BANK NIZWA SAOG
Statement of sources and uses of charity fund
For the year ended 31 December 2018

	2018	2017
	RO	RO
Sources of charity fund		
Balance as at 1 January	**-**	17,961
Non-Islamic income for the year	**49,308**	67,466
Total source	**49,308**	85,427
Uses of charity fund		
Use of charity fund *	**49,308**	85,427
Undistributed charity fund as at 31 December	**-**	-

* The charity fund is utilised by making contribution to organisation which are registered with the Ministry of Awqaf and Religious affairs, namely Family Care Association and Omani Charitable Association.

The attached notes 1 to 42 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.

The Bank commenced its operations on 23 December 2012 and currently operates through thirteen branches in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Shari'a Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2018, the Bank had 353 employees (2017: 336 employees) and its address is: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Thus subject to preparation of the financial statements in accordance with FAS issued by AAOIFI, the financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and Capital Market Authority of the Sultanate of Oman. The significant accounting policies are set out in note 3 to the financial statements except for the effects of adoption of IFRS 9, in accordance with the requirements of Central Bank of Oman's circular BM 1149 dated 13 April 2017 as described in Note 2.5 to Note 2.7 to this financial statements.

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis, except for the measurement at fair value of certain investments carried at fair value.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of the Bank. Except as otherwise indicated, financial information presented in RO has been rounded off to the nearest Omani Rial.

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant use of judgments and estimates are as follows:

2 BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements *(continued)*

2.4.1 Financial Instruments (applicable from 1 January 2018)

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

Detail on criteria for significant increase in credit risk, macro-economic factors, forward looking information and multiple factors and definition of default and expected life is given on the note reference 2.6.5 of the financial statement.

2.5 IFRS 9 - Financial Instruments

In accordance with the requirements of Central Bank of Oman's circular BM 1149 dated 13 April 2017, the Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and the opening balance of fair value reserve of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures"

The CBO has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing loan loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a loan loss impairment reserve from retained earnings as of 1 January 2018.
- In the subsequent years, where the allowance for loan loss impairment computed in accordance with CBO requirements is higher than the allowance for loan loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned loan loss impairment reserve from retained earnings. The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  a) The determination of the business model within which a financial asset is held.
  b) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
  c) The designation of certain investments in equity instruments not held for trading as at FVTE (IFRS 9: FVOCI).

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

In this regard, the Bank has devised a policy for IFRS 9, which is approved by the Board. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below:

2.6.1 Classification of financial assets

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

a) Fair value through equity (FVTE) which is IFRS 9: FVOCI; or
b) Amortised cost.
c) Fair value through profit or loss (FVTPL);

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

a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

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

a) The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

On initial recognition of an equity investment that is not held for trading, the 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 FVTE as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.6.2 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:

a) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
b) How the performance of the portfolio is evaluated and reported to the Bank's management;

2. BASIS OF PREPARATION *(continued)*

2.6.2 Business model assessment *(continued)*

c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
d) how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
e) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the 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.

2.6.3 ***Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')***

In assessing whether the contractual cash flows are solely payments of principal and profit, the 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:

a) contingent events that would change the amount and timing of cash flows;
b) leverage features;
c) prepayment and extension terms;
d) terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
e) features that modify the profit rates based on the given circumstances.

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

Investment securities

The 'investment securities' caption in the statement of financial position includes:

a) debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;
b) debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
c) debt securities measured at FVTE; and
d) equity investment securities designated as at FVTE.

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

a) Profits from the financial assets
b) ECL and reversals; and
c) Foreign exchange gains and losses.

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

2. BASIS OF PREPARATION *(continued)*

2.6.3 ***Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')*** *(continued)*

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 fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

2.6.4 ***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.

2.6.5 Impairment

Policies applicable from 01 January 2018

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

a) financial assets that are debt instruments;
b) financial guarantee contracts issued; and
c) financing commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

a) debt investment securities that are determined to have low credit risk at the reporting date; and
b) other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Credit-impaired financial assets

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

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

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

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

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

2 BASIS OF PREPARATION *(continued)*
2.6 Transition *(continued)*
2.6.5 Impairment *(continued)*

Calculation of expected credit loss (ECL)
Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

Assessment of Significant Increase in Credit Risk

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

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

The Bank will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

2 BASIS OF PREPARATION *(continued)*
2.6 Transition *(continued)*
2.6.5 Impairment *(continued)*

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

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

The bank base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

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

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

Overview of the ECL principles

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

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

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

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

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

2 BASIS OF PREPARATION *(continued)*
2.6 Transition *(continued)*
2.6.5 Impairment *(continued)*

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.

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

Stage 3
Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

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

Stage 1
Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3
There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the 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.

The calculation of ECLs
The Bank calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
• PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments. As a conservative policy, the Bank has not taken any pre-payment of credit exposure. Had the bank applied early settlement or prepayment, Expected Credit Loss (ECL) would have reduced.

2 BASIS OF PREPARATION *(continued)*
2.6 Transition *(continued)*
2.6.5 Impairment *(continued)*

• 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. Currently, the bank has applied 45% as LGD value for all credit exposures which is equivalent to LGD of unsecured financing to be on conservative side.

2.7 Standards
2.7.1 Impact of adopting IFRS 9
The impact from the adoption of IFRS 9 as at 1 January 2018 has been decreased accumulated losses by RO 150,230 and decrease the fair value reserve by RO 71,761:

	Accumulated losses RO	Impairment reserve RO	Fair value reserve RO
Closing balance under IAS 39 (31 December 2017)	(21,771,158)	-	35,746
Impact on reclassification and re-measurements:			
Investment securities (equity) from fair value through equity to those measured at fair value through other comprehensive income	71,761	-	(71,761)
	(21,699,397)	-	(36,015)
Impact on recognition of Expected Credit Losses			
Expected credit losses under IFRS 9 for due from banks	(34,680)	-	-
Expected credit losses under IFRS 9 for Financing and advances at amortised cost including Financing commitments and financial guarantees	462,032	-	-
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income	(277,122)	-	-
Impact of expected credit loss due to adoption of IFRS 9	**150,230**	**-**	**-**
Transfer to impairment reserve as per circular BM 1149	(150,230)	150,230	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	**(21,699,397)**	**150,230**	**(36,015)**

Expected credit loss / impairment allowances
The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017 RO	Re-measurement RO	1 January 2018 RO
Financing to customers, financing and receivables, financing commitments and financial guarantees and amortised cost securities under IAS 39 / financial assets at amortised cost under IFRS 9	6,604,516*	(462,032)	6,142,484
Due from banks	-	34,680	34,680
Fair value through equity debt investment securities under AAOIFI / IAS 39 reclassified to fair value through other comprehensive income under IFRS 9	-	245,490	245,490
Fair value through equity investment securities under IAS 39/debt financial assets at fair value through other comprehensive income under IFRS 9	-	31,632	31,632
	6,604,516	(150,230)	6,454,286

*An amount of RO 665,000 was reclassified to other liabilities.

2 BASIS OF PREPARATION *(continued)*

2.7 Standards *(continued)*

2.7.2 Classification and Measurement of Financial Instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

				Impact of IFRS 9		
	Original classification under AAOIFI / IAS 39	**New classification under IFRS 9**	**Original carrying amount RO**	**Re-measurement RO**	**Re-classification RO**	**New carrying amount RO**
Financial assets						
Cash and balances with Central bank of Oman	Financing and receivables	Amortised cost	42,813,968	-	-	42,813,968
Due from banks and financial institutions	Financing and receivables	Amortised cost	3,464,495	(9,035)	-	3,455,460
Inter-bank wakala investments	Financing s and receivables	Amortised cost	16,397,550	(25,645)	-	16,371,905
Investment securities – debt	Fair value through equity	FVTE (IFRS 9: FVOCI)	35,230,862	(245,490)	-	34,985,372
Investment securities – equity	Fair value through equity	FVTE (IFRS 9: FVOCI)	5,490,275	-	-	5,490,275
Financial assets at amortised cost	Amortised cost	Amortised cost	7,000,000	(31,632)	-	6,968,368
Sales receivables and other receivables – net	Financing s and receivables	Amortised cost	161,398,328	(1,553,691)	-	159,844,637
Musharaka Financing – net	Financing s and receivables	Amortised cost	25,726,666	(46,649)	-	25,680,017
Ijara Muntahia Bittamleek – net	Financing s and receivables	Amortised cost	282,109,561	1,845,477	-	283,955,038
Wakala Bil Istethmar – net	Financing s and receivables	Amortised cost	91,310,805	216,895	-	91,527,700
Other assets			3,328,537	-	-	3,328,537
Accrued profit receivable	Financing s and receivables	Amortised cost	3,560,366	-	-	3,560,366
Off-balance Sheet Exposures						
Commitments and Financial Guarantees	Commitments and Guarantees	N/A	81,385,388	701,886	-	82,087,274
Unutilized Commitments	Commitments and Guarantees	N/A	144,059,425	1,274,762	-	145,334,187

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at amortised cost at the reporting date.

3.2 Sales receivables and other receivables

- Sales receivables consist mainly of sales transaction agreements (Murabaha) stated net of deferred profits and provision for impairment. The Bank considers the promise made in the Murabaha to the purchase orderer as obligatory.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3.3 Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in a systematic manner.

3.4 Wakala Bil Istethmar

Wakala Bil Istithmar is used as a short to medium and long term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the “Muwakkil”) appoints the Client as its Agent (hereinafter referred to as the “Wakil”) to manage the investment amount (hereinafter referred to as the “Investment Amount”) in Shari’a-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the profit amount, if any, on the investment maturity date based on the anticipated profit rate Investments.

3.5 Musharaka financing

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value).It is a contract in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

3.6 Investments

Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:
Ijarah instalments are allocated over the financial periods of the lease term and recognised in the financial period in which these instalments are due. Ijarah instalments are presented in the lessee’s statement of income as Ijarah expenses. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made.

Operating Ijarah of the Bank as lessor:
When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor’s statement of financial position under Investment in Ijarah assets.

Debt instruments at FVTE (IFRS 9: FVOCI) (policy applicable from 1 January 2018)
The bank applies the new category under IFRS 9 of debt instruments measured at FVTE when both of the following conditions are met:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 Investments *(continued)*

Debt instruments at FVTE (IFRS 9: FVOCI) (policy applicable from 1 January 2018) *(continued)*

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

These instruments largely comprise assets that had previously been classified as financial investments Fair Value Through Equity under FAS 25.

For debt securities measured at FVTE, gains and losses are recognised in equity and upon sale realized through Profit and Loss.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in fair value reserve is reclassified from equity to profit or loss.

Equity instruments at FVTE (IFRS 9:FVOCI) (Policy applicable from 1 January 2018)

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

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

Equity and debt type instruments at fair value through equity (Policy applicable up to 31 December 2017)

This includes all equity and debt type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

Debt type instruments at amortised cost (Policy applicable up to 31 December 2017)

Debt type instruments which are managed on a contractual yield basis and are not held for trading and have been designated at fair value through statement of income are classified as debt type instrument at amortised cost, such investment are carried at amortised cost less provisions for impairment in value. Amortisation cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in statement of income when the investment is derecognised or impaired

Investment in real estate

Investment in real estate is classified as held-for-use and is measured at fair value under the fair value model of Financial Accounting Standard No. 26 issued by AAOIFI. These are initially recognised at cost including transaction cost and subsequently measured at fair value. Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in equity under “Property fair value reserve” for the period in which it arises taking into consideration the split between the portions related to owners’ equity and equity of investment accountholders. Unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the property fair value reserve, taking into consideration the split between the portion related to owners’ equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account are recognised in the statement of income for the current financial period, taking into consideration the split between the portion related to owners’ equity and the portion related to investment accountholders.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Derecognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;
(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.8 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption “jointly financed” in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under “self-financed”.

3.9 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.
For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income.
For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3.10 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3.11 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	Years
Furniture	5
Fixtures	10
Equipment	7
Motor vehicle	7
Computer hardware	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

3.12 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortised over 10 years, and amortisation is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Provisions *(Policy applicable up to 31 December 2017)*

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

According to the regulations of the CBO; Banks are required to record general credit loss provisions as set below:

- 1% of performing corporate financing
- 2% of performing personal financing, 1% home financing
- 0.5% of inter-bank and SMEs

CBO regulations are followed for non-performing assets based on days past due and any profit accrual on these non-performing assets is suspended as per the regulations.

3.14 Equity of unrestricted investment accountholders

Equity of unrestricted investment accountholders are recognised when received by the Bank and measured by the amount received during the time of contracting. At the end of the financial period the equity investment accountholders are measured at the book value.

3.15 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.16 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses.

The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari'a Supervisory Board of the Bank.

3.17 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment.

3.18 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Shari'a or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.19 Revenue recognition

Sales receivables and other receivables

Murabaha profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Revenue recognition *(continued)*

Sales receivables and other receivables *(continued)*

Istisna profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Musharaka

Profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

The Bank's share as a Mudarib for managing equity of unrestricted investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fee and commission

Fees and commission income is recognised upon rendering the services.

Dividends

Dividends are recognised when the right to receive payment is established.

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

Rental income is accounted for on a straight line basis over the term of the lease.

3.20 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalisation reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.21 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in statement of income as incurred.
The Bank's obligation in respect of non-Omani terminal benefits, under an unfunded defined benefits retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

3.22 Directors' remuneration

Director's remuneration is calculated in accordance with the requirements of Commercial Companies Law of 1974, as amended and Capital Market Authority of the Sultanate of Oman.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Bank's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and assesses its performance and for which discrete financial information is available. The Bank's primary format for reporting segmental information is business segment, based upon management internal reporting structure. The Bank's main business segments are comprised of retail, corporate and treasury and investment banking.

3.24 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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

3.25 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Shari'a non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Shari'a Supervisory Board supervision and instructions.

3.26 Zakah

Calculation and payment of Zakah is the responsibility of individual Shareholders' and accountholders.

3.27 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of the Bank which meets quarterly and consists of three prominent Shari'a scholars appointed by the General Assembly of Shareholders.

-	Dr. Abdul-Sattar Abu Ghuddah	Chairman
-	Sheikh Dr. Mohammed Al-Gharbi	Member
-	Sheikh Ibrahim Al-Sawwafi	Member

3.28 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

3.29 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.30 Earnings per share (EPS)

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

3.31 New standards, amendments and interpretations

There are no new standards issued by AAOIFI during the year which may impact the financial statements of the Bank.

Standard issued but not yet effective

FAS 28 Murabaha and Other Deferred Payment Sales

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale". The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. This standard shall be effective for the financial periods beginning on or after 1 January 2019 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-lstithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 “Risk Reserves” in 2018. This standard along with FAS 30 ‘Impairment, Credit losses and onerous commitments’ supersede the earlier FAS 11 “Provisions and reserves”.

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Group early adopts FAS 30 “Impairment, Credit losses and onerous commitments”.

The Bank is currently evaluating the impact of this standard.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.31 New standards, amendments and interpretations *(continued)*

FAS 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

However, during the year 2017, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks/windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

The Bank adopted IFRS 9 on 1 January 2018 and did not restate the comparative information in accordance with relevant requirements of IFRS 9. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.
The impact of initial application of IFRS 9 on the Bank's financial statements is set out in note 2.7.1.

The key changes to the bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

(i) Classification and measurement
IFRS 9 contains classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Expected credit losses
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The Central Bank of Oman (CBO) has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing financing loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a financing loss impairment reserve from retained earnings as of 1 January 2018.
- ln the subsequent years, where the allowance for financing loss impairment computed in accordance with CBO requirements is higher than the allowance for financing loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned financing loss impairment reserve from retained earnings.
- The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.31 New standards, amendments and interpretations (*continued*)

(iii) Financial liabilities
Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

(iv) Hedge accounting
Hedge accounting requirements of IFRS 9 are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

(v) Disclosure
IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

3 A Classification of assets and liabilities

	Classification under IFRS 9	Carrying amount as at 31 December 2018 RO	Carrying amount as at 31 December 2017 RO
Financial assets			
Cash and balances with Central bank of Oman	Amortised cost	92,965,571	42,813,968
Due from banks and financial institutions	Amortised cost	6,399,549	3,455,460
Inter-bank wakala investments	Amortised cost	-	16,371,905
Investment securities – debt	FVTE	44,280,696	34,985,372
Investment securities – equity	FVTE	4,497,671	5,490,275
Financial assets at amortised cost	Amortised cost	1,993,171	6,968,368
Sales receivables and other receivables – net	Amortised cost	182,268,610	159,844,637
Musharaka Financing - net	Amortised cost	59,880,031	25,680,017
Ijara Muntahia Bittamleek – net	Amortised cost	316,397,423	283,955,038
Wakala Bil Istethmar – net	Amortised cost	137,923,549	91,527,700
Other assets		2,251,918	3,328,537
Accrued profit receivable	Amortised cost	5,218,866	3,560,366
Liabilities			
Inter-bank Wakala	Amortised cost	115,869	19,338,529
Customers' Wakala	Amortised cost	312,939,005	229,764,141
Customers' accounts	Amortised cost	75,829,143	68,310,219
Other liabilities	Amortised cost	23,587,664	21,065,075
Commitments and Financial Guarantees	N/A	101,744,155	81,385,388
Unutilized Commitments	N/A	84,065,123	144,059,426

4 Cash and balances with Central Bank of Oman

	2018 RO	2017 RO
Cash in hand	**5,140,355**	5,267,318
Balances with Central Bank of Oman	**87,325,215**	37,046,649
Capital deposit with Central Bank of Oman	**500,001**	500,001
	92,965,571	42,813,968

The capital deposit with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 18.579 million (2017: RO 15.978 million).

All the above exposures are classified as Stage 1 as at 31 December 2018.

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

5 Due from banks and financial institutions

	2018 RO	2017 RO
Local banks – local currency	**228,668**	610,220
Foreign banks – foreign currency	**6,176,253**	2,854,275
	6,404,921	3,464,495
Less: Impairment losses	**(5,372)**	N/A
Total	**6,399,549**	3,464,495

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

	2018 RO	2017 RO
Balance at beginning of year	N/A	N/A
Impact of adopting IFRS 9 - refer note 2.7.1	**34,680**	N/A
Impairment losses as at 1 January 2018	**34,680**	N/A
Released/provided during the year	**(29,308)**	N/A
Total	**5,372**	N/A

There have been no significant changes in due from banks and financial institutions gross balances, which have contributed to significant changes to the ECL over the year.

6 Inter-bank Wakala investments

	2018 RO	2017 RO
Local banks – local currency	**-**	15,000,000
Foreign banks – foreign currency	**-**	1,397,550
	-	16,397,550
Less: Impairment losses	**-**	N/A
Total	**-**	16,397,550

7 Sales receivables and other receivables – net

	Jointly-financed 2018 RO	**Self-financed 2018 RO**	**Total 2018 RO**
Sales receivables (Murabaha)- retail	**108,866,081**	**2,053,594**	**110,919,675**
Sales receivables (Murabaha)- corporate	**92,667,332**	**-**	**92,667,332**
Istisna receivables – corporate	**5,309,331**	**-**	**5,309,331**
Ijara rent receivables - retail	**40,231**	**-**	**40,231**
Ijara rent receivables – corporate	**331,017**	**-**	**331,017**
Credit card receivables - Ijarah service (Ujrah)	**1,704,089**	**-**	**1,704,089**
Gross sales receivables and other receivables	**208,918,081**	**2,053,594**	**210,971,675**
Less:			
Deferred profit	**(26,670,445)**	**(212,436)**	**(26,882,881)**
Impairment losses	**(1,775,996)**	**(23,390)**	**(1,799,386)**
Reserved profit	**(19,573)**	**(1,225)**	**(20,798)**
Net sales receivables and other receivables	**180,452,067**	**1,816,543**	**182,268,610**

	Jointly-financed 2017 RO	Self-financed 2017 RO	Total 2017 RO
Sales receivables (Murabaha)- retail	96,932,261	1,961,567	98,893,828
Sales receivables (Murabaha)- corporate	80,533,398	-	80,533,398
Istisna receivables – corporate	5,603,116	-	5,603,116
Ijara rent receivables - retail	2,097,522	-	2,097,522
Ijara rent receivables – corporate	1,299,272	-	1,299,272
Credit card receivables - Ijarah service (Ujrah)	926,001	-	926,001
Gross sales receivables and other receivables	187,391,570	1,961,567	189,353,137
Less:			
Deferred profit	(25,168,312)	(206,751)	(25,375,063)
General provision	(2,404,317)	(35,096)	(2,439,413)
Specific provision	(98,927)	(27,670)	(126,597)
Reserved profit	(12,929)	(807)	(13,736)
Net sales receivables and other receivables	159,707,085	1,691,243	161,398,328

The impairment losses / general and specific provision movement against sales receivables and other receivables is as follow:

	2018 RO	2017 RO
Balance at 1 January	**2,566,010**	1,846,102
Transition impact IFRS	**(957,521)**	-
Impairment losses as at 1 January 2018	**1,608,489**	-
General provision during the year	**NA**	719,908
Impairment losses during the year	**190,897**	NA
Balance at 31 December	**1,799,386**	2,566,010

7 Sales receivables and other receivables – net *(continued)*

The reserved profit movement against sales receivables other receivables is as follow:

	2018 RO	2017 RO
Balance at 1 January	**13,736**	8,585
Profit reserved during the year	**7,062**	5,151
Balance at 31 December	**20,798**	13,736

Non-performing assets of sales receivables and other receivables, amounted to RO 300,665 representing 0.17% of sales receivables and other receivables-net, as of 31 December 2018 (31 December 2017: 0.22%).

8 Investment securities

	2018 RO	2017 RO
Investment securities measured at amortised cost (note a)	**2,002,000**	NA
Investment securities measured at FVTE – debt instruments (note b)	**44,499,302**	NA
Investment securities designated as at FVTE – equity investments (note c)	**3,759,932**	NA
Held-to-maturity investment securities	**NA**	7,000,000
Financial assets at fair value through equity	**NA**	40,792,898
Total before impairment losses	**50,261,234**	47,792,898
Less: impairment losses	**(227,360)**	NA
Less: impairment losses on financial assets at FVTE	**NA**	(71,761)
	50,033,874	47,721,137

a. Financial assets at amortised cost

	Self-financed	
	2018 RO	2017 RO
Local listed Sukuk	**2,002,000**	7,000,000
Less: impairment losses	**(8,829)**	NA
Total local listed Sukuk at amortised cost	**1,993,171**	7,000,000

b. Investment securities measured at FVTE – debt instruments

	2018 RO	2017 RO
Quoted investments		
Government Sukuk	**24,430,853**	NA
Corporate Sukuk	**4,665,323**	NA
Unquoted investments		
Government Sukuk	**15,403,126**	NA
	44,499,302	NA
Less: impairment losses	**(218,531)**	NA
	44,280,771	NA

c. Investment securities measured at FVTE – Equity instruments

	2018 RO	2017 RO
Regional un-listed funds	**3,435,404**	NA
Regional un-listed shares	**262,339**	NA
Local listed shares	**62,189**	NA
Total	**3,759,932**	NA

Financial assets at fair value through equity amounted to RO 40,792,898 as at 31 December 2017 has been re-classified as FVOCI-debt instrument and FVOCI-equity instrument as per the classification criteria set under IFRS 9.

8 Investment securities *(continued)*

d. Financial assets at fair value through equity *(continued)*

	Jointly-financed	
	Cost 2018 RO	**Fair value 2018 RO**
International un-listed Sukuk	**15,400,082**	**15,403,126**
International listed Sukuk	**710,236**	**706,629**
Regional listed Sukuk	**2,194,291**	**2,122,775**
Regional un-listed funds	**4,577,638**	**3,435,404**
Regional un-listed shares	**334,100**	**262,339**
Local rated listed Sukuk	**23,438,067**	**22,308,872**
Local Unrated listed Sukuk	**3,957,900**	**3,957,900**
Local listed shares	**47,838**	**62,189**
Less: impairment losses	**NA**	**(218,531)**
Total	**50,660,152**	**48,040,703**

	Cost 2017 RO	Fair value 2017 RO
International un-listed Sukuk	4,908,750	4,908,766
International listed Sukuk	713,196	704,858
Regional listed Sukuk	6,420,938	6,362,504
Regional un-listed funds	5,054,035	5,134,912
Regional un-listed shares	334,100	334,100
Local listed Sukuk	23,252,015	23,254,734
Local listed shares	56,378	93,024
Impairment loss provision regional un-listed shares	(71,761)	(71,761)
Total	40,667,651	40,721,137

The impairment losses against investments are as follow:

	2018 RO	2017 RO
Balance at 1 January	-	NA
Transition impact IFRS 9 (note 2.7.1)	**277,122**	NA
Impairment losses as at 1 January 2018	**277,122**	NA
Impairment losses during the year	**(49,762)**	NA
Balance at 31 December	**227,360**	NA

9 Musharaka financing - net

	Jointly-financed	
	2018 RO	2017 RO
Musharaka financing Corporate	**60,866,539**	25,986,532
Musharaka financing Retail	**69,578**	-
Less: impairment losses	**(1,056,086)**	(259,866)
Net investment in Musharaka financing	**59,880,031**	25,726,666

9 Musharaka financing – net *(Continued)*

The Impairment losses / general provision movement against Musharaka as follow:

	2018	2017
	RO	RO
Balance at 1 January	**259,866**	8,076
Transition impact of IFRS 9	**46,649**	-
Impairment losses as at 1 January 2018	**306,515**	-
General provision during the year	**NA**	251,790
Impairment losses during the year	**749,571**	NA
Balance at 31 December	**1,056,086**	259,866

10 Investment in real estate

This represents investment in income generating industrial real estate; where 70% of the beneficial ownership is held by the Bank for a consideration of RO 14.175 million. Subsequently, the property has been leased under a master lease agreement for a period of ten years with a fixed rental amount.

Investment in real estate has been financed from Shareholders' funds and classified as self-finance investment and not included in the Mudaraba pool 'commingled pool'. All profits generated and costs in relation to the investment will be for the account of the Bank only and not subject to income distribution for the unrestricted investment accountholders.

The Bank follows sales comparison and investment approach based valuation methodology and believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2018. The Bank intends to sell the asset at the completion of lease agreement ending 30 June 2023.

11 Ijara Muntahia Bittamleek - net

	2018		
	Jointly-financed	**Self-financed**	**Total**
	RO	**RO**	**RO**
Real estate			
Cost	**328,320,386**	**13,270,226**	**341,590,612**
Accumulated deprecation	**(35,840,596)**	**(1,340,573)**	**(37,181,169)**
Net book value	**292,479,790**	**11,929,653**	**304,409,443**
Equipment			
Cost	**29,537,762**	**-**	**29,537,762**
Accumulated deprecation	**(15,874,641)**	**-**	**(15,874,641)**
Net book value	**13,663,121**	**-**	**13,663,121**
Total cost	**357,858,148**	**13,270,226**	**371,128,374**
Accumulated deprecation	**(51,715,237)**	**(1,340,573)**	**(53,055,810)**
Net book value before impairment losses	**306,142,911**	**11,929,653**	**318,072,564**
Less: impairment losses	**(1,641,260)**	**(33,881)**	**(1,675,141)**
Net book value after impairment losses	**304,501,651**	**11,895,772**	**316,397,423**

11 Ijara Muntahia Bittamleek - net *(continued)*

	2017		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	282,151,238	11,396,978	293,548,216
Accumulated deprecation	(22,895,312)	(856,981)	(23,752,293)
Net book value	259,255,926	10,539,997	269,795,923
Equipment			
Cost	26,424,806	-	26,424,806
Accumulated deprecation	(10,589,859)	-	(10,589,859)
Net book value	15,834,947	-	15,834,947
Total cost	308,576,044	11,396,978	319,973,022
Accumulated deprecation	(33,485,171)	(856,981)	(34,342,152)
Net book value before general provision	275,090,873	10,539,997	285,630,870
General provision	(2,750,909)	(105,400)	(2,856,309)
Net book value after general provision	272,339,964	10,434,597	282,774,561

The impairment losses / general provision movement against Ijara Muntahia Bittamleek is as follow:

	2018	2017
	RO	RO
Balance at 1 January	**2,856,309**	2,189,425
Transition impact IFRS 9	**(1,310,911)**	-
Impairment losses as at 1 January 2018	**1,545,398**	-
General provision during the year	**NA**	666,884
Impairment losses during the year	**129,743**	NA
Balance at 31 December	**1,675,141**	2,856,309

12 Wakala Bil Istethmar – net

	Jointly-financed	
	2018	2017
	RO	RO
Wakala Bil Istethmar	**140,102,593**	92,233,136
Less: impairment losses	**(2,179,044)**	(922,331)
Wakala Bil Istethmar – net	**137,923,549**	91,310,805

The impairment losses / general provision movement against Wakala Bil Istethmar as follow:

	2018	2017
	RO	RO
Balance at 1 January	**922,331**	634,856
Transition impact IFRS 9	**(216,895)**	-
Impairment losses as at 1 January 2018	**705,436**	-
General provision during the year	**NA**	287,475
Impairment losses during the year	**1,473,608**	NA
Balance at 31 December	**2,179,044**	922,331

13 Impairment losses / general provision and specific provision movement

	2018 RO	2017 RO
Balance at 1 January	**6,604,516**	4,678,459
Transition impact IFRS 9	**(150,230)**	-
Impairment losses as at 1 January 2018	**6,454,286**	-
Impairment losses / general provision made during the year on sales and other receivables (note 7)	**190,897**	644,963
Impairment losses / general provision made during the year on Ijara Muntahia Bittamleek (note 11)	**129,743**	666,884
Impairment losses / general provision made during the year on Wakala Bil Istethmar (note 12)	**1,473,608**	287,475
Impairment losses / general provision made during the year on Musharaka financing (note 9)	**749,571**	251,790
Impairment losses made during the year on investments (note 8)	**(49,762)**	-
Impairment losses made during the year on due to banks (note 5)	**(29,308)**	-
Impairment losses made during the year on non-funded facilities	**(467,780)**	-
Specific provision made during the year on sales and other receivables (note 7)	**-**	74,945
Total impairment losses / general and specific provision expense	**1,996,969**	1,926,057
Balance at 31 December	**8,451,255**	6,604,516

14 Property and equipment - net

2018	**Furniture & fixture RO**	**Equipment RO**	**Motor vehicle RO**	**Computer hardware RO**	**Capital work in progress RO**	**Total RO**
Balance at 1 January	**4,341,183**	**938,076**	**131,090**	**1,945,916**	**-**	**7,356,265**
Additions	**92,836**	**49,941**		**92,375**	**9,600**	**244,752**
Disposal	**-**	**(275)**	**-**	**-**	**-**	**(275)**
Balance at 31 December	**4,434,019**	**987,742**	**131,090**	**2,038,291**	**9,600**	**7,600,742**
Accumulated depreciation at 1 January	**(2,809,120)**	**(496,817)**	**(63,384)**	**(1,558,838)**	**-**	**(4,928,159)**
Depreciation expense	**(305,687)**	**(144,481)**	**(19,663)**	**(174,302)**	**-**	**(644,133)**
Disposal	**-**	**136**	**-**	**-**	**-**	**136**
Accumulated depreciation at 31 December	**(3,114,807)**	**(641,162)**	**(83,047)**	**(1,733,140)**	**-**	**(5,572,156)**
Carrying value at 31 December	**1,319,212**	**346,580**	**48,043**	**305,151**	**9,600**	**2,028,586**

2017	Furniture & fixture RO	Equipment RO	Motor vehicle RO	Computer hardware RO	Capital work in progress RO	Total RO
Balance at 1 January	4,268,624	870,987	167,590	1,858,041	12,792	7,178,034
Additions	72,559	54,672	-	88,345	-	215,576
Transfers	-	12,792	-	-	(12,792)	-
Disposal	-	(375)	(36,500)	(470)	-	(37,345)
Balance at 31 December	4,341,183	938,076	131,090	1,945,916	-	7,356,265
Accumulated depreciation at 1 January	(2,438,208)	(362,626)	(68,361)	(1,203,516)	-	(4,072,711)
Depreciation expense	(370,912)	(134,261)	(22,843)	(355,363)	-	(883,379)
Disposal	-	70	27,820	41	-	27,931
Accumulated depreciation at 31 December	(2,809,120)	(496,817)	(63,384)	(1,558,838)	-	(4,928,159)
Carrying value at 31 December	1,532,063	441,259	67,706	387,078	-	2,428,106

15 Intangible assets

2018	Software RO	Capital work in progress RO	Total RO
Carrying value at 1 January	**1,808,306**	**395,146**	**2,203,452**
Additions	**285,564**	**69,443**	**355,007**
Transfers	**40,561**	**(40,561)**	**-**
Amortisation	**(296,186)**	**-**	**(296,186)**
Carrying value at 31 December	**1,838,245**	**424,028**	**2,262,273**

2017	Software RO	Capital work in progress RO	Total RO
Carrying value at 1 January	1,827,211	294,119	2,121,330
Additions	104,446	250,426	354,872
Transfers	149,399	(149,399)	-
Amortisation	(272,750)	-	(272,750)
Carrying value at 31 December	1,808,306	395,146	2,203,452

16 Other assets

	2018 RO	2017 RO
Deferred tax asset (note 34.3)	**2,108,878**	2,677,703
Profit receivable	**5,218,866**	3,560,366
Advance payment	**12,448**	99,824
Prepaid expense	**307,839**	386,614
Refundable deposits	**83,388**	83,388
Inventory	**44,538**	49,335
Others	**57,117**	31,673
	7,833,074	6,888,903

17 Inter-bank Wakala

	2018 RO	2017 RO
Local banks – foreign currency	**-**	11,550,000
Foreign banks – foreign currency maturing < 1 year	**115,869**	7,788,529
	115,869	19,338,529

18 Customers' Wakala

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakkil.

19 Customers' accounts

	2018 RO	2017 RO
Current accounts	**75,390,316**	67,702,458
Margin accounts	**438,827**	607,761
	75,829,143	68,310,219

20 Other liabilities

	2018 RO	2017 RO
Payment orders	**3,948,130**	3,925,700
Creditors and accruals	**11,647,401**	11,755,939
Profit payable	**5,238,333**	4,532,723
Allowance for credit loss on non-funded facilities	**1,508,866**	-
Others	**1,244,934**	850,713
	23,587,664	21,065,075

21 Equity of unrestricted investment accountholders

	2018 RO	2017 RO
Unrestricted investment accountholders	**322,850,958**	227,777,182
Investment fair value reserve	**(778,117)**	17,740
Investment risk reserve	**434,216**	280,708
	322,507,057	228,075,630

Unrestricted investment accounts comprise Mudaraba deposits accepted by the Bank. The funds received from equity of unrestricted investment accountholders have been commingled and jointly invested by the Bank.
The Bank has utilised full amount of profit equalisation reserve during the current year.

21.1 Basis of distribution of profit between owners' equity and unrestricted investment accountholders

The investment profits have been distributed between owners' equity and unrestricted investment accountholders for the year 2018 and 2017 as follows:

	2018 Percentage	2017 Percentage
Unrestricted investment accountholders share	**50%**	50%
Mudarib share	**50%**	50%

The investment risk reserve at 2 percent is deducted from customers' share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount the Bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	**Participation factor**		**2018 average rate of return**	2017 average rate of return
	RO	**USD**	**RO**	RO
Saving account	20% - 80%	15% - 30%	**0.96%**	0.86%
One month tenure	46% - 50%	23%-25%	**1.41%**	1.38%
Three months tenure	51% - 55%	25.5% - 27.5%	**1.53%**	1.53%
Six months tenure	61% - 68%	30.5% - 34%	**1.90%**	1.90%
Nine months tenure	66% - 73%	33% - 36.5%	**2.04%**	2.04%
One year tenure	71% - 78%	35.5% - 39%	**2.44%**	2.44%
One year and a half tenure	78.5% - 85%	-	**3.21%**	3.21%
Two years tenure and above	79.5% - 87%	-	**3.79%**	3.79%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

21.1 Basis of distribution of profit between owners' equity and unrestricted investment accountholders *(continued)*

a. Equity of unrestricted investment accountholders details

Account type	2018 RO	2017 RO
Saving account	**213,143,366**	137,475,222
Investment accounts:		
One month	**165,600**	15,000
Three months	**838,392**	649,418
Six months	**1,731,962**	2,178,665
Nine months	**163,400**	181,100
One year	**22,279,535**	18,277,655
One year and a half	**3,345,000**	2,092,223
Two years	**80,223,637**	66,546,681
Three years	**222,701**	37,486
Four years	**17,033**	13,039
Five years	**210,454**	59,543
More than five years	**509,878**	251,150
	322,850,958	227,777,182

22 Paid-up capital

The authorised share capital of the Bank is OMR 300,000,000 and the issued and paid up capital is OMR 150,000,000, divided into 1,500,000,000 shares of a nominal value of OMR 0.100 each.

At 31 December 2018, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

23 Share premium

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through IPO. Expenses incurred on issuance were netted off.

24 Reserves

24.1 *Investment fair value reserve*

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity.

24.2 *Legal reserve*

	2018 RO	2017 RO
1 January	**389,622**	10,972
Appropriation for the year	**751,160**	378,650
31 December	**1,140,782**	389,622

In accordance with the Commercial Company Law of 1974, as amended annual appropriation of 10% of the profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank paid up capital. This reserve is not available for distribution.

24.3 *Special reserve*

In accordance of Central bank of Oman circular BSD/2017/BKUP/Banks and FLCs/467 dated 20 June 2017 in which banks are required to create Special Reserve of 10% for all restructured financing for 2017 and 15% for 2018. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose regulatory capital and dividend distribution.

25 Contingent liabilities and commitments

a) Contingent liabilities

	2018 RO	2017 RO
Letters of guarantee	**73,263,381**	53,881,017
Letters of credit	**17,124,262**	20,071,723
Acceptances	**10,596,310**	7,328,535
Bills for collection	**760,202**	104,113
Total contingent liabilities (a)	**101,744,155**	81,385,388

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

	2018 RO	2017 RO
Construction	**41,401,796**	31,494,686
Manufacturing	**21,836,368**	17,219,733
Service	**6,892,942**	3,830,941
Others	**31,613,049**	28,840,028
Total contingent liabilities (a)	**101,744,155**	81,385,388

b) Commitments

	2018 RO	2017 RO
Unutilised limits	**84,065,123**	144,059,426
Total commitments (b)	**84,065,123**	144,059,426
Total contingent liabilities and commitments (a+b)	**185,809,278**	225,444,814

26 Sales receivables and other receivables revenue

	Jointly-financed	
	2018 RO	2017 RO
Retail	**5,133,105**	4,549,407
Corporate	**4,812,391**	2,877,491
	9,945,496	7,426,898

27 Ijara Muntahia Bittamleek revenue and Ijara assets revenue

	Jointly-financed	
	2018 RO	2017 RO
Ijara Muntahia Bittamleek – real estate	**37,951,810**	29,625,508
Ijara Muntahia Bittamleek – equipment	**6,762,396**	5,580,627
Depreciation on Ijara Muntahia Bittamleek assets	**(29,057,547)**	(21,948,316)
	15,656,659	13,257,819

28 Profit from inter-bank Wakala investments

	Jointly-financed	
	2018	2017
	RO	RO
Inter-bank Wakala local	**147,395**	29,115
Inter-bank Wakala foreign	**23,303**	12,790
	170,698	41,905

29 Profit from financial assets at fair value through equity

	Jointly-financed	
	2018	2017
	RO	RO
Profit on Sukuk	**1,710,710**	1,214,786
Profit on funds investment	**87,801**	320,672
(losses) Gains on sale of Sukuk	**(11,350)**	95,340
Gain on sale of shares	**2,922**	1,383
Impairment loss provision on FVTE	**-**	(71,761)
	1,790,083	1,560,420

30 Return on unrestricted investment accountholders before the Bank's share as a Mudarib

	2018	2017
	RO	RO
Saving accounts	**8,156,999**	3,915,592
Investment accounts	**6,906,650**	5,566,761
Investment risk reserve	**153,508**	120,584
Profit equalisation reserve	**-**	(779,239)
	15,217,157	8,823,698

31 Bank's income from its own investments and financing

	2018	2017
	RO	RO
Rental income from investment in real estate	**799,000**	1,134,000
Profit from financial assets at amortised cost	**308,194**	355,832
Sales receivables revenue	**53,911**	59,247
Ijara Muntahia Bittamleek revenue - net of depreciation	**297,639**	253,670
Gain from selling fixed assets	**(143)**	3,711
	1,458,601	1,806,460

32 Revenue from banking services

	2018	2017
	RO	RO
Commissions income	**938,527**	763,231
Processing fees	**2,349,033**	1,912,849
Service charges	**1,186,711**	826,104
	4,474,271	3,502,184

33 Operating expenses

	2018 RO	2017 RO
Staff cost	**10,853,969**	10,291,130
Rent expense	**887,863**	889,129
Advertisement	**684,730**	601,058
Operational leasing	**122,950**	132,522
Maintenance expense	**713,157**	749,920
Security and cleaning	**243,472**	258,712
Professional and consulting charges	**186,982**	167,366
Boards expenses	**115,272**	123,673
Government fee	**174,790**	204,865
Printing and stationery	**93,646**	79,382
Telephone, electricity and water	**359,640**	469,949
Traveling expense	**70,779**	50,070
Subscription expense	**72,631**	124,529
Cards expense	**711,780**	724,051
Others	**426,134**	397,131
	15,717,795	15,263,487

34 Income tax

34.1 Recognised in the statement of income

Deferred income tax	**931,115**	259,539

The Bank is subject to income tax at the rate of 15% of taxable profits (2017 - 15%). The tax losses are available to carry forward for a period of 5 years and will be utilised against the future taxable profits.

34.2 Reconciliation

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	31 December 2018 RO	31 December 2017 RO
Profit as per financial statements	**8,442,718**	4,046,039
Tax asset at the rate mentioned above	**1,266,408**	606,906
Non-deductible expenses and other permanent differences	**95,153**	(8,428)
Deferred tax recognised from previous years	**(430,446)**	(338,939)
Total	**931,115**	259,539

34.3 Net deferred tax asset routed through statement of income are attributable to the following items:

Deferred tax asset are attributable to the following items:

	As at 1 Jan 2018 RO	Recognised in income RO	Unrecognised in income RO	As at 31 Dec 2018 RO
Property, plant and equipment	**(381,758)**	**95,660**	**-**	**(286,098)**
General provision	**144,715**	**(144,715)**	**-**	**-**
Other provision	**103,328**	**(75,285)**	**-**	**28,043**
Losses carried forward	**2,811,418**	**(806,775)**	**-**	**2,004,643**
Net deferred tax asset	**2,677,703**	**(931,115)**	**-**	**1,746,588**

Deferred tax assets and liabilities routed through owner's equity is attributable to investment fair value reserve as of 31 December 2018 amounted to RO 362,290.

34 Income tax *(continued)*

34.3 Net deferred tax asset routed through statement of income are attributable to the following items:

	As at 1 Jan 2017	Recognized in income	Unrecognized in income	As at 31 Dec 2017
	RO	RO	RO	RO
Property, plant and equipment	(370,503)	(11,255)	-	(381,758)
General provision	221,303	(76,588)	-	144,715
Other provision	7,057	96,271	-	103,328
Losses carried forward	3,418,324	(606,906)	-	2,811,418
Deferred tax recognized from previous years	-	338,939	(338,939)	-
Net deferred tax asset	3,276,181	(259,539)	(338,939)	2,677,703

35 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2018	2017
	RO	RO
Net assets (RO)	**137,188,802**	130,749,377
Number of shares outstanding (note 22)	**1,500,000,000**	1,500,000,000
Net assets per share	**0.091**	0.087

36 Earnings per share- basic and diluted

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

Profit for the year (RO)	**7,511,603**	3,786,500
Weighted average number of shares outstanding during the year	**1,500,000,000**	1,500,000,000
Earnings per share- basic and diluted (RO)	**0.005**	0.003

Earnings per share- basic and diluted has been derived by dividing profit for the year attributable to the shareholders' by weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is same as the basic earnings per share.

37 Segment reporting

For management purposes, the Bank is organised into three operating segments based on business units and are as follows:

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments 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 an overall basis and are not allocated to operating segments.

Segment information is as follows:

31 December 2018	Retail banking RO	Corporate banking RO	Treasury & investment RO	Others RO	Total RO
Total revenue (joint)	**16,773,563**	**19,234,797**	**1,959,782**	**-**	**37,968,142**
Return on unrestricted investment accountholders	**(4,368,387)**	**(3,656,617)**	**-**	**346,198**	**(7,678,806)**
Profit paid on Wakala	**(1,750,617)**	**(7,786,389)**	**(170,711)**	**-**	**(9,707,717)**
Bank's share in income from investment as a Mudarib and Rabul Maal	**10,654,559**	**7,791,791**	**1,789,071**	**346,198**	**20,581,619**
Bank's income from its own investments and financing	**351,407**	**-**	**1,107,194**	**-**	**1,458,601**
Other operating income	**1,299,572**	**3,456,157**	**301,852**	**-**	**5,057,581**
Total revenue	**12,305,538**	**11,247,948**	**3,198,117**	**346,198**	**27,097,801**
Staff cost	**(7,234,699)**	**(2,830,108)**	**(789,162)**	**-**	**(10,853,969)**
Other operating expense	**(3,154,263)**	**(1,299,412)**	**(410,151)**	**-**	**(4,863,826)**
Depreciation and amortisation	**(749,910)**	**(156,368)**	**(34,041)**	**-**	**(940,319)**
Total expense	**(11,138,872)**	**(4,285,888)**	**(1,233,354)**	**-**	**(16,658,114)**
Profit before provisions and tax	**1,166,666**	**6,962,060**	**1,964,763**	**346,198**	**10,439,687**
Impairment losses	**(571,757)**	**(1,425,212)**	**-**	**-**	**(1,996,969)**
Profit before tax	**594,909**	**5,536,848**	**1,964,763**	**346,198**	**8,442,718**
Income tax	**-**	**-**	**-**	**(931,115)**	**(931,115)**
Profit for the year	**594,909**	**5,536,848**	**1,964,763**	**(584,917)**	**7,511,603**
Total assets	**344,394,395**	**352,062,859**	**163,573,994**	**12,136,292**	**872,167,540**
Total liabilities and equity of unrestricted investment accountholders	**326,894,023**	**384,725,083**	**115,869**	**23,243,763**	**734,978,738**

37 Segment reporting *(continued)*

31 December 2017	Retail banking RO	Corporate banking RO	Treasury & investment RO	Others RO	Total RO
Total revenue (joint)	14,155,802	12,197,829	1,602,386	-	27,956,017
Return on unrestricted investment accountholders	(1,090,069)	(3,106,951)	-	-	(4,197,020)
Profit paid on Wakala	(698,052)	(5,813,686)	(576,246)	-	(7,087,984)
Bank's share in income from investment as a Mudarib and Rabul Maal	12,367,681	3,277,192	1,026,140	-	16,671,013
Bank's income from its own investments and financing	316,628	-	1,489,832	-	1,806,460
Other operating income	889,262	2,613,008	411,969	-	3,914,239
Total revenue	13,573,571	5,890,200	2,927,941	-	22,391,712
Staff cost	(6,827,280)	(1,861,510)	(1,602,340)	-	(10,291,130)
Other operating expense	(3,333,058)	(744,846)	(894,453)	-	(4,972,357)
Depreciation and amortisation	(850,429)	(181,228)	(124,472)	-	(1,156,129)
Total expense	(11,010,767)	(2,787,584)	(2,621,265)	-	(16,419,616)
Profit before provision and tax	2,562,804	3,102,616	306,676	-	5,972,096
General and specific provision	(605,162)	(1,155,895)	(165,000)	-	(1,926,057)
Profit before tax	1,957,642	1,946,721	141,676	-	4,046,039
Income tax	-	-	-	(259,539)	(259,539)
Profit after tax	1,957,642	1,946,721	141,676	(259,539)	3,786,500
Total assets	296,927,626	264,282,734	124,572,150	11,520,461	697,302,971
Total liabilities and equity of unrestricted investment accountholders	201,643,602	324,506,389	19,338,529	21,065,075	566,553,595

38 Financial instruments

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio
Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio
Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

38 Financial instruments *(continued)*

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of investment securities during the year.

	Level 1 RO	**Level 2 RO**	**Level 3 RO**	**Total RO**
Financial assets at fair value through equity	**44,561,491**	**3,697,743**	**-**	**48,259,234**
Investment in real estate	**-**	**-**	**14,175,000**	**14,175,000**
Total financial assets at 31 December 2018	**44,561,491**	**3,697,743**	**14,175,000**	**62,434,234**

	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Financial assets at fair value through equity	35,323,886	5,397,251	-	40,721,137
Investment in real estate	-	-	14,175,000	14,175,000
Total financial assets at 31 December 2017	35,323,886	5,397,251	14,175,000	54,896,137

39 Related party transactions

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

No impairment losses has been established in respect of the financing given to related parties.

31 December 2018	**Principal shareholders RO**	**Sharia'a Board RO**	**Senior management RO**	**Total RO**
Sales receivables & other receivables	**91,047**	**12,101**	**194,995**	**298,143**
Ijara Muntahia Bittamleek	**469,009**	**78,052**	**945,824**	**1,492,885**
Wakala Bil Istethmar	**9,000,000**	**-**	**-**	**9,000,000**
Customers' accounts	**856,030**	**665**	**20,826**	**877,521**
Unrestricted investment accountholders / Customers' wakala	**5,764,683**	**34,997**	**8,097**	**5,807,777**

31 December 2017	Principal shareholders RO	Sharia'a Board RO	Senior management RO	Total RO
Sales receivables & other receivables	311,095	15,731	90,085	416,911
Ijara Muntahia Bittamleek	1,598,966	80,977	552,635	2,232,578
Wakala Bil Istethmar	1,200,000	-	-	1,200,000
Customers' accounts	1,110,079	167	401,042	1,511,288
Unrestricted investment accountholders / Customers' wakala	9,303,444	10	237	9,303,691

39 Related party transactions *(continued)*

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

31 December 2018	**Principal shareholders RO**	**Sharia Board RO**	**Senior management RO**	**Total RO**
Profit account	**296,284**	**5,117**	**27,647**	**329,048**
Commission income	**112**	**-**	**-**	**112**
Operating expenses				
- Staff expense	**-**	**-**	**1,513,520**	**1,513,520**
- Other expenses	**60,811**	**54,461**	**-**	**115,272**

31 December 2017	Principal shareholders RO	Sharia Board RO	Senior management RO	Total RO
Profit account	66,543	4,895	18,941	90,379
Commission income	160	-	6	166
Operating expenses				
- Staff expense	-	-	1,111,957	1,111,957
- Other expenses	64,050	59,623	-	123,673

40 Financial risk management

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the Bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

Credit risk
Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing

40 Financial risk management *(continued)*

Credit risk *(continued)*
Counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardardized approach.

With the recent adoption of IFRS 9 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL. In addition to this, the Bank has also employed statistical model to incorporate related macro-economic factors including historical default rates. In absence of some important parameters or the where the information is too much deviated from the present forecast, qualitative PD overlay is used by the management after analysing the portfolio as per diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the GDP with PD as a key input to ECL. These economic variable and their associated impact on the PD, EAD and LGD vary by financial instrument.

Types of credit risk
Credit risk arises mainly on sales receivables and other receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, Musharaka financing, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

Sales receivable and other receivables

The Bank finances these transactions based on two structures:

1) Murabaha: In this structure, the Bank buys an asset which represents the object of the Murabaha and the Bank resells this asset to the customer (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the customer over the agreed period. The transactions are secured at all times by the object of the Murabaha (in case of real estate and auto finance) and other times by a total collateral package securing the facilities given to the client.

2) Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna is stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek
This is a lease whereby the legal tittle of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments
This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposure.

Musharaka financing
Musharaka means relationship established under a contract by a mutual consent of parties for profits and losses arising from a joint enterprise or venture. Investments come from all partners/shareholders and profits are distributed in the proportion mutually agreed in the contract. If one or more partners choose to become non-working or silent partners, the ratio of their profit cannot exceed the ratio which their capital investment bears to the total capital investment in Musharaka. Under the arrangement, both partners mutually agree to contribute capital for the Musharaka business activity and share any profit arising from the Asset or business activities according to a pre-agreed ratio, while loss is borne proportionate to their respective capital contribution.

40 Financial risk management *(continued)*

Credit risk *(continued)*

Capital from the Bank (finance amount) can either be disbursed as a lump-sum amount or staggered through progressive payments, as mutually agreed by both parties in the agreement. The Musharaka Asset is co-owned by the Bank and the client proportionate to their respective capital contribution. In such a transaction, the Bank takes a risk in the Musharaka Asset to an extent of its share / capital contribution in it. The Bank's exposure (and hence the associated risk) continues to reduce over the life of the transaction, as the customer buys back units of the Bank's ownership share in the Musharaka Asset.

In case of a loss, the Bank bears the loss equivalent to its share / capital contribution in the Musharaka Asset. However, this is applicable subject to the fact that the loss has not occurred due to the gross negligence or wilful misconduct of the customer, as the Musharaka Manager, in which case, the customer shall solely be responsible for the entire loss.

The analysis of credit portfolio is given below:

(a) Geographical concentrations

	Assets			**Liabilities**		
	Gross due from banks and Interbank Wakala investment	**Gross financing**	**Gross investments in Sukuk and securities**	**Customer account, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Sultanate of Oman	**228,668**	**728,446,699**	**28,330,962**	**711,619,106**	**-**	**181,687,242**
Other GCC countries	**1,322,178**	**1,636,250**	**5,820,517**	**-**	**-**	**2,997,326**
Europe and North America	**4,831,179**	**-**	**706,629**	**-**	**-**	**263,450**
Africa and Asia	**22,896**	**-**	**15,403,126**	**-**	**115,869**	**861,260**
Total	**6,404,921**	**730,082,949**	**50,261,234**	**711,619,106**	**115,869**	**185,809,278**

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2017	RO	RO	RO	RO	RO	RO
Sultanate of Oman	15,610,219	591,310,758	30,347,758	525,851,542	11,550,000	214,478,975
Other GCC countries	2,707,747	1,892,917	11,759,755	-	7,700,000	2,772,990
Europe and North America	1,471,414	-	-	-	-	4,270,267
Africa and Asia	72,665	-	5,613,624	-	88,529	3,922,582
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

40 Financial risk management ((*continued*)

Credit risk *(continued)*

(b) Customer concentrations

2018	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	**Gross Financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
	RO	**RO**	**RO**	**RO**	**RO**	**RO**
Personal	**-**	**362,849,412**	**-**	**302,198,023**	**-**	**90,593**
Corporate	**6,404,921**	**367,233,537**	**10,427,255**	**91,789,759**	**115,869**	**183,482,547**
Government	**-**	**-**	**39,833,979**	**317,631,324**	**-**	**2,236,138**
Total	**6,404,921**	**730,082,949**	**50,261,234**	**711,619,106**	**115,869**	**185,809,278**

2017	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	-	316,307,269	-	201,467,257	-	35,712
Corporate	19,862,045	276,896,406	22,680,255	40,855,418	19,338,529	206,409,102
Government	-	-	25,040,882	283,528,867	-	19,000,000
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(c) Economic sector concentrations

	Assets			Liabilities		
	Due from banks and interbank Wakala	**Gross financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Personal	**-**	**362,849,412**	**-**	**302,198,023**	**-**	**-**
Construction	**-**	**129,127,832**	**-**	**7,751,332**	**-**	**63,861,729**
Manufacturing	**-**	**74,022,907**	**-**	**-**	**-**	**21,836,368**
Financial services	**6,404,921**	**-**	**706,629**	**-**	**115,869**	**-**
Government	**-**	**-**	**39,833,979**	**317,631,324**	**-**	**2,236,138**
Other services	**-**	**128,981,237**	**-**	**4,960,499**	**-**	**30,307,659**
Others	**-**	**35,101,561**	**9,720,626**	**79,077,928**	**-**	**67,567,384**
	6,404,921	**730,082,949**	**50,261,234**	**711,619,106**	**115,869**	**185,809,278**

40 Financial risk management (*(continued)*
Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	Assets			Liabilities		
31 December 2017	Due from banks and interbank Wakala RO	Gross financing RO	Investments in Sukuk and securities RO	Current, unrestricted IAH and customer Wakala RO	Interbank Wakala RO	Contingent liabilities and commitments RO
Personal	-	316,307,269	-	201,467,257	-	35,712
Construction	-	55,268,843	-	2,532,312	-	65,606,155
Manufacturing	-	52,141,605	-	3,361,125	-	33,847,672
Financial services	19,862,045	-	704,858	-	19,338,529	-
Government	-	-	25,040,882	283,528,867	-	19,000,000
Other services	-	37,172,759	-	1,424,800	-	12,826,432
Others	-	132,313,199	21,975,397	33,537,181	-	94,128,843
	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(d) Gross credit exposure

	2018 RO	2017 RO
Gross financing	**730,082,949**	593,203,675
Due from banks and interbank Wakala	**6,404,921**	19,862,045
Investments in Sukuk and securities	**50,261,234**	47,721,137
Total	**786,749,104**	660,786,857

(e) Geographical distribution of exposures:

31 December 2018	**Sultanate of Oman RO**	**Other countries RO**	**Total RO**
Gross Sales receivables and other receivables	**210,971,674**	**-**	**210,971,674**
Gross Ijarah Muntahia Bittamleek	**316,436,314**	**1,636,250**	**318,072,564**
Gross Musharaka financing	**60,936,118**	**-**	**60,936,118**
Gross Wakala Bil Istethmar	**140,102,593**	**-**	**140,102,593**
Investments in Sukuk and securities	**28,330,962**	**21,930,272**	**50,261,234**
Due from banks and interbank Wakala	**228,668**	**6,176,253**	**6,404,921**
Total	**757,006,329**	**29,742,775**	**786,749,104**

31 December 2017	Sultanate of Oman RO	Other countries RO	Total RO
Gross Sales receivables and other receivables	189,353,137	-	189,353,137
Gross Ijarah Muntahia Bittamleek	283,737,953	1,892,917	285,630,870
Gross Musharaka financing	25,986,532	-	25,986,532
Gross Wakala Bil Istethmar	92,233,136	-	92,233,136
Investments in Sukuk and securities	30,347,758	17,373,379	47,721,137
Due from banks and interbank Wakala	15,610,219	4,251,826	19,862,045
Total	637,268,735	23,518,122	660,786,857

40 Financial risk management (*(continued)*

Credit risk *(continued)*

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

2018	**Due from banks and interbank Wakala RO**	**Gross Sales receivables and other receivables RO**	**Gross Ijarah Muntahia Bittamleek RO**	**Gross Musharaka financing**	**Gross Wakala Bil Istethmar RO**	**Investment in Sukuk & securities RO**	**Total RO**	**Off balance sheet exposures RO**
Construction	**-**	**11,556,762**	**43,078,564**	**876,980**	**73,615,527**	**-**	**129,127,833**	**63,861,729**
Electricity, gas and water	**-**	**20,304,332**	**1,414,639**	**551,673**	**25,823,723**	**-**	**48,094,367**	**10,973,452**
Financial institutions	**6,404,921**	**-**	**-**	**-**	**-**	**706,629**	**7,111,550**	**-**
Services	**-**	**15,051,010**	**11,130,396**	**35,076,026**	**17,993,188**	**-**	**79,250,620**	**19,334,207**
Personal financing	**-**	**112,661,022**	**250,118,812**	**69,578**	**-**	**-**	**362,849,412**	**-**
Government	**-**	**-**	**-**	**-**	**-**	**39,833,979**	**39,833,979**	**2,236,138**
Non-resident financing	**-**	**-**	**1,636,250**	**-**	**-**	**-**	**1,636,250**	**-**
Others	**-**	**51,398,549**	**10,693,903**	**24,361,860**	**22,670,155**	**9,720,626**	**118,845,093**	**89,403,752**
Total	**6,404,921**	**210,971,675**	**318,072,564**	**60,936,117**	**140,102,593**	**50,261,234**	**786,749,104**	**185,809,278**

2017	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Musharaka financing	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Construction	-	8,424,567	10,634,998	1,033,914	35,175,364	-	55,268,843	65,606,155
Electricity, gas and water	-	24,047,289	1,206,534	-	27,558,249	-	52,812,072	34,430,842
Financial institutions	19,862,045	-	-	-	-	704,858	20,566,903	-
Services	-	13,403,343	2,249,690	17,645,290	3,874,436	-	37,172,759	12,826,432
Personal financing	-	101,917,352	214,389,917	-	-	-	316,307,269	-
Government	-	-	-	-	-	25,040,882	25,040,882	19,000,000
Non-resident financing	-	-	1,892,917	-	-	-	1,892,917	-
Others	-	41,560,586	55,256,814	7,307,328	25,625,087	21,975,397	151,725,212	93,581,385
Total	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

40 Financial risk management ((continued)

Credit risk *(continued)*

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

2018	Gross due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Musharaka financing RO	Gross Wakala Bil Istethmar RO	Gross investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Upto 1 month	**6,404,921**	**7,796,226**	**2,135,123**	**308,312**	**17,070,912**	**58,779**	**33,774,273**	**8,890,935**
1 to 3 months	**-**	**15,030,935**	**7,056,488**	**2,518,071**	**18,287,006**	**15,403,126**	**58,295,626**	**28,710,075**
3 to 6 months	**-**	**19,063,323**	**6,069,297**	**1,653,474**	**28,026,452**	**-**	**54,812,546**	**44,812,813**
6 to 9 months	**-**	**14,461,163**	**6,379,744**	**2,365,778**	**22,946,684**	**706,629**	**46,859,998**	**3,535,452**
9 to 12 months	**-**	**13,473,806**	**6,473,926**	**1,919,804**	**17,122,255**	**6,556,270**	**45,546,061**	**87,535,566**
1 to 3 years	**-**	**73,756,263**	**51,066,115**	**17,403,814**	**17,758,887**	**1,718,525**	**161,703,604**	**7,401,082**
3 to 5 years	**-**	**39,422,044**	**48,335,127**	**15,280,387**	**16,110,604**	**-**	**119,148,162**	**2,355,469**
Over 5 years	**-**	**27,967,915**	**190,556,744**	**19,486,477**	**2,779,793**	**25,817,905**	**266,608,834**	**2,567,886**
	6,404,921	**210,971,675**	**318,072,564**	**60,936,117**	**140,102,593**	**50,261,234**	**786,749,104**	**185,809,278**

2017	Due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Musharaka financing RO	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Upto 1 month	19,862,045	5,449,979	1,766,917	39,691	16,499,319	10,431,751	54,049,703	49,521,661
1 to 3 months	-	12,383,038	6,186,156	707,821	15,187,640	3,850,154	38,314,809	22,235,199
3 to 6 months	-	14,284,252	5,129,593	231,021	11,962,594	-	31,607,460	12,308,442
6 to 9 months	-	16,388,337	5,432,637	641,537	13,183,375	-	35,645,886	15,981,073
9 to 12 months	-	13,273,026	5,759,645	287,827	9,363,108	-	28,683,606	73,707,913
1 to 3 years	-	56,185,513	50,824,625	4,344,826	9,829,222	1,325,080	122,509,266	32,397,295
3 to 5 years	-	40,377,760	46,360,271	4,136,122	13,917,003	8,469,318	113,260,474	8,313,201
Over 5 years	-	31,011,232	164,171,026	15,597,687	2,290,875	23,644,834	236,715,653	10,980,030
	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

31 December 2018	**Performing financing RO**	**Non-performing financing RO**	**Impairment losses under stage III held RO**	**Impairment losses under stage I and II Held RO**
Personal financing	**362,674,359**	**155,053**	**128,973**	**883,186**
Non-resident corporate financing	**1,636,250**	**-**	**-**	**7,549**
Resident corporate financing	**365,471,675**	**145,612**	**68,896**	**5,621,053**
	729,782,284	**300,665**	**197,869**	**6,511,788**

31 December 2017	Performing financing RO	Non-performing financing RO	Specific provisions held RO	General provisions held RO
Personal financing	316,307,269	159,027	73,632	4,510,067
Non-resident corporate financing	1,892,917	-	-	18,929
Resident corporate financing	275,003,489	188,362	52,965	2,613,923
	593,203,675	347,389	126,597	7,142,919

40 Financial risk management (*(continued)*

Credit risk *(continued)*

(i) Distribution of impaired financing and past due financing by geographical distribution:

31 December 2018	**Performing financing**	**Non-performing financing**	**Impairment losses under stage III held**	**Impairment losses under stage I and II Held**
	RO	**RO**	**RO**	**RO**
Sultanate of Oman	**728,146,034**	**300,665**	**197,869**	**6,504,239**
Other countries	**1,636,250**	**-**	**-**	**7,549**
Total	**729,782,284**	**300,665**	**197,869**	**6,511,788**

31 December 2017	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Sultanate of Oman	591,310,758	347,389	126,597	7,123,990
Other countries	1,892,917	-	-	18,929
Total	593,203,675	347,389	126,597	7,142,919

(j) Maximum exposure to credit risk without consideration of collateral held:

	2018	2017
	RO	RO
Due from banks and interbank Wakala investments	**6,404,921**	19,862,045
Investment in Sukuk and securities	**50,261,234**	47,721,137
Gross Financing	**730,082,949**	593,203,675
	786,749,104	660,786,857
Off-balance sheet items		
Financial guarantee	**73,263,381**	53,881,017
Financial letter of credits	**17,124,262**	20,071,723
Acceptances	**10,596,310**	7,328,535
Bills for collection	**760,202**	104,113
Commitments	**84,065,123**	144,059,426
	185,809,278	225,444,814

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
Exposure subject to ECL (gross) 1 January 2018				
Gross financing, commitments and financial guarantees	745,117,371	47,798,399	346,610	793,262,380
Investment securities	35,230,787	-	-	35,230,787
Financial assets at amortised cost	7,000,000	-	-	7,000,000
Interbank wakala investments	16,397,550	-	-	16,397,550
Due from banks, central banks and other financial assets	3,464,495	·	-	3,464,495
	807,210,203	47,798,399	346,610	855,355,212
Expected credit loss - as at 1 January 2018	(4,142,619)	(2,164,768)	(146,899)	(6,454,286)
Exposure subject to ECL (Net) - as at 1 January 2018	803,067,584	45,633,631	199,711	848,900,926
Opening Balance (Day 1 impact) - as at 1 January 2018				
Gross financing, commitments and financial guarantees	741,286,554	45,633,631	199,711	787,119,896
Investment securities	34,985,296	-	-	34,985,296
Financial assets at amortised cost	6,968,368	-	-	6,968,368
Interbank wakala investments	16,371,905	-	-	16,371,905
Due from banks, central banks and other financial assets	3,455,461	-	-	3,455,461
	803,067,584	45,633,631	199,711	848,900,926
Exposure subject to ECL (gross) 31 December 2018				
Gross financing, commitments and financial guarantees	795,315,463	93,386,915	286,170	888,988,548
Investment securities	44,499,226	-	-	44,499,226
Financial assets at amortised cost	2,002,000	-	-	2,002,000
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	6,404,921	-	-	6,404,921
	848,221,610	93,386,915	286,170	941,894,695
Net transfer between stages				
Gross financing, commitments and financial guarantees	50,198,091	45,588,516	(60,440)	95,726,167
Investment securities	9,268,365	-	-	9,268,365
Financial assets at amortised cost	(4,998,000)	-	-	(4,998,000)
Interbank wakala investments	(16,397,550)	-	-	(16,397,550)
Due from banks, central banks and other financial assets	2,940,426	-	-	2,940,426
	41,011,332	45,588,516	(60,440)	86,539,408
Charge for the period (net)				
Gross financing, commitments and financial guarantees	675,367	1,349,702	50,970	2,076,039
Investment securities	(26,959)	-	-	(26,959)
Financial assets at amortised cost	(22,803)	-	-	(22,803)
Interbank wakala investments	(25,645)	-	-	(25,645)
Due from banks, central banks and other Financial assets	(3,663)	-	-	(3,663)
	596,297	1,349,702	50,970	1,996,969

40 Financial risk management (*(continued)*

Credit risk *(continued)*

(k) Movement in ECL

	Stage 1	Stage 2	Stage 3	Total
	RO	RO	RO	RO
Closing Balance - as at 31 December 2018				
Gross financing, commitments and financial guarantees	790,809,278	89,872,445	88,301	880,770,024
Investment securities	44,280,696	-	-	44,280,696
Financial assets at amortized cost	1,993,171	-	-	1,993,171
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	6,399,549	-	-	6,399,549
	843,482,694	89,872,445	88,301	933,443,440

Exposure at default methodology
The exposure at default is used to measure the lifetime expected credit losses and 12-month expected credit losses. The Bank measures expected credit losses at a client level for wholesale banking and at pool level for retail. It also includes expected credit losses on the undrawn commitment component from those on the financing component. It recognizes expected credit losses for the undrawn commitment together with the loss allowance for the financing component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses is presented as a provision. For undrawn commitment, Credit Conversion Factor (CCF) to convert commitment to on-balance sheet where cancellable limits have 20% CCF and for uncancellable committed facility has 100%. For all off-balance sheet exposure, CCF is applied according to the type of facility.

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

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

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the limit set with respect to various time buckets as set out in Bank's Risk Appetite and Strategy Statement. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by the Bank as well as those of its off-balance sheet (OBS) exposures.

Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds.
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 assets and liabilities by estimated remaining maturities at the balance sheet date.

40 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Credit quality

The credit quality of financial assets is managed by the Bank using internal and external credit risk ratings. The Bank follows an internal rating mechanism for grading relationship across its credit portfolio. The Bank utilizes a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Bank endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Bank. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

Credit quality analysis

The following table provides the details for the credit quality:

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Financial Assets subject to ECL					
Performing Grades (Grade 1 to 7)					
Gross Financing Amount including off-balance sheet	795,315,462	93,386,915	-	888,702,377	565,031,373
ECL on Financing	(4,506,185)	(3,514,470)	-	(8,020,655)	(4,019,330)
Gross Investments	46,501,227	-	-	46,501,227	47,721,137
ECL on Investments	(227,360)	-	-	(227,360)	-
Gross Interbank	6,404,921	-	-	6,404,921	16,397,550
ECL on Interbank	(5,372)	-	-	(5,372)	-
Carrying Amount	843,482,693	89,872,445	-	933,355,138	625,130,730
Non-performing (Grade 8 - 10)					
Gross Financing Amount including off-balance sheet	-	-	286,170	286,170	344,824
ECL on Financing	-	-	(197,868)	(197,868)	(146,507)
Gross Investments	-	-	-	-	-
ECL on Investments	-	-	-	-	-
Gross Interbank	-	-	-	-	-
ECL on Interbank	-	-	-	-	-
Carrying Amount	-	-	88,302	88,302	198,318
Total Gross Financing Amount including off-balance sheet	795,315,462	93,386,915	286,170	888,988,547	565,376,197
Total ECL on Financing	(4,506,185)	(3,514,470)	(197,868)	(8,218,523)	(4,165,837)
Total Gross Investments	46,501,227	-	-	46,501,227	47,721,137
Total ECL on Investments	(227,360)	-	-	(227,360)	-
Total Gross Interbank	6,404,921	-	-	6,404,921	16,397,550
Total ECL on Interbank	(5,372)	-	-	(5,372)	-
Total Net Carrying Amount	843,482,693	89,872,445	88,302	933,443,440	625,329,047

40 Financial risk management *(continued)*

Liquidity risk (*continued)*

(l) Credit quality

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

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

The most significant period-end assumptions used for the ECL estimate as at Dec 31, 2018 were GDP and CPI. (GDP 2019: 2.89%, 2020: 2.2%) and (CPI 2018: 106.4)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Cash and balances with Central Bank of Oman	92,465,570	-	-	-	500,001	92,965,571
Inter-bank Wakala and Due from banks	6,399,549	-	-	-		6,399,549
Financing to customers - net	26,497,293	93,683,599	80,879,872	263,438,136	231,970,713	696,469,613
Financial assets at fair value through equity	58,779	15,403,126	5,260,899	1,718,525	25,599,374	48,040,703
Financial assets at amortised cost	-	-	1,993,171	-	-	1,993,171
Investment in real estate	-	-	-	14,175,000	-	14,175,000
Intangible asset					2,262,273	2,262,273
Property and equipment					2,028,586	2,028,586
Other assets	104,397	480,457	319,959	3,465,931	3,462,330	7,833,074
Total assets	125,525,588	109,567,182	88,453,901	282,797,592	265,823,277	872,167,540
Interbank Wakala	115,869	-	-	-	-	115,869
Customer accounts, Wakala and unrestricted accountholders	51,800,770	119,560,191	150,075,457	258,580,144	130,824,427	710,840,989
Other liabilities	-	3,948,130	4,282,421	10,433,132	4,923,981	23,587,664
Investment risk and profit equalization reserve	-	-	-	-	434,216	434,216
Owners' equity	-	-	-	-	137,188,802	137,188,802
Total liabilities, equity of unrestricted investment accountholders and owners' equity	51,916,639	123,508,321	154,357,878	269,013,276	273,371,426	872,167,540
Net gap	73,608,949	(13,941,139)	(65,903,977)	13,784,316	(7,548,149)	-
Cumulative net gap	73,608,949	59,667,810	(6,236,167)	7,548,149	-	

40 Financial risk management *(continued)*

Liquidity risk (*continued)*

Maturity profile of assets and liabilities (*continued)*

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
31 December 2017						
Cash and balances with Central Bank of Oman	42,313,967	-	-	-	500,001	42,813,968
Inter-bank Wakala and Due from banks	19,862,045	-	-	-	-	19,862,045
Financing to customers - net	23,140,226	62,287,336	60,103,140	211,424,184	204,255,474	561,210,360
Financial assets at fair value through equity	10,431,751	3,850,154	-	2,794,398	23,644,834	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	2,428,106	2,428,106
Other assets	86,931	488,881	202,026	3,820,733	2,290,332	6,888,903
Total assets	95,834,920	66,626,371	74,480,166	225,039,315	235,322,199	697,302,971
Interbank Wakala	2,013,529	17,325,000	-	-	-	19,338,529
Customer accounts, Wakala and unrestricted accountholders	23,586,681	59,618,832	128,956,122	216,822,354	96,885,293	525,869,282
Other liabilities	5,544,238	3,925,700	10,683,982	246,155	665,000	21,065,075
Investment risk and profit equalization reserve	-	-	-	-	280,708	280,708
Owners' equity	-	-	-	-	130,749,377	130,749,377
Total liabilities, equity of unrestricted investment accountholders and owners' equity	31,144,448	80,869,532	139,640,104	217,068,509	228,580,378	697,302,971
Net gap	64,690,472	(14,243,161)	(65,159,938)	7,970,806	6,741,821	-
Cumulative net gap	64,690,472	50,447,311	(14,712,627)	(6,741,821)	-	-

Market risk

Market risk is the risk of loss due to unfavourable movements in market factors such as rates of return, exchange rates, commodities and equity prices. The Bank's Market risks arise generally due to open positions in foreign currencies, holding common equity, and fixed return products. All such instruments and transactions are exposed to general and specific market movements. For purpose of Capital Charge, the Bank uses Basel II standardized Approach.

The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

40 Financial risk management *(continued)*

Market risk *(continued)*

(a) Currency risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2018 **RO**	2017 RO
Net assets denominated in US Dollars	**6,505,640**	4,563,547
Net assets denominated in other foreign currencies	**4,919,410**	(2,295,757)

Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant.

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

	2018 **RO**	2017 RO
+200 bps	**3,676,701**	3,281,878
+100 bps	**1,838,351**	1,640,939
-200 bps	**(3,676,701)**	(3,281,878)
-100 bps	**(1,838,351)**	(1,640,939)

40 Financial risk management *(continued)*

Market risk (*continued*)
Rate of Return Risk *(continued)*

Profit rate sensitivity gap
Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the re-pricing of assets and liabilities

31 December 2018	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 6 to 12 months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	92,965,571	92,965,571
Inter-bank Wakala and Due from banks	-	-	-	-	-	6,399,549	6,399,549
Financing to customers – net	207,680,168	101,349,278	90,038,414	233,253,880	64,147,873	-	696,469,613
Financial assets at fair value through equity	-	15,403,126	470,702	1,718,525	25,942,571	4,505,779	48,040,703
Financial assets at amortized cost	-	-	1,993,171	-	-	-	1,993,171
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,262,273	2,262,273
Property and equipment	-	-	-	-	-	2,028,586	2,028,586
Other assets	-	-	-	-	-	7,833,074	7,833,074
Total assets	**207,680,168**	**116,752,404**	**92,502,287**	**234,972,405**	**90,090,444**	**130,169,832**	**872,167,540**
Interbank Wakala	-	-	-	-	-	115,869	115,869
Customer accounts, Wakala and unrestricted accountholders	35,666,508	92,093,721	101,006,990	294,054,067	109,883,366	78,136,337	710,840,989
Other liabilities	-	-	-	-	-	23,587,664	23,587,664
Investment risk and profit equalisation reserve	-	-	-	-	434,216	-	434,216
Shareholders’ equity	-	-	-	-	-	137,188,802	137,188,802
Total liabilities and shareholders’ equity	35,666,508	92,093,721	101,006,990	294,054,067	110,317,582	239,028,672	872,167,540
On-balance sheet gap	172,013,660	24,658,683	(8,504,703)	(59,081,662)	(20,227,138)	(108,858,840)	
Cumulative profit sensitivity gap	172,013,660	196,672,343	188,167,640	129,085,978	108,858,840	-	

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk (continued)

Profit rate sensitivity gap (continued)

31 December 2017	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 6 to 12months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	42,813,968	42,813,968
Inter-bank Wakala and Due from banks	16,397,550	-	-	-	-	3,464,495	19,862,045
Financing to customers - net	136,415,232	81,159,071	80,151,364	199,458,493	64,026,200	-	561,210,360
Financial assets at fair value through equity	4,908,458	3,850,154	-	9,794,398	16,644,858	5,523,269	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	-	2,428,106	2,428,106
Other assets	29,181	160,017	89,337	1,237,562	2,044,086	3,328,720	6,888,903
Total assets	157,750,421	85,169,242	80,240,701	217,490,453	82,715,144	73,937,010	697,302,971
Interbank Wakala	1,925,000	17,325,000	-	-	-	88,529	19,338,529
Customer accounts, Wakala and unrestricted accountholders	9,438,427	35,922,972	45,011,722	288,601,015	78,584,928	68,310,218	525,869,282
Other liabilities	-	-	-	-	-	21,065,075	21,065,075
Investment risk and profit equalisation reserve	-	-	-	-	280,708	-	280,708
Shareholders' equity	-	-	-	-	-	130,749,377	130,749,377
Total liabilities and shareholders' equity	11,363,427	53,247,972	45,011,722	288,601,015	78,865,636	220,213,199	697,302,971
On-balance sheet gap	146,386,994	31,921,270	35,228,979	(71,110,562)	3,184,508	(145,611,189)	
Cumulative profit sensitivity gap	146,386,994	178,308,264	213,537,243	142,426,681	145,611,189	-	

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk (continued)

(a) Equity risk

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. Hence the exposure in listed and unlisted equity exposure as of date is taken in banking book and capital is calculated accordingly.

Since there is NIL exposure in trading book therefore no stress testing and sensitivity analysis is carried out.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area.

For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and

b) Tier 2 capital: general provision and unrealized gains arising on the fair valuation of equity instruments at fair value through equity.

Book value of other intangible assets including software is deducted from Tier 1 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

40 Financial risk management *(continued)*

Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2018 and 2017 as follows:

Capital structure	**2018 RO**	2017 RO
TIER I CAPITAL		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Legal reserve	**1,140,782**	389,622
Accumulated losses	**(14,933,061)**	(21,771,158)
Fair value gains or losses on financial assets at fair value through equity	**(2,526,792)**	(123,463)
Less: Intangible assets	**(2,262,273)**	(2,203,452)
Deferred tax asset	**(1,746,588)**	(2,677,703)
Total Tier I capital	**131,763,260**	125,705,038
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	**56,643**	79,627
Impairment losses / General provision	**7,142,919**	7,142,919
Total Tier II capital	**7,199,562**	7,222,546
Total eligible capital	**138,962,822**	132,927,584
Risk weighted assets		
Credit risk	**797,090,550**	716,089,507
Market risk	**16,589,498**	22,391,617
Operational risk	**42,002,222**	32,302,324
Total	**855,682,270**	770,783,448
Tier I capital	**131,763,260**	125,705,038
Tier II capital	**7,199,562**	7,222,546
Total regulatory capital	**138,962,822**	132,927,584
Tier I capital ratio	**15.40%**	16.31%
Total capital ratio	**16.24%**	17.25%
Common Equity Tier 1 (CET1)	**131,763,260**	128,705,038
Common Equity Tier 1 ratio	**15.40%**	16.31%

40 Financial risk management *(continued)*

Liquidity coverage ratio (LCR) and Net-Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations requires banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Bank current LCR ratio as of Dec 31, 2018 stands at 1569.344 (Dec 31, 2017: 114.76) and NSFR stands at 126.82% (Dec 31, 2017: 133.19%).

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

(a) Standard, special mention and non-performing Financing accounts

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)
Standard	Stage 1	764,671,876	7,497,204	3,118,593	4,378,611	757,174,672	761,553,283
	Stage 2	56,777,746	322,474	1,350,452	(1,027,978)	56,455,272	55,427,294
	Stage 3	-	-	-	-	-	
Subtotal		**821,449,622**	**7,819,678**	**4,469,045**	**3,350,633**	**813,629,944**	**816,980,577**
Special Mention	Stage 1	30,643,587	219,639	1,387,592	(1,167,953)	30,423,948	29,255,995
	Stage 2	36,609,169	222,867	2,164,018	(1,941,151)	36,386,302	34,445,151
	Stage 3				-	-	-
Subtotal		**67,252,756**	**442,506**	**3,551,610**	**(3,109,104)**	**66,810,250**	**63,701,146**
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	96,718	51,424	80,092	(28,668)	45,294	16,626
Subtotal		**96,718**	**51,424**	**80,092**	**(28,668)**	**45,294**	**16,626**
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	189,452	137,817	117,776	20,041	51,635	71,676
Subtotal		**189,452**	**137,817**	**117,776**	**20,041**	**51,635**	**71,676**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	52,906,147	-	232,732	(232,732)	52,906,147	52,673,415
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		**52,906,147**	**-**	**232,732**	**(232,732)**	**52,906,147**	**52,673,415**
Total All	Stage 1	**848,221,610**	**7,716,843**	**4,738,917**	**2,977,926**	**840,504,767**	**843,482,693**
	Stage 2	**93,386,915**	**545,341**	**3,514,470**	**(2,969,129)**	**92,841,574**	**89,872,445**
	Stage 3	**286,170**	**189,241**	**197,868**	**(8,627)**	**96,929**	**88,302**
Total		**941,894,695**	**8,451,425**	**8,451,255**	**170**	**933,443,270**	**933,443,440**

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

(b) Restructured accounts
There is no restructured case as at 31 December 2018 that is required to be reported.

(c) Non-performing financing ratio

	31 December 2018		
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	-	-	-
Provisions required as per CBO norms/held as per IFRS 9	8,451,425	8,451,255	(170)
Gross NPA ratio	0.04	0.04	-
Net NPA ratio	0.01	0.01	-

42 Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.