-**	**1,045**	**(1,045)**	**1,321,427**	**1,320,382**	**-**	**-**
Total	**Stage 1**	**2,599,315**	**20,173**	**7,912**	**12,261**	**2,579,142**	**2,591,403**	**-**	**-**
	Stage 2	**707,459**	**4,967**	**15,107**	**(10,140)**	**702,111**	**692,352**	**-**	**381**
	Stage 3	**73,933**	**31,498**	**24,489**	**7,009**	**36,408**	**49,444**	**-**	**6,027**
	Total	**3,380,707**	**56,638**	**47,508**	**9,130**	**3,317,661**	**3,333,199**	**-**	**6,407**

2018

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net Amount as per CBO norms* RO'000	Net Amount as per IFRS 9 RO'000	Interest recognised in P&L as per IFRS 9 RO'000	Reserve interest as per CBO norms RO'000
						(7)=(3)-(4)-			
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,152,609	16,992	7,202	9,790	1,135,617	1,145,407	-	-
	Stage 2	362,298	3,600	4,818	(1,218)	358,698	357,480	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
		1,514,907	20,592	12,020	8,572	1,494,315	1,502,887	-	-
								-	
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	321,628	4,606	19,240	(14,634)	315,986	302,388	-	1,036
	Stage 3	-	-	-	-	-	-	-	-
		321,628	4,606	19,240	(14,634)	315,986	302,388	-	1,036
								-	
	Stage 1	-	-	-	-	-	-	-	-
Substand-ard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,978	732	671	61	2,190	2,307	-	56
		2,978	732	671	61	2,190	2,307	-	56
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	7,209	2,596	2,275	321	4,381	4,934	-	232
		7,209	2,596	2,275	321	4,381	4,934	-	232
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	41,315	16,645	12,901	3,744	18,370	28,414	-	6,300
		41,315	16,645	12,901	3,744	18,370	28,414	-	6,300
Other items not covered under CBO circular BM 977 and related in-structions	Stage 1	950,405	-	669	(669)	950,405	949,736	-	-
	Stage 2	533,242	-	355	(355)	533,242	532,887	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,483,647	-	1,024	(1,024)	1,483,647	1,482,623	-	-
	Stage 1	2,103,014	16,992	7,871	9,121	2,086,022	2,095,143	-	-
	Stage 2	1,217,168	8,206	24,413	(16,207)	1,207,926	1,192,755	-	1,036
	Stage 3	51,502	19,973	15,847	4,126	24,942	35,655	-	6,588
Total		3,371,684	45,171	48,131	(2,960)	3,318,890	3,323,553	-	7,624

Stage Classification at origination and Staging Guidelines

At origination, all loans shall be classified in stage 1 as IFRS 9 stipulates a deterioration in credit quality since inception as criteria for stage 2 classification.

The exposures subsequent to the classification at origination shall be classified into three categories

Stage 1, Stage 2 and Stage 3 for the purposes of provisioning for credit risk losses.

The expected credit loss computation is different based on the staging of the exposure.

Upon significant deterioration in the credit quality since inception of an exposure the asset is classified as Stage 2. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1. During 2019, such exposures aggregated to RO 201,665 thousand and the related ECL impact, should these exposures have remained in Stage 2, would have increased by RO 148 thousand.

Finally, when a default results the asset is classified as Stage 3. The classification of an exposure in Stage 2 and 3 are based on changes in the credit quality or default.

Stage 2 classification of assets, the significant deterioration in credit quality is based on the staging criteria articulated in the table in the next paragraph.

Stage 3 classification is for exposures in default. For this purpose, the default definitions used are when the past dues are for 90 days or more.

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

2019	**Personal RO'000**	**Corporate RO'000**	**Total RO'000**
Musharaka	**29,494**	**36,359**	**65,853**
Murabaha	**5,045**	**13,931**	**18,976**
Ijarah Muntahia Bittamleek	**4,288**	**38,077**	**42,365**
Wakala	**-**	**12,155**	**12,155**
At 31 December 2019	**38,827**	**100,522**	**139,349**

2018	Personal RO'000	Corporate RO'000	Total RO'000
Musharaka	26,743	31,909	58,652
Murabaha	5,308	15,177	20,485
Ijarah Muntahia Bittamleek	4,511	29,754	34,265
Wakala	-	9,156	9,156
At 31 December 2018	36,562	85,996	122,558

Restructured loans

2019									**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**
					(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)		
(1)	(2)	(3)	(4)	(5)	(5)	(4)-(10)	(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	117,054	1,415	5,180	(3,765)	115,639	111,874	-	-
	Stage 3	-	-	-	-	-	-	-	-
		117,054	**1,415**	**5,180**	**(3,765)**	**115,639**	**111,874**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,351	2,557	2,055	502	2,395	3,296	-	399
		5,351	**2,557**	**2,055**	**502**	**2,395**	**3,296**	**-**	**399**
Total	**Stage 1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**117,054**	**1,415**	**5,180**	**(3,765)**	**115,639**	**111,874**	**-**	**-**
	Stage 3	**5,351**	**2,557**	**2,055**	**502**	**2,395**	**3,296**	**-**	**399**
	Total	**122,405**	**3,972**	**7,235**	**(3,263)**	**118,034**	**115,170**	**-**	**399**

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
					(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)		
(1)	(2)	(3)	(4)	(5)	(5)	(4)-(10)	(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	51,788	516	1,852	(1,336)	51,272	49,936	-	-
	Stage 3	-	-	-	-	-	-	-	-
		51,788	516	1,852	(1,336)	51,272	49,936	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,228	1,318	1,311	7	1,674	1,917	-	236
		3,228	1,318	1,311	7	1,674	1,917	-	236
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	51,788	516	1,852	(1,336)	51,272	49,936	-	-
	Stage 3	3,228	1,318	1,311	7	1,674	1,917	-	236
	Total	55,016	1,834	3,163	(1,329)	52,946	51,853	-	236

Concentration of loans and advances

All loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by economic sector is as follows:

	2019 RO' 000		2018 RO' 000	
Personal loans	**762,328**	**37%**	767,409	41%
Construction	**274,166**	**13%**	237,479	13%
Manufacturing	**148,563**	**7%**	112,822	6%
Mining and quarrying	**175,091**	**9%**	146,901	8%
Services	**147,177**	**7%**	114,877	6%
Import trade	**66,707**	**3%**	63,668	3%
Transportation	**104,643**	**5%**	114,979	6%
Electricity , water & gas	**50,633**	**2%**	54,920	3%
Wholesale and retail trade	**77,573**	**4%**	65,748	3%
Financial institutions	**74,183**	**4%**	66,114	4%
Agriculture and allied activities	**8,449**	**1%**	5,486	0%
Export trade	**93**	**0%**	429	0%
Government	**1,538**	**0%**	-	0%
Lending to non-residents	**1,081**	**0%**	2,048	0%
Others	**167,665**	**8%**	135,156	7%
	2,059,890	**100%**	1,888,036	100%

Of the above, loans with variable interest rates amount to RO 825,024,529 (2018 – RO 727,178,004), loans carrying fixed interest rates amount to RO 1,095,516 (2018 – RO 1,038,300) and Islamic finance contracts amounts to RO 139,349,000 (2018 – RO 122,558,004).

2019

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL				
- Loans and Advances to Customers	1,551,512	433,835	73,933	**2,059,280**
- Investment Securities (Debt)	10,836	-	-	**10,836**
- Loan Commitments and Financial Guarantees	985,812	273,624	-	**1,259,436**
- Due from Banks, Central Banks and Other Financial Assets	51,156	-	-	**51,156**
	2,599,316	**707,459**	**73,933**	**3,380,708**
Opening balance as at 1 January 2019				
- Loans and Advances to Customers	7,177	24,060	15,847	**47,084**
- Investment Securities (Debt)	12	-	-	**12**
- Loan Commitments and Financial Guarantees	144	352	-	**496**
- Due from Banks, Central Banks and Other Financial Assets	538	-	-	**538**
	7,871	**24,412**	**15,847**	**48,130**
Net transfer between stages				
- Loans and Advances to Customers	1,583	(1,998)	415	**-**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	73	(77)	4	**-**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	1,656	**(2,075)**	**419**	**-**
Charge for the year (net)				
- Loans and Advances to Customers	(1,759)	(7,089)	8,227	**(620)**
- Investment Securities (Debt)	55	-	-	**55**
- Loan Commitments and Financial Guarantees	273	(141)	(4)	**128**
- Due from Banks, Central Banks and Other Financial Assets	(184)	-	-	**(184)**
	(1,614)	**(7,230)**	**8,223**	**(621)**
Closing balance as at 31 December 2019				
- Loans and Advances to Customers	7,001	14,973	24,489	**46,463**
- Investment Securities (Debt)	67	-	-	**67**
- Loan Commitments and Financial Guarantees	490	134	-	**624**
- Due from Banks, Central Banks and Other Financial Assets	354	-	-	**354**
	7,912	**15,107**	**24,489**	**47,508**

Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	RO'000 Difference
Impairment loss charged to profit and loss account	(5,478)	(5,478)	-
Provisions required as per CBO norms/held as per IFRS 9	56,638	47,508	(9,130)
Gross NPL ratio	3.59%	3.59%	
Net NPL ratio	2.11%	2.40%	

2018

Movement in Expected Credit Losses (ECL)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Stage 4 RO'000
Exposure subject to ECL				
- Loans and Advances to Customers	809,050	183,857	51,131	1,044,038
- Investment Securities (Debt)	2,400	-	-	2,400
- Loan Commitments and Financial Guarantees	434,303	497,448	378	932,129
- Due from Banks, Central Banks and Other Financial Assets	550,065	-	-	550,065
	1,795,818	681,305	51,509	2,528,632
Opening balance (Day 1 impact) - as at 1 January 2018				
- Loans and Advances to Customers	7,948	17,911	17,417	43,276
- Investment Securities (Debt)	3	-	-	3
- Loan Commitments and Financial Guarantees	1,979	504	-	2,483
- Due from Banks, Central Banks and Other Financial Assets	492	-	-	492
	10,422	18,415	17,417	46,254
Net transfer between stages				
- Loans and Advances to Customers	1,441	(1,840)	399	-
- Investment Securities (Debt)	-	-	-	-
- Loan Commitments and Financial Guarantees	13	(13)	-	-
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
	1,454	(1,853)	399	-
Charge for the Period (net)				
- Loans and Advances to Customers	(2,213)	7,988	(1,968)	3,807
- Investment Securities (Debt)	9	-	-	9
- Loan Commitments and Financial Guarantees	(1,848)	(138)	-	(1,986)
- Due from Banks, Central Banks and Other Financial Assets	46	-	-	46
	(4,006)	7,850	(1,968)	1,876
Closing balance as at 31 December 2018				
- Loans and Advances to Customers	7,177	24,060	15,847	47,084
- Investment Securities (Debt)	12	-	-	12
- Loan Commitments and Financial Guarantees	144	352	-	496
- Due from Banks, Central Banks and Other Financial Assets	538	-	-	538
	7,871	24,412	15,847	48,130

Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	RO'000 Difference
Impairment loss charged to profit and loss account	(4,873)	(4,873)	-
Provisions required as per CBO norms/held as per IFRS 9	45,171	48,130	2,959
Gross NPL ratio	2.73%	2.73%	
Net NPL ratio	1.54%	1.89%	

10. Investment securities

	Carrying value 2019 RO'000	Carrying value 2018 RO'000
Fair value through profit and loss(FVTPL)		
Quoted investments - Oman		
Banking and investment sector	**3,754**	3,875
	3,754	3,875
Quoted investments - Foreign		
Banking and investment sector	**165**	156
	165	156
Total Fair value through profit and loss	**3,919**	4,031
Equity investments measured at FVOCI		
Quoted investments - Oman		
Banking and investment sector	**216**	-
Manufacturing sector	**784**	1,020
Service sector	**802**	1,957
	1,802	2,977
Quoted investments - Foreign		
Banking and investment sector	**807**	-
Service sector	**130**	199
	937	199
Unquoted investments		
Banking and investment sector	**593**	1,362
Manufacturing sector	**-**	185
Service sector	**169**	160
	762	1,707
Total FVOCI – Equity investments	**3,501**	4,883
Investment Held to collect		
Quoted investments- Oman		
Government Development Bonds (GDBs)	**143,994**	119,238
Government Sukuk	**3,172**	636
Banking and investment sector	**1,491**	2,388
Service sector	**9,345**	-
Total Held to collect	**158,002**	122,262
Total financial investments	**165,422**	131,176

Movement in allowances for the credit losses for debt securities at held to collect:

	31 December 2019 RO'000	31 December 2018 RO'000
Beginning of the year	**12**	3
Provided during the year	**55**	9
Balance at the end of the year	**67**	12

All debt securities at held to collect outstanding as of 31 December 2019 are classified under stage 1 (2018: stage 1). The Bank has assumed LGD of 0% on GDBs amounting to RO 143,994 thousand (2018: RO 119,238 thousand) and Government Sukuks amounting to RO 3,172 thousand (2018: RO 636 thousand).

Details of investments exceeding 10% of the carrying value of the Bank's investment are as follows:

	Bank's portfolio %	**Carrying value RO'000**
31 December 2019		
Government Development Bonds and sukuks	**89%**	**147,166**
31 December 2018		
Government Development Bonds and sukuks	91%	119,874

In 2019, the Bank received dividends of RO 188,799 (note 29) from its FVOCI equities (2018: RO 346,491), recorded as other operating income.

The Bank sold RO 1.3 million of FVOCI equity instruments in 2019 (2018: RO 3.9 million)

During the year ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

11. Property and equipment

	Land and buildings RO'000	**Computer equipment RO'000**	**Equiment, furniture & fixtures RO'000**	**Motor vehicles RO'000**	**Capital work in progess RO '000**	**Right of use RO 000**	**Total RO'000**
2019							
Cost							
At 1 January 2019	**21,571**	**22,310**	**14,070**	**646**	**1,441**	**8,609**	**68,647**
Additions	**-**	**1,392**	**797**	**39**	**4,531**	**-**	**6,759**
Transfers	**172**	**63**	**(234)**	**-**	**-**	**-**	**1**
Disposals	**-**	**(2,768)**	**(951)**	**(328)**	**-**	**-**	**(4,047)**
At 31 December 2019	**21,743**	**20,997**	**13,682**	**357**	**5,972**	**8,609**	**71,360**
Depreciation							
At 1 January 2019	**3,343**	**16,460**	**9,465**	**524**	**-**	**-**	**29,792**
Charge for the year	**565**	**2,031**	**1,421**	**73**	**-**	**1,722**	**5,812**
Relating to transfer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Relating to disposals	**-**	**(2,730)**	**(936)**	**(303)**	**-**	**-**	**(3,969)**
At 31 December 2019	**3,908**	**15,761**	**9,950**	**294**	**-**	**1,722**	**31,635**
Net book value							
At 31 December 2019	**17,835**	**5,236**	**3,732**	**63**	**5,972**	**6,887**	**39,725**

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Capital work in progess RO '000	Total RO'000
2018						
Cost						
At 1 January 2018	21,571	21,506	14,369	667	992	59,105
Additions	-	2,751	1,445	1	680	4,877
Transfers	-	221	10	-	(231)	-
Disposals	-	(2,168)	(1,754)	(22)	-	(3,944)
At 31 December 2018	21,571	22,310	14,070	646	1,441	60,038
Depreciation						
At 1 January 2018	2,753	16,756	9,687	479	-	29,675
Charge for the year	590	1,871	1,524	67	-	4,052
Relating to disposals	-	(2,167)	(1,745)	(22)	-	(3,934)
At 31 December 2018	3,343	16,460	9,466	524	-	29,793
Net book value						
At 31 December 2018	18,228	5,850	4,604	122	1,441	30,245

12. Other assets

	2019 RO'000	2018 RO'000
Customers' indebtedness against acceptances	**21,988**	21,691
Fees receivable	**2,518**	4,314
Interest receivable	**22,329**	15,957
Prepayments	**2,825**	2,176
Positive fair value of derivatives (note 35)	**226**	249
Others	**5,300**	4,120
	55,186	48,507

13. Due to banks

	2019 RO'000	2018 RO'000
Current accounts	**7,725**	6,207
Placements	**23,740**	9,000
	31,465	15,207

14. Deposits from customers

a) By type

	2019 RO'000	2018 RO'000
Term deposits	**914,079**	871,785
Demand and call accounts	**777,386**	708,266
Saving accounts	**306,971**	290,507
	1,998,436	1,870,558

b) By sector

	2019 RO'000	2018 RO'000
Private	**1,318,713**	1,357,168
Government	**679,723**	513,390
	1,998,436	1,870,558

Islamic customers' deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2019 RO'000	2018 RO'000
Wakala acceptances	**127,304**	105,700
Current account - Qard	**13,377**	12,714
Mudaraba accounts	**3,399**	3,730
	144,080	122,144

15. Other liabilities

	2019 RO'000	2018 RO'000
Liabilities against acceptances	**21,988**	21,691
Interest payable	**24,251**	20,687
Accrued expenses and other payables	**11,700**	10,053
Cheques and trade settlement payable	**2,756**	5,329
Staff terminal benefits (note 16)	**910**	830
Interest and commission received in advance	**2,858**	1,497
Negative fair value of derivatives (note 35)	**196**	154
Lease liability	**7,039**	-
	71,698	60,241

Set out below are the carrying amount of lease liabilities and the movement during the year:

	2019 RO'000
At 1 January (effect of adoption of IFRS 16)	**8,609**
Accretion of interest (note 27)	**355**
Payments made during the year	**(1,925)**
At 31 December	**7,039**

16. Staff terminal benefits

	2019 RO'000	2018 RO'000
At 1 January	**830**	1,158
Charge for the year	**209**	225
Payment to employees during the year	**(129)**	(553)
At 31 December	**910**	830

17. Subordinated debt

In order to enhance the capital adequacy and to meet the funding requirements, the Bank has raised capital in the form of subordinated loans.

	2019 RO'000	2018 RO'000
Subordinated loans	**20,000**	20,000

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

18. Taxation

	2019 RO'000	2018 RO'000
Statement of profit or loss:		
Current year	**6,020**	5,182
Prior year	**388**	-
Deferred tax	**(200)**	480
	6,208	5,662
Statement of Financial Position		
Current year	**5,914**	5,363
Prior year	**400**	-
Deferred tax	**373**	573
	6,687	5,936
Deferred tax liability		
At 1 January	**573**	93
Movement for the year	**(200)**	480
At 31 December	**373**	573

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2018: 15%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.53% (2018 – 15.51%). The deferred tax liability has been recognised at the effective rate of 15% (2018 - 15%).

	2019 RO' 000	2018 RO' 000
Profit before tax	**38,764**	35,802
Tax at the applicable rate of 15%	**5,815**	5,370
Tax effect of temporary differences	**190**	480
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**15**	(668)
Prior Period	**388**	-
Deferred tax liability created during the year	**(200)**	480
Tax expense for the year	**6,208**	5,662

Status of tax assessments

The assessment for the years up to 2013 are complete and for the years from 2014 to 2017, the Bank is awaiting clean assessment order as all the queries have been duly responded and the assessment process is complete. The assessments for 2018 to 2019 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

19. Share capital

The authorised capital of the Bank is RO 200,000,000 and the issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each (2018: 1,346,200,000 fully paid shares of RO 0.100 each).

RO 20,000,000 has been assigned as capital for the Islamic Banking services of the Bank (2018: RO 17,000,000)

	Country of incorporation	Share holding %	2019 RO'000	2018 RO'000
Oman International Development and Investment Company SAOG	Oman	**50.99**	**68,643**	68,643
Arab Bank Plc	Jordan	**49.00**	**65,964**	65,964
Oman Real Estate Investment Services SAOC	Oman	**0.01**	**13**	13
			134,620	134,620

20. Legal reserve

In accordance with Article 106 of the Commercial Companies Law, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

21. General reserve

The Bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies. No transfers were made from / to general reserve during the year 2019 (2018: Nil).

22. Subordinated debt reserve

The subordinated debt reserve has been created by a transfer of 20% of the subordinated loans out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years (refer note 17). The reserve is available for transfer back to retained earnings upon maturity of the subordinated loans.

23. Special reserve

During 2015, the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghoubra. The profit on sale of the premises amounting to RO 2,400,000 has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

On 20 June 2017, CBO issued a circular in relation to the reserve requirements for restructured accounts and the same stands withdrawn as on 18 November 2018. The special reserve is required to be held until the restructure accounts are upgraded. Accordingly, the Bank has not transferred any amount in 2019 (2018: RO 1,155,000) from retained earnings to special reserve.

24. Perpetual Tier 1 Capital Bonds

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds 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 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Additionally, on 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.55 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

25. Dividend proposed and paid

The Board of Directors proposed a cash dividend of RO 0.011 per share totalling to RO 14.81 million for the year ended 31 December 2019 (2018 - cash dividend of RO 0.011 per share totalling to RO 14.81 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

During the year, a cash dividend of RO 0.011 per share totalling to RO 14.81 million was paid as approved by shareholders in their annual general meeting held on 24 March 2019.

26. Interest income

	2019 RO'000	2018 RO'000
Loans and advances	**104,463**	93,583
Oman Government Development Bonds and Sukuk	**6,861**	4,895
Treasury Bills	**369**	744
Amounts deposited with banks	**2,232**	1,362
	113,925	100,584

27. Interest expense

	2019 RO'000	2018 RO'000
Time deposits	**30,572**	24,971
Subordinated Debt	**1,100**	1,100
Call accounts	**4,199**	3,128
Amounts deposited by banks	**2,886**	2,607
Savings accounts	**2,292**	2,255
Interest cost on lease liabilities	**355**	-
Others	**236**	-
	41,640	34,061

28. Net fee and commission income

	2019 RO'000	2018 RO'000
Fee and commission income	**15,615**	15,648
Fee and commission expense	**(1,480)**	(910)
	14,135	14,738

29. Net income from investment securities

	2019 RO'000	2018 RO'000
Fair value changes	**(112)**	(244)
Profit (loss) on sale of investments	**-**	(1)
Dividend income	**189**	346
	77	101

30. Other operating income

	2019 RO'000	2018 RO'000
Exchange income	**6,300**	6,107
Other income	**165**	175
	6,465	6,282

31. Operating expenses

	2019 RO'000	2018 RO'000
Staff costs (refer below)	**29,661**	28,036
Other operating expenses	**13,113**	14,695
Depreciation	**5,812**	4,052
Directors' remuneration	**79**	177
	48,665	46,960

Details of staff costs are as follows:	2019 RO'000	2018 RO'000
Salaries	**20,408**	19,067
Allowances	**5,592**	5,324
Social security costs	**2,028**	1,923
End of service benefits	**209**	224
Other costs	**1,424**	1,498
	29,661	28,036

32. Earnings per share

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

	2019 RO'000	2018 RO'000
Profit for the year (RO'000)	**32,556**	30,140
Less: Issue expenses of Perpetual Tier 1 capital bonds (RO'000)	**-**	(241)
Less: Interest distribution of Perpetual Tier 1 capital bonds (RO'000)	**(5,534)**	(2,307)
Profit for the year attributable to equity holders of the Bank (RO'000)	**27,022**	27,592
Weighted average number of shares outstanding during the year	**1,346,200,000**	1,346,200,000
Basic earning per share (RO)	**0.020**	0.020

The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding. No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

33. Related party transactions

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2019, the management fees in accordance with the agreement amounted to RO 97,671 (2018: RO 90,420).

Other related parties transactions

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and / or 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	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	-	76,431	76,431
Interest and other receivable amount	5,640	-	5,640
Customers' deposits	4,277	46,135	50,412
Due from banks	15,836	-	15,836
Due to banks	1,434	-	1,434
Stand by line of credit	38,500	-	38,500
Letters of credit, guarantees and acceptances	136,786	4,800	141,586

2018	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	6,004	60,888	66,892
Customers' deposits	1,624	32,375	33,999
Due from banks	33,460	-	33,460
Due to banks	878	-	878
Stand by line of credit	48,125	-	48,125
Letters of credit, guarantees and acceptances	155,661	3,615	159,276

Movement of loans and advances given to related parties:

	2019 RO'000	2018 RO'000
At 1 January 2019	**66,892**	67,507
Disbursed during the year	**268,597**	236,451
Paid during the year	**(259,058)**	(237,066)
At 31 December 2019	**76,431**	66,892

None of the loans and advances given to related parties were identified as impaired and in accordance with IFRS 9, ECL provision amounting to RO 368,920 (2018: RO 778,167) has been recognised against related party receivables.

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

31 December 2019	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Interest and commission income	**272**	**2,895**	**3,167**
Interest expense	**339**	**718**	**1,057**

31 December 2018	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	1,018	2,438	3,456
Interest expense	523	622	1,145

Key management compensation

The Directors' remuneration is set out in Note 31. The remuneration of other members of key management during the year was as follows:

	2019 RO'000	2018 RO'000
Salaries and other short-term benefits	**1,287**	923
End of service benefits	**39**	26
	1,326	949

34. Cash and cash equivalents

	2019 RO'000	2018 RO'000
Cash and balances with the Central Bank of Oman (CBO) (note 7)	**179,664**	194,801
Due from banks (note 8)	**30,802**	71,272
Less: due to banks (note 13)	**(31,465)**	(15,207)
Restricted deposits included under balances with the CBO (note 7)	**(500)**	(500)
	178,501	250,366

35. Derivative financial instruments

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities.

Also, the Bank has entered into IRS (Ineterst Rate Swaps) on behalf of its clients and has fully covered the position on back-to-back basis, leaving no open position on the Bank's books.. An IRS is an agreement between two counterparties to exchange a stream of fixed interest payments for floating (variable) interest payments on a specified notional amount. A floating rate borrower can fix his floating liabilities payment by entering into —payer swap, in which he pays the fixed rate. the Bank is not exposed to entire notional amount of IRS, rather, its risk is limited only to the amount of differential interest payment which the client may not honor at the time of settlement.

These fair values and the notional contracted amounts are summarised below:

31 December 2019	Positive fair value RO'000 (note 12)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000	More than 1 year RO'000
Purchase contracts	226	-	86,074	75,561	10,513	-
Sale contracts	-	(196)	(86,043)	(75,571)	(10,472)	-
Interest rate swaps	1,031	1,031	9,465	-	-	9,465
	1,257	835	9,496	(10)	41	9,465

31 December 2018	Positive fair value RO'000 (note 12)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
Purchase contracts	249	-	78,458	59,270	19,188
Sale contracts	-	(154)	(78,354)	(59,282)	(19,072)
Interst	-	-	-	-	-
	249	(154)	104	(12)	116

Derivative financial instruments are fair valued as level 2.

36. Contingent liabilities and commitments

(a) Letters of credit and guarantees

The Bank is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2019 RO'000	2018 RO'000
Guarantees	557,036	574,594
Letters of credit	162,993	210,776
	720,029	785,370

As at 31 December 2019, the unutilised commitment of facilities is Nil (2018: RO 1,854,000).

Letters of credit and guarantees amounting to RO 380,730,129 (2018: RO 464,392,178) were counter guaranteed by other banks.

(i) The allowances for credit losses for commitments and financial guarantees is included under note 9(b).

(ii) Contingent liabilities include RO 8,712,526 (2018– RO 378,364) relating to non-performing loans.

The table below analyses the concentration of contingent liabilities by economic sector:

	2019		2018	
	RO'000	%	RO'000	%
Construction	73,657	10%	319,586	41%
Utilities	355,105	49%	187,620	24%
Export trade	113,177	16%	154,109	20%
Government	30,323	4%	23,472	3%
Import trade	47,034	7%	80,184	10%
Transportation	3,145	0%	4,206	1%
Wholesale and retail trade	19,808	3%	9,375	1%
Services	76,677	11%	3,023	0%
Manufacturing	538	0%	2,114	0%
Mining & Quarrying	565	0%	1,681	0%
	720,029	100%	785,370	100%

Credit-related financial instruments include unutilised commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated were as follows:

	2019		2018	
	Notional principal amount	Risk-weighted exposure	Notional principal amount	Risk-weighted exposure
Guarantees	557,036	111,407	574,594	114,919
Letters of credit	162,993	32,599	210,776	42,155
	720,029	144,006	785,370	157,074

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 5,733,038 (2018: RO 4,407,948).

(c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements (2018: Nil).

37. Assets and liabilities maturity profile

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.2.4. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the						
Central Bank of Oman	130,323	20,369	150,692	11,663	17,309	179,664
Due from banks	50,802	-	50,802	-	-	50,802
Loans and advances	441,277	170,423	611,700	504,950	889,680	2,006,330
Investment securities	10,389	2,407	12,796	57,464	95,162	165,422
Other assets	45,431	9,649	55,080	97	9	55,186
Property and equipment	-	-	-	-	39,725	39,725
Total assets	**678,222**	**202,848**	**881,070**	**574,174**	**1,041,885**	**2,497,129**
Liabilities						
Due to banks	31,465	-	31,465	-	-	31,465
Deposits from customers	275,733	706,688	982,421	415,080	600,935	1,998,436
Other liabilities	42,415	20,520	62,935	8,302	461	71,698
Subordinated bond and Perpetual	-	-	-	-	-	-
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,914	373	6,287	400	-	6,687
Total liabilities	**355,527**	**727,581**	**1,083,108**	**443,782**	**601,396**	**2,128,286**
Net assets	**322,695**	**(524,733)**	**(202,038)**	**130,392**	**440,489**	**368,843**
Forward exchange contracts at notional amounts (note 35)						
Purchase contracts	75,561	10,513	86,074	-	-	86,074
Sale contracts	(75,571)	(10,472)	(86,043)	-	-	(86,043)
	(10)	**41**	**31**	**-**	**-**	**31**

2018	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the						
Central Bank of Oman	152,931	19,328	172,259	10,056	12,486	194,801
Due from banks	91,272	-	91,272	-	-	91,272
Loans and advances	406,197	160,820	567,017	449,912	815,888	1,832,817
Investment securities	11,356	20,000	31,356	28,326	71,494	131,176
Other assets	41,101	7,392	48,493	-	14	48,507
Property and equipment	-	-	-	-	30,245	30,245
Total assets	702,857	207,540	910,397	488,294	930,127	2,328,818
Liabilities						
Due to banks	15,207	-	15,207	-	-	15,207
Deposits from customers	377,641	695,819	1,073,460	362,033	435,065	1,870,558
Other liabilities	42,658	9,644	52,302	7,434	505	60,241
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,363	573	5,936	-	-	5,936
Total liabilities	440,869	706,036	1,146,905	389,467	435,570	1,971,942
Net assets	261,988	(498,496)	(236,508)	98,827	494,557	356,876
Forward exchange contracts at notional amounts (note 35)						
Purchase contracts	59,270	19,188	78,458	-	-	78,458
Sale contracts	(59,282)	(19,072)	(78,354)	-	-	(78,354)
	(12)	116	104	-	-	104

The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Letters of guarantee	**256,003**	**263,464**	**36,549**	**1,020**	**557,036**
Letters of credit	**134,494**	**28,132**	**367**	**-**	**162,993**
Total commitments and contingencies	**390,497**	**291,596**	**36,916**	**1,020**	**720,029**

2018	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Letters of guarantee	236,478	325,608	63,278	281	625,645
Letters of credit	158,692	1,033	-	-	159,725
Total commitments and contingencies	395,170	326,641	63,278	281	785,370

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The details of Bank's capital commitments and unutilised loan commitments are disclosed in note 36.

38. Assets and liabilities re-pricing profile

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The Bank's assets and liabilities are included at carrying amounts.

2019	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								-
Central Bank of Oman	1.00	42,350	-	-	-	500	136,814	179,664
Due from banks	2.41	38,776	-	-	-	-	12,026	50,802
Loans and advances	5.50	753,736	79,398	48,770	1,088,673	17,749	18,004	2,006,330
Investment securities								
at FVTPL & FVOCI		-	-	-	-	-	7,420	7,420
Investment at Held to collect	5.31	1,500	2,407	-	58,955	95,140	-	158,002
Other assets		22,330	-	-	-	-	32,856	55,186
Property and equipment		-	-	-	-	-	39,725	39,725
Total assets		**858,692**	**81,805**	**48,770**	**1,147,628**	**113,389**	**246,845**	**2,497,129**
Liabilities								
Due to banks		25,441	-	-	-	-	6,024	31,465
Deposits from customers	2.01	578,740	226,546	534,086	180,890	-	478,174	1,998,436
Other liabilities		2,756	-	-	-	-	68,942	71,698
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	6,687	6,687
Total liabilities		**606,937**	**226,546**	**534,086**	**200,891**	**-**	**559,827**	**2,128,286**
Total interest sensitivity gap		**251,755**	**(144,741)**	**(485,316)**	**946,738**	**113,389**	**(312,982)**	**368,843**
Cumulative interest sensitivity gap		251,755	107,014	(378,302)	1,053,752	1,167,141	854,159	

2018	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								-
Central Bank of Oman	1.00	-	-	-	-	500	194,301	194,801
Due from banks	1.72	83,978	-	-	-	-	7,294	91,272
Loans and advances	5.27	653,364	62,205	11,683	1,069,564	36,001	-	1,832,817
Investment securities								
at FVTPL & FVOCI		-	-	-	-	-	8,914	8,914
Investment at Held to collect	4.57	-	-	20,000	30,714	71,548	-	122,262
Other assets		15,957	-	-	-	-	32,550	48,507
Property and equipment		-	-	-	-	-	30,245	30,245
Total assets		753,299	62,205	31,683	1,100,278	108,049	273,304	2,328,818
Liabilities								
Due to banks		-	5,000	-	4,000	-	6,207	15,207
Deposits from customers	1.73	306,328	215,448	253,627	173,190	-	921,965	1,870,558
Other liabilities		5,329	-	-	-	-	54,912	60,241
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	5,936	5,936
Total liabilities		311,657	220,448	253,627	197,190	-	989,020	1,971,942
Total interest sensitivity gap		441,642	(158,243)	(221,944)	903,088	108,049	(715,716)	356,876
Cumulative interest sensitivity gap		441,642	283,399	61,455	1,186,487	1,294,536	578,820	

39. Geographical distribution of assets and liabilities

2019	**Sultanate of Oman RO'000**	**Other GCC countries RO'000**	**Europe RO'000**	**United States of America RO'000**	**Others RO'000**	**Total RO'000**
Assets						
Cash and balances with the Central Bank of Oman	**179,664**	**-**	**-**	**-**	**-**	**179,664**
Due from banks	**25,145**	**3,462**	**2,753**	**5,512**	**13,930**	**50,802**
Loans and advances	**2,006,330**	**-**	**-**	**-**	**-**	**2,006,330**
Investment securities	**163,727**	**1,103**	**-**	**-**	**592**	**165,422**
Other assets	**55,186**	**-**	**-**	**-**	**-**	**55,186**
Property and equipment	**39,725**	**-**	**-**	**-**	**-**	**39,725**
Total assets	**2,469,777**	**4,565**	**2,753**	**5,512**	**14,522**	**2,497,129**
Liabilities						
Due to banks	**15,674**	**7,973**	**7,375**	**-**	**443**	**31,465**
Deposits from customers	**1,998,436**	**-**	**-**	**-**	**-**	**1,998,436**
Other liabilities	**71,698**	**-**	**-**	**-**	**-**	**71,698**
Subordinated bonds	**20,000**	**-**	**-**	**-**	**-**	**20,000**
Taxation	**6,687**	**-**	**-**	**-**	**-**	**6,687**
Total liabilities	**2,112,495**	**7,973**	**7,375**	**-**	**443**	**2,128,286**

2018	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	194,801	-	-	-	-	194,801
Due from banks	53,755	33,653	2,131	670	1,063	91,272
Loans and advances	1,832,817	-	-	-	-	1,832,817
Investment securities	128,993	1,082	-	-	1,101	131,176
Other assets	48,507	-	-	-	-	48,507
Property and equipment	30,245	-	-	-	-	30,245
Total assets	2,289,118	34,735	2,131	670	2,164	2,328,818
Liabilities						
Due to banks	12,231	2,001	875	-	100	15,207
Deposits from customers	1,870,558	-	-	-	-	1,870,558
Other liabilities	60,241	-	-	-	-	60,241
Subordinated bonds	20,000	-	-	-	-	20,000
Taxation	5,936	-	-	-	-	5,936
Total liabilities	1,968,966	2,001	875	-	100	1,971,942

40. Customer concentration

2019	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	-	762,327	-	591,899	-	533
Corporate	50,802	1,296,025	18,256	726,814	31,465	376,992
Government*	-	1,538	147,166	679,723	-	342,504
	50,802	2,059,890	165,422	1,998,436	31,465	720,029

2018	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	-	767,409	-	525,847	-	512
Corporate	91,272	1,120,627	11,302	831,321	15,207	777,256
Government*	-	-	119,874	513,390	-	7,602
	91,272	1,888,036	131,176	1,870,558	15,207	785,370

* The government accounts summarised under this note does not inclue the semi-government or quasi government accounts.

41. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2019. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2019 and 2018 is set out in note 39.

For management purposes, the conventional operations of the Bank is organised into four operating segments based on products and services. The Islamic banking services are offered under the brand name – "Al Yusr". The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Treasury	Bonds, placements, bank borrowings, foreign exchange.
Head office and support	Other central functions and Head office.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of Deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

2019	Retail banking RO'000	Corporate banking RO'000	Treasury RO'000	Head office and support RO'000	Islamic banking "Al Yusr" RO'000	Total RO'000
Interest income	39,370	64,726	9,462	367	-	113,925
Interest expense	(6,550)	(9,582)	(2,100)	(23,408)	-	(41,640)
Other operating income	4,682	9,517	2,669	175	3,634	20,677
Total operating income	37,502	64,661	10,031	(22,866)	3,634	92,962
Assets	720,133	1,149,911	388,468	73,136	165,479	2,497,129
Liabilities	561,785	1,292,571	31,465	95,253	147,212	2,128,286
Allowance for impairment	8,405	42,093	354	-	3,062	53,914

2018	Retail banking RO'000	Corporate banking RO'000	Treasury RO'000	Head office and support RO'000	Islamic banking "Al Yusr" RO'000	Total RO'000
Interest income	38,476	55,108	6,677	323	-	100,584
Interest expense	(5,305)	(12,346)	(400)	(16,010)	-	(34,061)
Other operating income	6,023	9,208	2,662	170	3,058	21,121
Total operating income	39,194	51,970	8,939	(15,517)	3,058	87,644
Assets	730,847	1,034,631	382,979	34,131	146,230	2,328,818
Liabilities	501,833	1,246,581	47,008	51,575	124,945	1,971,942
Allowance for impairment	8,992	44,909	538	-	1,318	55,757

42. Subsequent events

The Bank has expressed an interest to Alizz Islamic Bank (SAOG) to explore the possibility of a merger between the two banks. On 4 October 2018, the Bank and Alizz Islamic Bank (SAOG) signed a memorandum of understanding and the regulators have granted initial approvals to proceed with the process. On 30 December 2019, the Bank has sent an 'Offer Letter' proposing a swap ratio of around 81% :19% to the shareholders of the Bank and Alizz Islamic Bank (SAOG) respectively. Subsequent to the year end, the Bank has received an approval on the proposed merger from the Board of Alizz Islamic Bank (SAOG). However this is subject to approval from the shareholders at AGM to be held.

As at 31 December 2019, there is no adjustment required in the financial statements of the Bank.

Corporate Governance Report

OAB's approach to Corporate Governance

Framework and Approach to corporate governance and responsibility

The Board is committed to maintaining the highest standards of corporate governance.

The Board believes that corporate governance is about having a set of values and behaviors that governs the Bank's everyday activities - values and behaviors that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The business case for good governance is compelling. A Bank's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. The genuine commitment to good governance is fundamental to the sustainability of the Bank's business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve our governance practices
- monitor global developments in best corporate governance practice and
- contribute wherever we can to local debates on what represents best corporate governance practice.

Our Governance Standards – Principles and Processes

We believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum we ensure compliance with legal requirements, in particular to the letter and spirit of the local governance practices issued by the Capital Market Authority (CMA), guidelines issued by the Central Bank of Oman and the Corporate Governance regulations issued by the Ministry of Commerce and Industry for closed joint stock companies.

This corporate governance statement is divided in two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

In the Directors' opinion, Part 1 and Part 2 together as a minimum comply with the requirements of the Code of Corporate Governance issued by the CMA.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2019.

Corporate Governance - Part 1

In this part we set out the following contents as required under the Code of Corporate Governance issued by CMA:

1. The Board – putting governance into practice
2. Board Committees and their role
3. Audit governance and independence
4. Executive pay and reward scheme
5. Controlling and managing risk
6. Communication with Shareholders, regulators and wider market

1. The Board – putting governance into practice

Role of the Board

The Board of Directors is accountable to the shareholders. The Board's specific responsibilities include:

- ensuring our business is conducted ethically and transparently;
- providing strategic direction and approving corporate strategies;
- ensuring maintenance of adequate risk management controls and reporting mechanisms;
- monitoring management and financial performance;
- reviewing and approving the Bank's quarterly and annual financial reports;
- approving the business plan and budgets;
- selecting and evaluating the Chief Executive Officer (CEO) and senior management;
- planning for executive succession; and
- setting Chief Executive Officer's remuneration and recommending the Directors' remuneration to the shareholders for approval in the Annual General Meeting.

Board Size and Composition

The Directors of the Bank are elected by the two major shareholders namely Oman International Development and Investment Company (OMINVEST) and Arab Bank Plc Jordan subject to the limits imposed by our constitution. The Bank's constitution requires a minimum of seven and a maximum of nine Directors. In accordance with the Central Bank of Oman's regulations, we do not have an executive Director in the Board.

Currently, there are nine Directors of whom four are independent Directors and two are nominated Directors representing OMINVEST and Arab Bank Plc.

The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-executive Director, appointed by the Board. The Chairman's role includes:

- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors; and
- reviewing the contributions made by the Board members.

Board Independence

Having an independent Board is a key to good corporate governance. The Bank has structures and procedures in place to ensure that the Board operates independently of executive management. These include appointing an independent, non-executive Director as Chairman and ensuring that there are non-executive Directors who can bring special professional expertise to the Board. There are four independent directors as per the definition of 'independent director' in the circular issued by CMA on 22 July 2015.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings.

Meetings attended by the Directors for the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at, the Annual General Meeting.

Avoidance of Conflicts of Interest of Directors

In accordance with the constitution of the Bank, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

Expertise of our Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition is set out in Part 2, with details of each member's expertise and experience and other current Directorships, is set out in the annual report.

Nomination and Appointment of New Directors

Recommendations for nominations of new Directors are made by the shareholders. When Directors are nominated, the shareholders assesses them against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the Board's activities. If these criteria are met then the shareholders appoint a new Director.

When appointed to the Board, all new Directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues before the Board.

The Board is appointed for a period of three years. The term of the current Board expires in March 2023.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual Directors. The Board is in the process of reviewing the appointment of an independent consultant to assess its performance.

Board Access to Information

The Board needs high quality, unfiltered information on which to base decisions. All Directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties.

2. Board Committees

The Board Committees' authorities and responsibilities are governed by the relevant Committee's terms of reference, as approved by the Board. During 2014 the Board reviewed the composition of the committees after the appointment of new directors in order to enhance the role of the Board and also segregate certain functions to adopt best practice in corporate governance. Accordingly the Audit and Risk Management Committee has been reconstituted into two separate committees - Audit committee and Risk & Compliance Committee. The Board may establish any other committee to consider matters of special importance as deemed necessary.

Operation of the Committees

Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary. All Directors receive minutes of the committee meetings and can attend all committee meetings.

Composition and Independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the committees. All committees are currently composed of only non-executive Directors.

How the Committees report to the Board

Minutes of every meeting of the Board Committees are included in the agenda for the first full Board meeting scheduled to be held after the committee meeting. When necessary the chairman of the respective committee may also provide a verbal report.

Brief Terms of Reference of Board Committees

a) Credit Committee

The purpose of the Board Credit Committee (BCC) is to assist the Board in fulfilling its responsibilities in lending and credit activities within BCC's delegated authorities taking into consideration the Bank's credit policies, strategic and business plans. The Committee

- reviews and approves policies with regard to credit risk limits and controls
- reviews the Bank's credit portfolio on regular basis in coordination with the Board Risk Committee
- reviews and approves credit facilities above the executive management's approval limits
- review the Management Credit Committee recommendations with respect to debt write-off or write-down and take the appropriate decision within the BCC's delegated authorities or escalate to the Board for a decision
- considers matters of special importance as delegated by the Board.

b) Board Audit Committee

The Board Audit Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the external reporting of financial and non-financial information, the internal control, and the independence and effectiveness of external and internal audit activities, plus any other matters referred to it by the Board. The Board Audit Committee:

- approves the scope of internal audit work planned for the year.
- reviews and approves the scope of the external audit work planned for the year.
- reviews accounting policies to ensure compliance with relevant laws, regulations and accounting standards, and recommend any changes to the Board for approval.
- approves protocols governing the provision of non-audit services by the external auditor, that are outside of the scope of the external audit work to be undertaken, to ensure auditor independency.
- oversees and annually, reviews the performance of the Internal Audit Function
- ensures that the recommendations of the external and internal auditors are well addressed and implemented
- ensures the external and internal audit role in reviewing and auditing the IT systems/applications and the IT security
- ensures that the Back-up and Disaster Recovery Plans are in place
- ensures compliance with international accounting standards implemented in the Sultanate of Oman
- ensures that the Bank's financial statements were prepared according to the Central Bank of Oman regulations and other applicable standards

c) Compliance and Risk Management Committee

The Board Compliance and Risk Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to risk management strategy and frameworks (covering credit, liquidity, market, operational and other risks) in addition to compliance and regulatory issues. The Committee

- assists the Board with the formulation of the Bank's Risk Appetite Statement.
- establishes and reviews the framework for risk management throughout the Bank covering all risks including strategic, market, liquidity, credit, operational and reputation risks on an ongoing basis
- Ensure the, risk management frameworks, including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal and regulatory requirements.
- promotes and ensures a high level of awareness of risk management throughout the Bank
- reviews the strategy, plan and budget of risk management function
- reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite
- reviews regulators' reports on the adequacy of the Bank's Risk Management Frameworks
- reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O insurance for approval
- reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements
- reviews any proposed legislative or regulatory changes, the impact such changes may have on the Bank's business and the internal policies and controls which will be introduced to address these changes
- approves the Compliance Department/ Function's Charter and review the same on annual basis to update as appropriate

d) Selection and Remuneration Committee

The purpose of the Board Selection and Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place and by monitoring their effectiveness. The Committee:

- recommends the appointment of Chief Executive Officer to the Board.
- sets up the Key Performance Indicators of the Bank's Chief Executive Officer (CEO) and review the same on annual basis in order to review and recommend to the Board the CEO's total remuneration
- approves the appointment of the executive management team based on the Chief Executive Officer's nomination/recommendation except for the Head of Internal Audit, the Chief Compliance Officer, the Chief Risk Officer and the Bank's Legal Counsel whom appointment falls within the responsibility of other Board Committees and/or the Board of Directors'
- approves remuneration of executive management team include the salaries and other benefits.
- ensures that the Bank has a proper remuneration policy, reviews and recommends amendments in policy to the Board.
- reviews and monitors the human resource plan and aligns the plan to achieve the Bank's strategies.

- ensures that the Bank has proper training, career development and succession plans.
- reviews and monitors the "Omanisation" plan and identifies the positions that should be occupied by Omanis with the time table to achieve the plan.

Shari'a Supervisory Board

Oman Arab Bank has appointed a Shari'a Supervisory Board (SSB) to oversee the Shari'a compliance of its Islamic Banking window "Al Yusr". As per the requirements of Islamic Banking Framework (IBRF), each licensee must appoint a three member independent Board to oversee its Islamic banking operations from Shari'a perspective.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

Composition of the Committee and Meetings

The current committee memberships together with dates of meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- the Bank must produce true and fair financial reports;
- the Bank must have independent auditors who serve shareholder interests by ensuring shareholders know the Bank's true financial position; and
- the accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors are Ernst & Young LLC for the financial year ended at 31 December 2019. They were appointed by shareholders at the Annual General Meeting held on 28 March 2018.

Certification and Discussions with Auditors on Independence

The Board Audit Committee require the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require rotation of the external auditor every four years and a minimum two years' 'cooling off' period before an auditor is reappointed.

Restrictions on Non-Audit Work by the Audit Firm

The Bank's external auditors will not be able to carry out the following types of non-audit work for the Bank:

- preparation of accounting records and financial statements;
- IT systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments, management functions;
- broker or dealer, investment adviser or investment banking;
- legal services and
- litigation services.

For all other non-audit related services that are required, if our external audit firm were selected then the need for that will be assessed and approved by the Audit and Risk Management Committee.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- recognizes the market value of each position in a competitive market;
- rewards the individual's capabilities and experience;
- recognizes the performance of individuals and
- assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Who decides how individuals should be paid and rewarded?

The Board recommends the remuneration and the sitting fee for individual Directors to be approved in the Annual General meeting. The remuneration of the CEO is recommended by the Board Selection and Remuneration Committee and approved by the Board of Directors.

The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Selection and Remuneration Committee.

Fees paid to each Director during the 12 month period ended 31 December 2019 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

5. Controlling and Managing Risk

Approach to Risk Management

Risk is inherent in banking business. Risk management is a strategic issue in today's competitive environment. Taking and managing risk are central to the Bank's business and to building shareholder value. To do this effectively the Bank needs to optimize its level of risk. The Bank's risk approach links its vision and values, objectives and strategies, and procedures and training.

The Bank recognizes three main types of risk:

- Credit risk, being the risk of financial loss from the failure of customers to honor fully the terms of their contract with us;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles; and
- Operational risk, being the risk of unexpected financial, reputation or other damage arising from the way our organization pursues its business objectives.

We recognize that these risk categories are interlinked and therefore we take an integrated approach to managing them. We have comprehensive risk principles that apply to each category of risk.

The risk management function aims at ensuring that:

a. the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures

b. the trend and quality of risk is adequately monitored and controlled; and

c. all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the Compliance and Risk Management Committee of the Board.

Internal Review and Risk Evaluation

Based on Board approved policies the Bank has established appropriate procedures to manage and monitor the risks. Broadly the Asset and Liability Committee is responsible for monitoring market risks arising from the Bank's core lending and deposit-taking activities. Similarly, the Investment management Committee is responsible for monitoring market risk and related credit and operational risk exposures arising from trading activity. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

6. Communication with Shareholders, Regulators and Wider Market

The Bank is committed to giving all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfilling our continuous disclosure obligations to the Central Bank of Oman.

The Bank's website includes annual reports, quarterly financial statements, briefings and presentations given by CEO and other executives, public announcements and economic updates. Further details on means of communications, including website address, are set out in Part 2.

Corporate Governance - Part 2

In this part, we set out the disclosures specifically required under the Code of Corporate Governance issued by CMA. The contents are as follows:

1. Board of Directors
2. Board Committees
3. Process of nomination of Directors
4. Remuneration matters
5. Details of non-compliance by the Bank
6. Means of communication with the shareholders and investors
7. Cash dividend policy
8. Market price data
9. Profile of the statutory auditors
10. Areas of non-compliance with the provisions of Corporate Governance

1. Board of Directors

The current composition of the Board and Board Committees are set out in table 1, with further details for each Director provided in the annual report.

2. Board Committees

The terms of references of the Committees are set out in Part 1.

Table 1

Director	Board Membership	Appointed from	Status	Committee Membership: Credit Committee	Committee Membership: Audit Committee	Committee Membership: Compliance and Risk Management Committee	Committee Membership: Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Chairman of Credit Committee and Selection & Remuneration Committee	1-Oct-89	Independent	√	-	-	√
Wahbe Tamari	Deputy Chairman	25-Aug-16	Representing Arab Bank Plc	-	√	-	√
Hani Bin Muhammed Al Zubair	Director Chairman of Risk Management & Compliance Committee	1-Jun-99	Independent	-	-	√	-
Mulham Bashir Al Jaraf	Director Chairman of Audit Committee	1-Sep-07	Independent	-	√	-	-
Randa Sadik	Director	1-Jun-10	Representing Arab Bank Plc	√	-	-	√
Abdulaziz Al Balushi	Director	19-Mar-14	Representing OMINVEST	√	-	√	√
Walid Samhouri	Director	19-Mar-14	Representing Arab Bank Plc	√	-	√	-
Imad Sultan	Director	16-Jun-14	Independent	√	-	-	-
Nadya Talhouni	Director	23-Apr-18	Representing Arab Bank Plc	-	√	-	-

The members of the Committees together with the number of meetings held in 2019 and attended by each member are set out in the Table 2.

Table 2

Director	Board Meetings (Note 1)		Credit Committee (Note 2)		Audit Committee (Note 3)		Compliance and Risk Management Committee (Note 4)		Selection and Remuneration Committee (Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Bin Muhammed Al Zubair	5	5	3	3	-	-	-	-	1	1
Wahbe Tamari	5	5	-	-	4	4	-	-	1	1
Hani Bin Muhammed Al Zubair	5	4	-	-	-	-	3	2	-	-
Abdul Aziz Al Balushi	5	5	3	3	-	-	3	3	1	1
Walid Samhouri	5	5	3	3	-	-	3	3	-	-
Randa Sadik	5	5	3	3	-	-	-	-	1	1
Imad Sultan	5	5	3	3	-	-	-	-	-	-
Mulham Bashir Al Jaraf	5	4	-	-	4	4	-	-	-	-
Nadya Talhouni	5	4	-	-	4	4	-	-	-	-

Directors' attendance record:

Note 1 Board Meetings were held on - 28-January, 23-April, 22-July, 31-October and 15-December during 2019.

Note 2 Credit Committee meetings were held on - 17-March, 10-October, 15-December during 2019.

Note 3 Audit Committee meetings were held on 22-January, 22-April, 21-July and 30-October during 2019.

Note 4 Compliance and Risk Management Committee were held on - 17-April, 01-August, and 23-October during 2019.

Note 5 Selection and Remuneration Committee meetings was held on - 28-January during 2019.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board

Oman Arab Bank has appointed a Shari'a Supervisory Board (SSB) to oversee the Shari'a compliance of its Islamic Banking window "Al Yusr". As per the requirements of Islamic Banking Framework (IBRF), each licensee must appoint a three member independent Board to oversee its Islamic banking operations from Shari'a perspective.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayyadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

Terms of Reference for the SSB

The SSB is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic banking unit in order to ensure that they are in compliance with Shari'a principles. The main duties and responsibilities of the SSB are as follows:

a The SSB shall advise the BOD and management on Shari'a matters in order to ensure that the day to day Islamic business operations comply with Shari'a principles at all times.

b The SSB shall conduct Shari'a reviews post products launch to ensure implementation of the related guidelines as approved by the SSB.

c To ensure that the Islamic products comply with Shari'a principles in all aspects, the SSB must review the following:

- i The policies, procedures, products, processes, systems
- ii The terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions; and
- iii The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

d The legal counsel or consultant of the Islamic banking may seek advice on Shari'a matters from the SSB. The SSB is expected to provide assistance to them so that compliance with Shari'a principles can be assured completely.

e The SSB is required to review and approve the work carried out by Shari'a compliance and Shari'a audit functions.

f The Islamic banking unit shall have a Shari'a Audit Manual. The objective of the Manual is to examine the right implementation and application of the products. It will be used as a reference for the audit team.

g The SSB is required to submit a report to the Shareholders on the compliance of the institution with Shari'a in order to be published as part of its annual report. The SSB shall also publish as an appendix to the annual Shari'a compliance report all the Shari'a rulings (Fatwa) issued during a year along with their bases (religious evidences).

h The SSB is responsible for supervising the inflows and outflows of the charity fund which is created by the Bank to place the income generated from Shari'a non-compliant sources or penalties and late payment charges received from clients in default or overdue cases.

i With respect to funds, SSB is responsible for the following:

- i Ensure that the Fund is managed and administered in accordance with Shari'a principles.
- ii Provide expertise and guidance in all matters relating to Shari'a principles, including the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters.
- iii Consult the SSB where there is any ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process.
- iv Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.
- v To prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.

Shari'a Supervisory Board Meetings

The members of the SSB together with the number of meetings held in 2018 and attended by each member are set out in the table below.

	2019 RO	2018 RO
Meetings held during the year	**4**	4
Meetings attended:		
Dr. Esam Khalaf Al Enzi	**4**	3
Dr. Ahmed Sobhi Ahmed Al Ayadi	**4**	4
Dr. Abdulaziz Khalifa Al Qassar	**4**	4

3. Process of Nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

The processes and procedures of the Bank to reward and remunerate the Directors and senior executives are set out in Part 1, paragraph 4. The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law and regulations issued by the Central Bank of Oman.

The Annual General Meeting approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit (subject to specified deductions) and subject to an overall limit of RO 200,000. The sitting fees for each Director shall not exceed RO 10,000 in one year.

In the Annual General Meeting held on 24 March 2019 the shareholders approved the Directors' remuneration as well as the sitting fees of RO 500 per meeting for 2019.

The remuneration and sitting fees which were approved and paid to each Director for 2018 were as follows:

Table 3

Director's Name	Remuneration RO	Total Sitting Fees RO	RO Total
Rashad Bin Muhammed Al Zubair	15,000	6,000	21,000
Wahbe Tamari	8,000	5,500	13,500
Hani Bin Muhammed Al Zubair	8,000	4,000	12,000
Abdul Aziz Al Balushi	8,000	7,500	15,500
Walid Samhouri	8,000	7,000	15,000
Randa Sadik	8,000	6,000	14,000
Mohammed Masri	2,000	1,000	3,000
Imad Sultan	8,000	3,500	11,500
Mulham Bashir Al Jaraf	8,000	3,500	11,500
Nadya Talhouni	6,000	2,000	8,000
Total	**79,000**	**46,000**	**125,000**

The remuneration of RO 158,000 and sitting fees of RO 40,500 for 2019 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration paid to the key management personnel of the Bank for 2019 is RO 1,325,769 (2018: RO 948,944).

No stock options are available to Directors or the executives of the Bank. The Executives are required to provide 30-60 days' notice should they wish to resign. No severance fees are payable to the key management personnel in the event of termination of employment.

Remuneration of Shari'a Supervisory Board

The remuneration and sitting fees for 2018 were paid during 2019. A resolution to approve the proposed remuneration of RO 30,800 and sitting fees of RO 4,620 for 2018 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration and sitting fees which were approved and paid to each member for 2018 were as follows:

Name of SSB Member	Annual Fee RO	Meeting Fee RO	Total Fee RO
Dr. Esam Khalaf Al Enzi	11,550	1,155	12,705
Dr. Ahmed Sobhi Ahmed Al Ayadi	9,625	1,540	11,165
Dr. Abdulaziz Khalifa Al Qassar	9,625	1,540	11,165
Total	**30,800**	**4,235**	**35,035**

5. Non-Compliance of Corporate Governance and Penalties

The Bank has complied with all regulatory requirements except for few instances during last four years an amount of RO 152 thousand (in total) was imposed by Central Bank of Oman (CBO) for non-compliance. The Bank has taken necessary corrective action to ensure compliance in future.

Areas of Non-Compliance with the Provisions of Corporate Governance

i The chairman of Credit Committee is also the chairman of the Selection and Remuneration Committee.

ii The Board Audit Committee does not have a majority of independent members.

iii Discrepancies identified during annual review by on-site examination teams.

6. Means of Communicating with the Shareholders

We confirm the following:

a Half-yearly results were sent to the shareholders.

b Quarterly results and the annual report are posted on the Bank website www.oman-arabbank.com.

c The website displays all official Bank information releases.

d Management Discussion and Analysis (MD&A) forms part of the annual report.

Our policy with regard to communication with shareholders, regulators and wider market is set out in Part 1, paragraph 6.

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

i The audited financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the Central Bank of Oman, and the applicable requirements of the Commercial Companies Law of 1974, as amended.

ii The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

8. Dividend Policy

The Bank's Dividend Policy complies with CBO's guidance and adopted to achieve:

1 Establish provisions that support the Bank's financial position.

2 Pay cash dividend to the shareholders appropriate to their investment.

3 Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.

4 Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

9. Market Price Data

The Bank is a closed joint stock company and its shares therefore are not listed for trading on the Muscat Securities Market.

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99 % and 49 % of the share capital respectively. OMINVEST is a public joint stock company listed at the Muscat Securities Market and Arab Bank Plc is a publicly held company and is listed at the Amman Stock Exchange, Jordan.

10. Profile of the Statutory Auditors

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

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY.

11. Audit Fees

The Bank paid RO 62,000 to the external auditors for their audit and related services for the year ended 2019.

Rashad Muhammed Al Zubair
Chairman

Rashad Al-Musafir
Chief Executive Officer

Disclosures under Basel II - Pillar III and Basel III Related Disclosures

For the year ended 31 december 2019

A. Scope of Application

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. The Bank is a subsidiary of Oman International Investment and Development Company SAOG (OMINVEST) which owns 51% of the shares and the remaining 49% is owned by Arab Bank Plc, Jordan.

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman(CBO) ;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II Accord consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based –Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. Capital Structure

The Bank's Tier 1 and Tier 2 capital are as follows

	RO '000
Paid up share capital	134,620
Legal reserve	44,746
General reserve	25,560
Special reserve	2,400
Subordinated Debt reserve	16,000
Other disclosed reserves	(2,462)
Other intangibles	(43)
Retained earnings	49,462
Perpetual Bonds	72,553
Tier 1 Capital	**342,836**
Eligible expected credit loss on loans & advances and financing to customers	16,976
Subordinated term debt	4,000
Tier 2 Capital	**20,976**
Total Capital	**363,812**

Tier 1 Capital

The Bank's authorised share capital is RO 200,000,000 and issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

Additional Tier 1 Capital

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Additionally, on 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

Tier 2 Capital

Tier 2 Capital consists of the Subordinated Bonds, eligible Expected Credit Loss (ECL) on loans & advances and financing to customers as required by the CBO and cumulative fair value gains on eligible investments securities as allowed under the guidelines for Basel II by CBO.

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier 2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

The eligible ECL is made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

C. Capital Adequacy

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

a. Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and
b. Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

a. evaluate the level and trend of material risks and their effect on capital requirements;
b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;
c. determine that the Bank holds sufficient capital against various risks;
d. determine that the Bank meets its internal capital adequacy goals; and
e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

The Management is in the process of setting the policies and procedures to progressively move to the advanced approaches set out in Basel II for the capital measurement.

Quantitative disclosure

Table-1

2019

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,544,368	2,504,552	1,948,193
2	Off -Balance sheet Item	720,029	289,216	263,850
	Assets for Operations risk	161,463	161,463	161,463
	Assets in Trading book	18,288	18,288	18,288
3	Derivatives	4,417	4,417	3,737
4	**Total**	**3,448,565**	**2,977,936**	**2,395,531**
5	Tier 1 Capital			342,836
6	Tier 2 Capital			21,206
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**364,042**
8.1	Capital requirement for credit risk			299,130
8.2	Capital requirement for market risk			2,469
8.3	Capital requirement for operational risk			21,798
9	**Total required capital**			**323,397**
10	**Tier 1 Ratio**			**14.31%**
11	**Total Capital Ratio**			**15.20%**

2018

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,384,572	2,376,763	1,739,248
2	Off -Balance sheet Item	785,370	312,033	277,421
	Assets for Operations risk	148,375	148,375	148,375
	Assets in Trading book	25,775	25,775	25,775
3	Derivatives	46,718	46,718	41,801
4	**Total**	**3,390,810**	**2,909,664**	**2,232,620**
5	Tier 1 Capital			340,495
6	Tier 2 Capital			28,756
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**369,251**
8.1	Capital requirement for credit risk			265,028
8.2	Capital requirement for market risk			3,319
8.3	Capital requirement for operational risk			19,103
9	**Total required capital**			**287,450**
10	**Tier 1 Ratio**			**15.25%**
11	**Total Capital Ratio**			**16.54%**

D. Credit Risk Exposure and Assessment

i. General disclosure

Qualitative disclosures

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management and credit review teams which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Risk Department while the Retail Banking Department manages the credit risk with predefined programs. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004.

In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using Banks own internal historical experience. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data

Credit Risk Management and Control

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal ratings map as follows:

Internal rating grade	Internal classification
Investment grade	
Rating grade 1	**Standard**
Rating grade 2	**Standard**
Rating grade 3	**Standard**
Rating grade 4	**Standard**
Rating grade 5	**Standard**
Sub-investment grade	
Rating grade 6	**Standard**
Rating grade 7	**Standard**
Rating grade 8	**Standard**
Rating grade 9	**Standard**
Rating grade 10	**Standard**
SM	**Special Mention**
Classified	
SS	**Sub-standard**
DD	**Doubtful**
LS	**Loss**

The Bank's internal credit rating grades along with the respective PDs are as below:

Internal rating grades	Internal rating grade description	12 M PD (Corporate) (%)	12 M PD (Retail) (%)
1	Exceptional	0.079	0.03
2	Excellent	0.124	0.03
3	Very Strong	0.194	0.03
4	Strong	0.303	0.153
5	Strong	0.594	0.188
6	Acceptable	0.744	0.201
7	Acceptable	1.163	0.561
8	Average	1.817	1.132
9	Average	2.833	1.645
10	Marginal	4.503	18.919

The Bank manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries, sectors and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Department.

c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment provisioning (applicable to 2017 only)

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

The Bank's credit policy requires the review of individual financial assets on a annual basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and peer statistics.

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date, and are calculated using the banks internal recovery data after consideration of the contractual maturities of exposures and estimated prepayment rates.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

2019

Sl.No	Type of credit exposure	Average Gross Exposure		Total Gross Exposure as at	
		2019	2018	31-Dec-19	31-Dec-18
		RO'000	RO'000	RO'000	RO'000
1	Overdrafts	149,255	155,361	135,634	143,402
2	Personal Loans	766,870	740,382	762,327	767,409
3	Loans against Trust Receipts	111,671	108,796	92,113	107,768
4	Other Loans	912,819	775,839	1,003,786	790,102
5	Bills Purchased Discounted	77,044	73,805	66,030	79,355
	Total	**2,017,659**	**1,854,183**	**2,059,890**	**1,888,036**

iii. Geographic distribution of exposures

Table-3

2019

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	135,634	-	-	-	-	-	135,634
2	Personal Loans	762,327	-	-	-	-	-	762,327
3	Loans against Trust Receipts	92,113	-	-	-	-	-	92,113
4	Other Loans	1,003,786	-	-	-	-	-	1,003,786
5	Bills Purchased/Discounted	66,030	-	-	-	-	-	66,030
	Total	**2,059,890**	-	-	-	-	-	**2,059,890**

2018

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	143,402	-	-	-	-	-	143,402
2	Personal Loans	767,409	-	-	-	-	-	767,409
3	Loans against Trust Receipts	107,768	-	-	-	-	-	107,768
4	Other Loans	790,102	-	-	-	-	-	790,102
5	Bills Purchased/Discounted	79,355	-	-	-	-	-	79,355
	Total	**1,888,036**	-	-	-	-	-	**1,888,036**

iv. Industry or counterparty type distribution of exposures

Table-4

2019

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	6,581	58,770	1,356	-	66,707	47,034
2	Export Trade	58	35	-	-	93	113,177
3	Wholesale & Retail Trade	11,367	65,198	1,008	-	77,573	19,808
4	Mining & Quarrying	16,604	157,128	1,359	-	175,091	565
5	Construction	29,395	191,606	53,165	-	274,166	73,657
6	Manufacturing	14,460	131,331	2,772	-	148,563	538
7	Electricity, gas & water	1,062	48,609	962	-	50,633	355,105
8	Transport & communication	1,404	103,113	126	-	104,643	3,145
9	Financial Institutions	1,755	72,284	144	-	74,183	-
10	Services	17,772	125,710	3,695	-	147,177	76,677
11	Personal Loans	-	762,328	-	-	762,328	-
12	Agriculture & Allied Activities	958	6,624	867	-	8,449	-
13	Government	-	1,538	-	-	1,538	30,323
14	Non-Resident Lending	-	1,081	-	-	1,081	-
15	All Others	34,218	132,871	576	-	167,665	-
16	**Total (1 to 15)**	**135,634**	**1,858,226**	**66,030**	**-**	**2,059,890**	**720,029**

2018

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	7,936	51,264	4,468	-	63,668	80,184
2	Export Trade	394	35	-	-	429	154,109
3	Wholesale & Retail Trade	11,192	53,957	599	-	65,748	9,375
4	Mining & Quarrying	7,379	138,367	1,155	-	146,901	1,681
5	Construction	51,515	124,374	61,590	-	237,479	319,586
6	Manufacturing	13,598	95,215	4,009	-	112,822	2,114
7	Electricity ,gas & water	1,733	52,876	311	-	54,920	187,620
8	Transport & communication	1,083	113,730	166	-	114,979	4,206
9	Financial Institutions	2,575	63,395	144	-	66,114	-
10	Services	15,608	93,990	5,279	-	114,877	3,023
11	personal Loans	-	767,409	-	-	767,409	-
12	Agriculture & Allied Activites	1,352	3,250	884	-	5,486	-
13	Government	-	-	-	-	-	23,472
14	Non-Resident Lending	-	2,048	-	-	2,048	-
15	All Others	29,037	105,369	750	-	135,156	-
16	**Total (1 to 15)**	**143,402**	**1,665,279**	**79,355**	**-**	**1,888,036**	**785,370**

v. Residual contractual maturity of credit exposure

Table-5

2019

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	10,851	150,049	31,266	-	192,166	128,002
2	1-3 months	10,851	205,547	32,713	-	249,111	262,496
3	3-6 months	10,851	61,211	1,087	-	73,149	102,175
4	6-9 months	10,851	34,236	12	-	45,099	22,544
5	9-12 months	10,851	48,116	930	-	59,897	166,877
6	1-3 years	27,127	255,494	-	-	282,621	33,588
7	3-5 years	27,127	195,203	-	-	222,330	3,328
8	Over 5 years	27,125	908,370	22	-	935,517	1,019
9	**Total**	**135,634**	**1,858,226**	**66,030**	**-**	**2,059,890**	**720,029**

2018

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	11,472	181,245	35,555	-	228,272	181,352
2	1-3 months	11,472	131,065	35,293	-	177,830	214,344
3	3-6 months	11,472	53,367	7,813	-	72,652	140,199
4	6-9 months	11,472	28,521	51	-	40,044	117,921
5	9-12 months	11,472	41,900	621	-	53,993	67,995
6	1-3 years	28,680	205,194	-	-	233,874	62,582
7	3-5 years	28,680	187,358	-	-	216,038	328
8	Over 5 years	28,682	836,629	22	-	865,333	649
9	**Total**	**143,402**	**1,665,279**	**79,355**	**-**	**1,888,036**	**785,370**

vi. Loans and provisions by major industry or counterparty type

Table-6

2019

Sl. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	66,707	2,172	2,441	771	4,338	1,533
2	Export Trade	93	-	2	-	2	-
3	Wholesale & retail trade	77,573	1,269	1,158	214	359	-
4	Mining & quarrying	175,091	-	2,667	-	14	3
5	Construction	274,166	9,860	4,546	5,625	6,146	-
6	Manufacturing	148,563	9,325	2,261	754	1,467	-
7	Electricity ,gas & water	50,633	-	506	-	-	-
8	Transport & communication	104,643	400	523	178	87	-
9	Financial Institutions	74,183	93	520	63	-	-
10	Services	147,177	7,771	3,820	4,048	1,574	-
11	Personal Loans	762,328	13,788	2,728	6,110	5,206	1,233
12	Agriculture & Allied Activities	8,449	437	30	143	1,056	-
13	Government	1,538	-	-	-	-	-
14	Non-Resident Lending	1,081	-	-	-	-	-
15	All Others	167,665	28,818	2,198	12,609	5,061	9,774
16	**Total**	**2,059,890**	**73,933**	**23,400**	**30,515**	**25,310**	**12,543**

* The ECL shown under this column represents the stage 3 ECL and reserve interest made during the year.

2018

Sl. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Import Trade	63,668	2,778	1,590	1,013	322	9
2	Export Trade	429	782	(9)	43	3	-
3	Wholesale & Retail Trade	65,748	3,988	1,613	3,768	82	187
4	Mining & Quarrying	146,901	-	3,837	-	28	1
5	Construction	237,479	6,709	6,027	2,775	863	612
6	Manufacturing	112,822	12,089	2,631	4,003	333	22
7	Electricity ,gas & water	54,920	18	1,434	18	2	-
8	Transport & communication	114,979	957	2,978	564	105	-
9	Financial Institutions	66,114	1	1,727	2	87	-
10	Services	114,877	2,923	2,924	1,144	129	123
11	personal Loans	767,409	12,896	4,022	5,222	7,154	1,824
12	Agriculture & Allied Activities	5,486	567	128	258	64	-
13	Government	-	-	-	-	-	-
14	Non-Resident Lending	2,048	-	53	-	-	-
15	All Others	135,156	7,793	4,365	3,624	1,365	3,810
16	**Total**	**1,888,036**	**51,501**	**33,320**	**22,434**	**10,537**	**6,588**

* The provision shown under this column represents the specific provision made during the year. The collective provisions are made on a portfolio basis.

vii. Geographic distribution of impaired loans

Table-7

2019

Sl. No	Countries	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Oman	2,059,890	73,933	23,400	30,515	25,310	12,543
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**2,059,890**	**73,933**	**23,400**	**30,515**	**25,310**	**12,543**

2018

Sl. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,888,036	51,501	33,320	22,434	10,537	6,588
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**1,888,036**	**51,501**	**33,320**	**22,434**	**10,537**	**6,588**

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2019

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,513,823	322,712	51,501	**1,888,036**
2	Migration /changes(+/-)	79,942	(58,080)	(21,862)	**-**
3	New Loans	891,882	218,148	54,505	**1,164,535**
4	Recovery of Loans	(933,525)	(48,945)	(4,877)	**(987,347)**
5	Loans written off	-	-	5,334	**5,334**
6	Closing Balance	1,552,122	433,835	73,933	**2,059,890**
7	Expected credit loss held	7,912	15,488	30,515	**53,915**

Movement of Gross Loans during the year – 2018

Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,462,691	191,508	50,273	**1,704,472**
2	Migration /changes(+/-)	82,466	(75,846)	(6,620)	**-**
3	New Loans	781,505	247,546	16,750	**1,045,801**
4	Recovery of Loans	(812,838)	(40,496)	(2,315)	**(855,649)**
5	Loans written off	1	-	6,587	**6,588**
6	Closing Balance	1,513,823	322,712	51,501	**1,888,036**
7	Expected credit loss held	7,871	25,449	22,434	**55,754**

E. Disclosure for Portfolio subject to standardised approach

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage, which meet the conditions of CBO, for which risk weight assigned is 35%.

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:

Table-9

2019

Sl. No	Risk bucket	0% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	Total RO' 000
1	Sovereigns(Rated)	311,789	-	-	-	-	-		311,789
2	Banks(Rated)	-	56,771	-	67,704	-	98,254	425	223,154
3	Corporate	-	0	-	-	-	960,486		960,486
4	Retail	-	-	-	-	24,319	396,788		421,107
5	Claims secured by residential property	-	-	192,070	-	-	140,611		332,681
6	Claims secured by commercial property	-	-	-	-	-	342,439		342,439
7	Past due loans	-	-	-	-	-	37,331		37,331
8	Other assets	42,511	-	-	-	-	101,983		144,494
9	Un-drawn exposure	-	-	229	0		24,475		24,704
	Total	**354,300**	**56,771**	**192,299**	**67,704**	**24,319**	**2,102,367**	**425**	**2,798,185**

2018

Sl. No	Risk bucket	0% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	Total RO' 000
1	Sovereigns(Rated)	341,880	-	-	-	-	-		341,880
2	Banks(Rated)	-	77,944	-	115,580	-	120,625	469	314,618
3	Corporate	-	21,189	-	-	-	826,326		847,515
4	Retail	-	-	-	-	32,424	414,541		446,965
5	Claims secured by residential property	-	-	178,517	-	-	135,774		314,291
6	Claims secured by commercial property	-	-	-	-	-	287,973		287,973
7	Past due loans	-	-	-	-	-	16,867		16,867
8	Other assets	40,309	-	-	-	-	85,563		125,872
9	Un-drawn exposure	-	-	221	14944		24,368		39,533
	Total	**382,189**	**99,133**	**178,738**	**130,524**	**32,424**	**1,912,037**	**469**	**2,735,514**

F. Credit Risk Mitigation under standardised approach

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable;
- lien on fixed deposits;
- cash margins;
- mortgages over residential and commercial properties and
- pledge of marketable shares and securities;

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Quantitative disclosure

	2019 RO '000	2018 RO '000
Total exposure covered by eligible financial collateral	**24,015**	**22,479**
Value of the eligible collateral	**23,994**	**22,388**

G. Market Risk in Trading Book

Qualitative disclosures

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments FVTPL at 31 December 2019 is ±0.24% of the total income (2018 - ±1.14%).

H. Interest Rate Risk in Banking Book

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year.

Quantitative disclosure

The EaR at 31 December 2019 is 1.21% (2018 – 2.49%).

The table below summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

2019	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								-
Central Bank of Oman	1.00	42,350	-	-	-	500	136,814	179,664
Due from banks	2.41	38,776	-	-	-	-	12,026	50,802
Loans and advances	5.50	753,736	79,398	48,770	1,088,673	17,749	18,004	2,006,330
Investment securities								
at FVTPL & FVOCI		-	-	-	-	-	7,420	7,420
Investment at Held to collect	5.31	1,500	2,407	-	58,955	95,140	-	158,002
Other assets		22,330	-	-	-	-	32,856	55,186
Property and equipment		-	-	-	-	-	39,725	39,725
Total assets		**858,692**	**81,805**	**48,770**	**1,147,628**	**113,389**	**246,845**	**2,497,129**
Liabilities								
Due to banks		25,441	-	-	-	-	6,024	31,465
Deposits from customers	2.01	578,740	226,546	534,086	180,890	-	478,174	1,998,436
Other liabilities		2,756	-	-	-	-	68,942	71,698
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	6,687	6,687
Total liabilities		**606,937**	**226,546**	**534,086**	**200,890**	**-**	**559,827**	**2,128,286**
Total interest sensitivity gap		**251,755**	**(144,741)**	**(485,316)**	**946,738**	**113,389**	**(312,982)**	**368,843**

2018	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								-
Central Bank of Oman	1.00	-	-	-	-	500	194,301	194,801
Due from banks	1.72	83,978	-	-	-	-	7,294	91,272
Loans and advances	5.27	653,364	62,205	11,683	1,069,564	36,001	-	1,832,817
Investment securities								
at FVTPL & FVOCI		-	-	-	-	-	8,914	8,914
Investment at Held to collect	4.57	-	-	20,000	30,714	71,548	-	122,262
Other assets		15,957	-	-	-	-	32,550	48,507
Property and equipment		-	-	-	-	-	30,245	30,245
Total assets		**753,299**	**62,205**	**31,683**	**1,100,278**	**108,049**	**273,304**	**2,328,818**
Liabilities								
Due to banks		-	5,000	-	4,000	-	6,207	15,207
Deposits from customers	1.73	306,328	215,448	253,627	173,190	-	921,965	1,870,558
Other liabilities		5,329	-	-	-	-	54,912	60,241
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	5,936	5,936
Total liabilities		**311,657**	**220,448**	**253,627**	**197,190**	**-**	**989,020**	**1,971,942**
Total interest sensitivity gap		**441,642**	**(158,243)**	**(221,944)**	**903,088**	**108,049**	**(715,716)**	**356,876**

I. Liquidity Risk

Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	130,323	20,369	150,692	11,663	17,309	179,664
Due from banks	50,802	-	50,802	-	-	50,802
Loans and advances	441,277	170,423	611,700	504,950	889,680	2,006,330
Investment securities	10,389	2,407	12,796	57,464	95,162	165,422
Other assets	45,431	9,649	55,080	97	9	55,186
Property and equipment	-	-	-	-	39,725	39,725
Total assets	**678,222**	**202,848**	**881,070**	**574,174**	**1,041,885**	**2,497,129**
Liabilities						
Due to banks	31,465	-	31,465	-	-	31,465
Deposits from customers	275,733	706,688	982,421	415,080	600,935	1,998,436
Other liabilities	42,415	20,520	62,935	8,302	461	71,698
Subordinated bond and Perpetual	-	-	-	-	-	-
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,914	373	6,287	400	-	6,687
Total liabilities	**355,527**	**727,581**	**1,083,108**	**443,782**	**601,396**	**2,128,286**
Net assets	**322,695**	**(524,733)**	**(202,038)**	**130,392**	**440,489**	**368,843**

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. The LCR of the Bank is 543% as at 31 December 2019

2019	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	152,931	19,328	172,259	10,056	12,486	194,801
Due from banks	91,272	-	91,272	-	-	91,272
Loans and advances	406,197	160,820	567,017	449,912	815,888	1,832,817
Investment securities	11,356	20,000	31,356	28,326	71,494	131,176
Other assets	41,101	7,392	48,493	-	14	48,507
Property and equipment	-	-	-	-	30,245	30,245
Total assets	**702,857**	**207,540**	**910,397**	**488,294**	**930,127**	**2,328,818**
Liabilities						
Due to banks	15,207	-	15,207	-	-	15,207
Deposits from customers	377,641	695,819	1,073,460	362,033	435,065	1,870,558
Other liabilities	42,658	9,644	52,302	7,434	505	60,241
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,363	573	5,936	-	-	5,936
Total liabilities	**440,869**	**706,036**	**1,146,905**	**389,467**	**435,570**	**1,971,942**
Net assets	**261,988**	**(498,496)**	**(236,508)**	**98,827**	**494,557**	**356,876**

J. Operational Risk

Qualitative Disclosures

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 161.463 million at 31 December 2019 (2018: RO 148.375 million).

K. Composition of Capital Disclosure

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank's Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

Reconciliation	Financial Position as in published financial statements As at Dec-31-2019 RO '000	Under regulatory scope of consolidation As at Dec-31-2019 RO '000
Assets		
Cash and balances with Central Bank of Oman	179,664	179,664
Due from banks	50,802	50,802
Loans and advances	2,006,330	2,006,330
Investments in securities	165,422	165,422
Loans and advances to banks	-	-
Property and equipment	39,725	39,725
Deferred tax assets	-	-
Other assets	55,186	55,186
Total assets	**2,497,129**	**2,497,129**
Liabilities		
Due to banks	31,465	31,465
Customer deposits	1,998,436	1,998,436
Current and deferred tax liabilities	-	-
Other liabilities	71,698	71,698
Subordinated bonds	20,000	20,000
Taxation	6,687	6,687
Total liabilities	**2,128,286**	**2,128,286**
Shareholders' Equity		
Paid-up share capital	134,620	134,620
Special Reserve	3,915	3,915
Legal reserve	44,746	44,746
General reserve	25,560	25,560
Retained earnings	64,270	64,270
Cumulative changes in fair value of investments	(1,951)	(1,951)
Impairment reserve	9,130	9,130
Subordinated debt reserve	16,000	16,000
Total shareholders' equity	**296,290**	**296,290**
Perpetual Tier 1 Capital Bonds	**72,553**	**72,553**
Total liability and shareholders' funds	**2,497,129**	**2,497,129**

Reconciliation	Financial Position as in published financial statements As at Dec-31-2019 RO '000	Under regulatory scope of consolidation As at Dec-31-2019 RO '000
Assets		
Cash and balances with CBO	**179,664**	179,664
Balance with banks and money at call and short notice	**50,802**	50,802
Investments :	**165,422**	**165,422**
Of which :		
Held to collect	158,002	158,002
FVOCI	3,501	3,501
FVPL	3,919	3,919
Held for Trading	-	-
Loans and advances	2,006,330	2,012,399
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,920,541	1,836,036
Loans and advances to non-resident Customers for domestic operations	-	-
Loans and advances to non-resident Customers for operations abroad	-	-
Loans and advances to SMEs	-	84,505
Financing from Islamic banking window	139,349	139,349
Allowances for the credit losses	(53,560)	(47,491)
Of which :		
Stage 3	(30,515)	(30,515)
Stage 1 & Stage 2	(23,045)	(16,976)
Fixed assets	**39,725**	**39,725**
Other assets	**55,186**	**55,186**
Total Assets	**2,497,129**	**2,503,198**

Reconciliation	Financial Position as in published financial statements RO '000	Under regulatory scope of consolidation RO '000
Capital & Liabilities		
Paid-up Capital	**134,620**	**134,620**
Of which:		
Amount eligible for CET1	134,620	134,620
Amount eligible for AT1	72,553	72,553
Reserves & Surplus	**161,670**	**151,025**
Of which:		
Legal reserve	44,746	44,746
General reserve	25,560	25,560
Retained earnings	64,270	49,462
Proposed dividends		14,808
Cumulative changes in fair value of investments	7,179	(1,951)
Of which:		
Amount eligible for Tier 2 capital	(1,951)	(1,951)
Impairment reserve	9,130	
Subordinated debt reserve	16,000	16,000
Special reserve	3,915	2,400
Total Capital	**368,843**	**358,198**

Reconciliation	Financial Position as in published financial statements	Under regulatory scope of consolidation
Deposits	**1,998,436**	**1,998,436**
Of which:		
Deposits from banks	-	-
Customer deposits	1,854,356	1,854,356
Deposits of Islamic Banking window	144,080	144,080
Borrowings	**51,465**	**51,465**
Of which:		
From CBO	-	-
From banks	31,465	31,465
From other institutions & agencies	-	-
Borrowings in the form of bonds,Debentures and sukuks	20,000	20,000
Of which:		
Directly issued qualifying Tier 2 instruments	20,000	4,000
Amount de-recognised from Tier 2 capital	-	16,000
Other liabilities & provisions	**78,385**	**78,385**
Total Capital, Other liabilities & provisions	**2,497,129**	**2,486,484**

Sl.No	Common Equity Tier 1 capital: instruments and reserves	Under regulatory scope of consolidation
1	Directly issued qualifying common share capital	134,620
2	Retained earnings	49,462
3	Accumulated other comprehensive income (and other reserves)	86,755
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital (CET1)**	**270,837**
7	**Additional Tier 1 capital (AT1)**	72,553
8	**Tier 1 capital (T1 = CET1 + AT1)**	**343,390**
	Tier 2 capital: instruments and provisions	
9	Directly issued qualifying Tier 2 instruments	4,000
10	Eligible expected credit loss	16,976
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-
12	**Tier 2 capital (T2)**	**20,976**
	Total capital (TC = T1 + T2)	**364,366**

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

Main features of Subordinated Loans

Issuer	Oman Arab Bank
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
Governing law(s) of the instrument Regulatory treatment	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 8 Million
Par value of instrument	OMR 20 Million
Accounting classification	Subordinated Debt
Original date of issuance	30/11/2015
Perpetual or dated	Dated
Original maturity date	30/05/2021
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed coupon
Coupon rate and any related index	5.50%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	-
If write-down, write-down trigger(s)	-
If write-down, full or partial	-
If write-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
Non-compliant transitioned features	-

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

Main features of Perpetual Bonds

1	Issuer	Oman Arab Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	29/12/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	non-liability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

Main features of Perpetual Bonds

1	Issuer	Oman Arab Bank
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 42.553 Million
9	Par value of instrument	OMR 42.553 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	17/10/2018
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.5%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-

29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	non-liability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

The following table shows the composition of capital under Basel III:

Basel-III Disclosure as at 31 December 2019

		Amounts subject to pre-basel III treatment RO '000
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	134,620
2	Retained earnings	49,462
3	Accumulated other comprehensive income (and other reserves)	88,706
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	**272,788**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	(2,462)
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(43)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	Perpetual Bonds	
29	**Total regulatory adjustments to Common equity Tier 1**	**(2,505)**
29	**Common Equity Tier 1 capital (CET1)**	**270,283**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	72,553
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 capital before regulatory adjustments**	**72,553**
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-Basel III treatment	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	**72,553**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**342,836**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Subordinated term debt	4,000
50	Eligible expected credit loss	16,976
51	**Tier 2 capital before regulatory adjustments**	**20,976**

	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-
57	**Total regulatory adjustments to Tier 2 capital**	-
58	**Tier 2 capital (T2)**	**20,976**
59	**Total capital (TC = T1 + T2)**	**363,812**
	Risk weighted assets in respect of amounts subject to Pre-Basel III treatment	2,395,531
60	**Total risk weighted assets (60a+60b+60c)**	**2,395,531**
60a	Of which: Credit risk weighted assets	2,215,780
60b	Of which: Market risk weighted assets	18,288
60c	Of which: Operational risk weighted assets	161,463
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.28%
62	Tier 1 (as a percentage of risk weighted assets)	14.31%
63	Total capital (as a percentage of risk weighted assets)	15.20%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.875%
65	of which: capital conservation buffer requirement	1.875%
66	of which: bank specific countercyclical buffer requirement	0%
67	of which: D-SIB/G-SIB buffer requirement	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.20%
	National minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.875%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-

	Applicable caps on the inclusion of provisions in Tier 2	
76	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	16,976
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%
78	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of Expected credit loss in Tier 2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

LCR Common Disclosure Template for the period ending 31 december 2019

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		266,990
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	1,092,264	86,844
3	Stable deposits	447,648	22,382
4	Less stable deposits	644,616	64,462
5	Unsecured wholesale funding, of which:	65,252	44,980
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	33,786	13,514
7	Non-operational deposits (all counterparties)	31,466	31,466
8	Unsecured debt		
9	Secured wholesale funding		0
10	Additional requirements, of which	14,053	26,129
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	14053	26129
14	Other contractual funding obligations	2,588	2,588
15	Other contingent funding obligations	719977	35,999
16	**TOTAL CASH OUTFLOWS**		196,540
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	194,140	97,070
19	Other cash inflows	50,546	50,546
20	**TOTAL CASH INFLOWS**	244,686	147,616
			Total Adjusted Value
21	**TOTAL HQLA**		266,990
22	**TOTAL NET CASH OUTFLOWS**		49,135
23	**LIQUIDITY COVERAGE RATIO (%)**		543

NFSR Common Disclosure Template for the period ending 31 december 2019

					(RO ‹000)	
		Unweighted value by residual maturity				
ASF Item		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	365,551	-	-	-	365,551
2	Regulatory capital	365,551	-	-	-	365,551
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	11,936	4,342	6,074	714,816	689,441
5	Stable deposits	-	-	-	505,286	480,021
6	Less stable deposits	11,936	4,342	6,074	209,530	209,420
7	Wholesale funding:	215,065	210,652	184,827	25,530	515,283
8	Operational deposits	0	37,658	7,598	-	22,628
9	Other wholesale funding	215,065	172,994	177,229	25,530	492,655
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	1,072	8,605	-	307,232	307,232
14	Total ASF					1,877,507
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					16,038
17	Performing loans and securities:	43,738	468,965	92,530	64,784	75,426
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	43,738	452,707	75,682	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	16,258	16,848	64,784	75,426
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22.	Performing residential mortgages, of which:	-	-	-	-	-
23	or equal to 35% under the Basel II Standardised	-	743	737	1,230,970	800,130
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities					
26	Other Assets:	(52)	40,736		6,833	613,017
27	Physical traded commodities, including gold	-				-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted	(52)				
31	All other assets not included in the above categories		40,736	3,969	6,833	613,017
32	Off-balance sheet items		91,332	5,716	5,756	36,701
33	**TOTAL RSF**					1,541,313
34	**NET STABLE FUNDING RATIO (%)**					122

Glossary

A

Additional Tier 1 capital ('AT1'): This capital consists of instruments issued by the Bank (e.g. Perpetual Bonds) and related share premiums that meet the criteria for inclusion in AT1 (and are not included in Common Equity Tier 1), and regulatory adjustments required in the calculation of AT1.

Amortised Cost: The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Arrears: Customers are said to be in arrears (or in a state of delinquency) when they are behind in fulfilling their obligations, with the result that an outstanding loan is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are described as delinquent.

B

Basel II: The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III: In December 2010, the Basel Committee issued 'Basel III rules: a global regulatory framework for more resilient banks and banking systems' and 'International framework for liquidity risk measurement, standards and monitoring'. Together these documents present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In June 2011, the Basel Committee issued a revision to the former document setting out the finalized capital treatment for counterparty credit risk in bilateral trades, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis point ('bps'): One hundredth of a per cent (0.01%), so 100 basis points is 1%. For example, this is used in quoting movements in interest rates or yields on securities.

C

Capital conservation buffer ('CCB'): A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Collectively assessed loan impairment provisions: Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant. This is to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial real estate loans: Includes office buildings to let, retail space, multifamily residential buildings (eg residential towers or mixed use towers covering residential and commercial), industrial or warehouse space, hotels etc. where the prospects of repayment and recovery on the exposure depend primarily upon the cash flows generated by the commercial mortgage.

Common equity tier 1 capital ('CET1'): The highest quality form of regulatory capital under Basel III that comprises common shares issued, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Contingent liabilities: These include standby Letters of Credit (LCs), Financial Guarantees (LGs/FGs) to third parties, Commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value (the notional amount of the instrument). However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

CET1 ratio: A Basel III measure, of CET1 capital expressed as percentage of total risk weighted assets.

Contractual maturity: The date on which the final payment (principal or interest) of any financial instrument is due to be paid, at which point all the remaining outstanding principal and interest have been repaid.

Cost-to-income ratio: Represents the proportion of total operating expenses to total operating income.

Cost of risk: The ratio of net provisions to average net loans.

Countercyclical capital buffer: Regulatory capital of up to 2.5 per cent of risk weighted assets that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk: The risk that a counterparty defaults before satisfying its obligations under a contract.

Coverage ratio: Represents the extent to which non-performing loans are covered by impairment allowances (Stage 3 ECL).

Credit institutions: An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk: Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, derivatives and debt securities.

Credit risk mitigation: A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits: Money deposited by all individuals and companies that are not credit institutions including securities sold under repurchase agreement (repo). Such funds are recorded as liabilities.

D

Debt securities: Financial assets on the Bank's balance sheet representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

Debt securities in issue: Debt securities in issue are transferable certificates of indebtedness of the Bank to the bearer of the certificate. These are liabilities of the Bank.

Delinquency: A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks: All deposits received from domestic and foreign banks, excluding deposits or liabilities in the form of debt securities or for which transferable certificates have been issued.

Dividend per share: Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Domestic systemically Important Bank ('DSIB'): These are banks defined by the Central Bank of Oman as those banks whose failure or distress may lead to significant adverse impact on the entire banking sector, the financial system and/or the economy.

Due from Banks: These are mainly placements and current account balance receivables from local and foreign banks.

Due to Banks: These are mainly placements and current account balance payable to other banks.

E

Earnings per share (EPS): An EPS is a number (generally a smallest denomination of currency e.g. for Omani Rials, the Baisas) that denotes the ordinary equity shareholders' earning per unit.

Expected Credit Loss (ECL): With IFRS 9, the calculation of provisioning has changed significantly. ECL is similar to the erstwhile provision calculations on financial assets; however, the methodology is model driven and involves various complex parameters. The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposures: Credit exposures represent the amount lent to a customer, together with any undrawn commitment.

Exposure at default ('EAD'): The estimation of the extent to which the Bank may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions ('ECAI'): For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from approved rating agencies, known as ECAI; namely Moody's, Standard & Poor's, Fitch and Capital Intelligence.

F

Fair value adjustment: An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value through Other Comprehensive Income (FVOCI): A measurement category where the difference in the FV is booked under OCI up until derecognition of the Asset/Liability.

Fair Value through Profit or Loss (FVTPL): A measurement category where the difference in the FV is posted to income statement.

Fair Value reserve: A Fair Value reserve is created by transferring all the fair value adjustments on the financial instruments as required under various IFRSs.

Free funds: Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/ Non-funded exposure: Exposures where the notional amount of the transaction is funded or non-funded. Represents exposures where there is a commitment to provide future funding but funds have been released/not released.

G

General Reserve: A reserve maintained in order to meet any unforeseen contingencies. Transfer to this reserve is not mandatory and is at the discretion of the management to transfer an amount from current year's profits.

Guarantee: An undertaking by a party to pay a creditor should a debtor fail to do so.

H

High-quality liquid assets: Assets that are unencumbered, liquid in markets during a time of stress and, ideally, are central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III Rules require this ratio to be at least 100 per cent.

I

IFRS: The IFRSs are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Impaired loans: Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans which, while impaired, are still performing.

Individually assessed loan impairment provisions: Also known as specific impairment provisions (Stage 3 ECL). Impairment is measured individually for assets that are individually significant to the Bank. Typically, Corporate customers are assessed individually and all other accounts that do not qualify form a basis for collective assessment.

Internal Capital Adequacy Assessment Process ('ICAAP'): The Bank's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

Investment grade: Represents a risk profile similar to a rating of BBB- or better, as defined by an external rating agency.

Interest rate risk ('IRR'): IRR arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

IFRIC: The IFRS Interpretation Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs or IASs.

J

Jaws: The rate of income growth less the rate of expense growth. Expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

L

Lease liability: With the introduction of IFRS 16, the present value of future lease payments has resulted in creation of Lease liability, which is an 'On-Balance Sheet' item of liabilities.

Legal reserve: In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

Legal risk: The risk of financial loss, sanction and/or reputational damage resulting from contractual risk (the risk that the rights and/or obligations within a contractual relationship are defective); dispute risk (the risk due to an adverse dispute environment or the management of potential or actual disputes); legislative risk (the risk that the Bank fails to adhere to laws of the jurisdiction in which it operates); and non-contractual rights risk (the risk that the Bank's assets are not properly owned or are infringed by others or the infringement by the Bank of another party's rights).

Level 1 – quoted market price: Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – valuation technique using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Leverage ratio: A measure, prescribed by regulators under Basel III, which is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Line of credit: Credit A Line of Credit or Revolving Line of Credit facility is a kind of facility received from a financial institution (generally a bank), that provides stand by loans. These facilities become 'On-Balance' visible upon draw down, until then these are 'Off-Balance Sheet' and carry only commission without any associated interest.

Liquidity and credit enhancements: Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through overcollateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.

Liquidity coverage ratio ('LCR'): The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. The LCR is still subject to an observation period and review to address any unintended consequences.

Liquidity risk: The risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Loans and advances: This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks: Amounts lent to credit institutions including securities bought under reverse repurchase agreement (repo).

Loans to individuals: Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays and other consumer uses.

Loan-to-value ratio: The loan-to-value ratio is a mathematical calculation that expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due: Loans on which repayments are overdue.

Loss given default ('LGD'): LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market risk: The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.

Medium term notes ('MTN's'): Issued by corporates across a range of maturities. Under MTN Programmes notes are offered on a regular and continuous basis to investors.

N

Net asset value per share: Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure: The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

Net interest income (NII): The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin (NIM): The margin is expressed as net interest income divided by average interest-earning assets.

Net stable funding ratio ('NSFR'): The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-performing loans ('NPLs'): A nonperforming loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

• Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or

• Renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.

Normalised net income: Profit attributable to ordinary shareholders as adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent and other infrequent and/or exceptional transactions that are significant or material in the context of the Bank's normal business earnings for the period.

O

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Over-the-counter ('OTC'): A bilateral transaction (e.g. derivative) that is not exchange traded and that is valued using valuation models.

P

Perpetual Tier 1 capital bonds: Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion at Call Dates or on any interest payment date thereafter subject to the prior consent of the regulatory authority. The bonds carry a fixed coupon rate payable in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.

Pillar 1: The first Pillar of the three pillars of Basel II/ Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2: Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3: Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Probability of default ('PD'): PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders: Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

R

Renegotiated loans: Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forborne loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.

Repo/Reverse repo: A repurchase agreement or repo is a short-term funding agreement which allows a borrower to sell a financial asset, such as asset backed securities or government bonds as collateral for cash. As part of the agreement, the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Reputational risk: The risk that illegal, unethical or inappropriate behavior by the Bank itself, members of staff or clients or representatives of the Bank will damage the reputation, leading, potentially, to a loss of business, fines or penalties.

Residential mortgage: A loan that is granted to a bank's customers which is secured by the collateral of residential property that is either self-occupied or is generating rental income wherein the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the residential mortgage. The residential property should be wholly mortgaged in favor of the bank.

Retail loans: Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances.

Return on average equity: Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Return on risk-weighted assets: Operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average total risk-weighted assets.

Right of use assets (ROU): With the introduction of IFRS 16, the usability of leased asset has resulted in creation of ROUs. Right of use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities.

Risk appetite: The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Risk-weighted assets ('RWA's'): A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Supervisory Regulatory Authority.

S

Secured (fully and partially): A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Bank is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Segment: A Segment is a unit / line of business that contributes to majority or significant portion of assets, liabilities or revenues. Accordingly, the Bank has identified Retail Banking, Corporate Banking, Treasury, Head Office & Support and Islamic Banking as Segments.

Senior debt: Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Standardised approach: In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to a supervisory defined gross income.

Stressed value at risk: A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured entities ('SE's'): An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Structured finance/notes: A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated debts/bonds: A debt, which in the event of insolvency or liquidation of the issuer are subordinated to the claims other creditors.

Subordinated debt/bond reserve: The reserve, which is created by transferring an annual equal proportion subordinated debts, out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated loans.

T

Tier 1 capital ('T1'): A component of regulatory capital, comprising CET1 and AT1.

Tier 1 capital ratio: Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital ('T2'): Tier 2 capital includes instruments issued by the Bank that meet the supervisory definition of T2, the related share premium resulting from such issue, certain loan loss provisions (ECL) less any supervisory deductions and adjustments.

Total eligible capital: Sum of T1 and T2 after regulatory adjustments.

V

Value-at-risk ('VaR'): A measure of the loss that might occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

W

Wholesale loans: Money lent to sovereign borrowers, banks, non-bank financial institutions and corporate entities.

Write-off: When a financial asset is written down or written off, a customer balance is partially or fully removed, respectively, from the balance sheet. Loans (and related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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