Statement of sources and uses of charity fund

For the year ended 31 December 2019

	2019 RO	2018 RO
Sources of charity fund		
Balance as at 1 January	**-**	-
Non-Islamic income for the year	**37,748**	49,308
Total source	**37,748**	49,308
Uses of charity fund		
Use of charity fund *	**37,748**	49,308
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.

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 fourteen 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 2019, the Bank had 379 employees (2018: 353 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, 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 this financial statement.

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

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 BASIS OF PREPARATION *(continued)*

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:

2.4.1 Financial Instruments

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

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

- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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 2.5.5 of the financial statement.

2.5 IFRS 9 - Financial Instruments Classification and Impairment

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 effect from 1 January 2018

2.5.1 Classification of financial assets

As per IFRS 9, the Bank 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.

2. BASIS OF PREPARATION *(continued)*

2.5.1 Classification of financial assets *(continued)*

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.

2.5.2 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; 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;
c) 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
d) 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.

2.5.3 ***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.

2. BASIS OF PREPARATION *(continued)*

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

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.

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.

2.5.4 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.

2.5.5 Impairment

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.

2. BASIS OF PREPARATION *(continued)*

2.5.5 Impairment *(continued)*

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.

Calculation of expected credit loss (ECL)

Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

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

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

The bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on 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:

2 BASIS OF PREPARATION *(continued)*

2.5.5 Impairment (continued)

Assessment of Significant Increase in Credit Risk (continued)

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.

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

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

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

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.

2 **BASIS OF PREPARATION** *(continued)*

2.5.5 Impairment *(continued)*

Overview of the ECL principles

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

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

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

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

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

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

Stage 1
When financing 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 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.

2 BASIS OF PREPARATION *(continued)*

2.5.5 Impairment (continued)

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.

• LGD – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The bank is applying LGD rate after adjusting with the applicable haircuts set with respect to the type of security for all wholesale banking secured portfolio. For all other portfolio including retail secured and retail unsecured, the Bank has applied 45% as LGD value to be on conservative side.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 realized profit amount, if any, on the investment maturity date compared to 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)
The bank follows IFRS 9 for classifications of debt instruments which are measured at FVTE when both of the following conditions are met:

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

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

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

Equity instruments at FVTE

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3.7 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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3.13 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.

3.14 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.

3.15 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.

3.16 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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 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.

3.18 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.

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.

3.19 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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.20 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.

3.21 Directors' remuneration

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

3.22 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.

3.23 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.

3.24 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.

3.25 Zakah

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

3.26 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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.27 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.

3.28 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.

3.29 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.

3.30 New standards, amendments and interpretations

The following new standards and amendments issued by AAOIFI became effective as at 1 January 2019 which may impact the financial statements of the Bank.

FAS 28 Murabaha and Other Deferred Payment Sales

This standard is effective from 1 January 2019 and prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transactions, excluding Tawarruq and commodity Murabaha transactions. 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.

The Bank has assessed the standard and based on the assessment of the standard, there is no impact of applying FAS 28 on the financial statements and the financial statements except for the additional disclosure on deferred profit movements, that is added in note 7.

3.31 New standards, amendments and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued by AAOIFI, but not yet effective, up to the date of issuance of the Bank’s financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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.

In accordance with the standard, which if required by CBO, the Bank will implement AAOIFI FAS 30 with effect from 1 January 2020. The Bank is currently evaluating the impact of this standard.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.31 New standards, amendments and interpretations issued but not yet effective *(continued)*

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 has assessed the standard and based on the assessment of the standard, there is no impact of applying FAS 31 on the financial statements in terms of revenue, expenses and carrying amount of existing Wakala Bi Al- Istithmar as the Bank opted to use Wakala venture approach instead of pass-through approach given the difficulties for the principal to identify in which assets the funds are invested in, and hence, the investment shall be accounted for applying the equity method of accounting.

FAS 33 Investment in Sukuk, Shares and Similar Instruments

AAOIFI has issued FAS 33 "Investment in Sukuk, Shares and Similar Instruments" in 2018. This standard supersedes the earlier FAS 25 "Investment in Sukuk, Shares and Similar Instruments".

The objective of this standard is to establish the principles for the classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments made by the Bank. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

FAS 35 Risk Reserves

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

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

The Bank is currently evaluating the impact of this standard.

4 Cash and balances with Central Bank of Oman

	2019 RO	2018 RO
Cash in hand	**4,731,139**	5,140,355
Balances with Central Bank of Oman	**84,061,446**	87,325,215
Capital deposit with Central Bank of Oman	**500,000**	500,001
	89,292,585	92,965,571

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 23.704 million (2018: RO 18.579 million).

All the above exposures are classified as Stage 1 as at 31 December 2019.

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

	2019 RO	2018 RO
Local banks – local currency	**-**	228,668
Foreign banks – foreign currency	**20,332,848**	6,176,253
	20,332,848	6,404,921
Less: Impairment losses	**(11,639)**	(5,372)
	20,321,209	6,399,549

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

	2019 RO	2018 RO
Balance at beginning of year	**5,372**	N/A
Impact of adopting IFRS 9	**-**	34,680
Impairment losses as at 1 January	**5,372**	34,680
Provided/released during the year (note 13)	**6,267**	(29,308)
	11,639	5,372

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

	2019 RO	2018 RO
Local banks – local currency	**-**	-
Foreign banks – foreign currency	**461,408**	-
	461,408	-
Less: Impairment losses (note 13)	**(6,520)**	-
	454,888	-

6 Inter-bank Wakala investments *(continued)*

The impairment losses movement against Inter-bank Wakala investments is as follow:

	2019 RO	2018 RO
Impairment losses as at 1 January	**-**	-
Impairment losses during the year (note 13)	**6,520**	-
Balance at 31 December	**6,520**	-

7 Sales receivables and other receivables – net

	Jointly-financed 2019 RO	**Self-financed 2019 RO**	**Total 2019 RO**
Sales receivables (Murabaha)- retail	**121,471,165**	**2,098,591**	**123,569,756**
Sales receivables (Murabaha)- corporate	**110,632,278**	**-**	**110,632,278**
Istisna receivables – corporate	**4,944,391**	**-**	**4,944,391**
Ijara rent receivables - retail	**59,571**	**-**	**59,571**
Ijara rent receivables – corporate	**175,392**	**-**	**175,392**
Credit card receivables - Ijarah service (Ujrah)	**2,326,825**	**-**	**2,326,825**
Gross sales receivables and other receivables	**239,609,622**	**2,098,591**	**241,708,213**
Less:			
Deferred profit	**(27,615,881)**	**(205,307)**	**(27,821,188)**
Impairment losses	**(2,785,834)**	**(27,309)**	**(2,813,143)**
Reserved profit	**(13,926)**	**(1,644)**	**(15,570)**
Net sales receivables and other receivables	**209,193,981**	**1,864,331**	**211,058,312**

	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

The impairment losses movement against sales receivables and other receivables is as follow:

	2019 RO	2018 RO
Balance at 1 January	**1,799,386**	2,566,010
Transition impact IFRS 9	**-**	(957,521)
Impairment losses as at 1 January	**1,799,386**	1,608,489
Impairment losses during the year (note 13)	**1,013,757**	190,897
Balance at 31 December	**2,813,143**	1,799,386

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

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

	2019 RO	2018 RO
Balance at 1 January	**26,882,881**	25,368,001
Deferred profit for the year	**1,976,427**	3,394,313
Deferred profit waived of during the year	**(1,038,120)**	(1,879,433)
Balance at 31 December	**27,821,188**	26,882,881

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

	2019 RO	2018 RO
Balance at 1 January	**20,798**	13,736
Profit released/reserved during the year	**(5,228)**	7,062
Balance at 31 December	**15,570**	20,798

Non-performing assets of sales receivables and other receivables, amounted to RO 669,018 representing 0.32% of sales receivables and other receivables-net, as of 31 December 2019 (31 December 2018: RO 300,665 representing 0.17% of sales and other receivables-net).

8 Investment securities

	2019 RO	2018 RO
Investment securities measured at amortised cost (note a)	**2,002,000**	2,002,000
Investment securities measured at FVTE (note b)	**66,331,204**	48,259,234
Total before impairment losses	**68,333,204**	50,261,234
Less: Impairment losses (note 8.a and 8.b)	**(235,672)**	(227,360)
	68,097,532	50,033,874

a. Financial assets at amortised cost

	Self-financed	
	2019 RO	2018 RO
Local listed sukuk	**2,002,000**	2,002,000
Less: Impairment losses	**(8,666)**	(8,829)
Total local listed sukuk at amortised cost	**1,993,334**	1,993,171

b. Investment securities measured at FVTE

	2019 RO	2018 RO
Financial assets at fair value through equity – debt instruments (note i)	**63,190,250**	44,499,302
Financial assets at fair value through equity – equity instruments (note ii)	**3,140,954**	3,759,932
Total before impairment losses	**66,331,204**	48,259,234
Less: Impairment losses	**(227,006)**	(218,531)
	66,104,198	48,040,703

8 Investment securities *(continued)*

i. Investment securities measured at FVTE – debt instruments

	2019 RO	2018 RO
Quoted investments		
Government Sukuk	**37,011,888**	24,430,853
Corporate Sukuk	**3,957,908**	4,665,323
Unquoted investments		
Government Sukuk	**22,220,454**	15,403,126
	63,190,250	44,499,302
Less: Impairment losses	**(227,006)**	(218,531)
	62,963,244	44,280,771

ii. Investment securities measured at FVTE – Equity instruments

	2019 RO	2018 RO
Regional un-listed funds	**2,801,082**	3,435,404
Regional un-listed shares	**280,074**	262,339
Local listed shares	**59,798**	62,189
Total	**3,140,954**	3,759,932

8.1 Financial assets at fair value through equity – Jointly financed

	Cost 2019 RO	Fair value 2019 RO
International un-listed Sukuk	**21,830,945**	**21,833,910**
International listed Sukuk	**386,460**	**386,552**
Regional un-listed Sukuk	**1,466,251**	**1,466,251**
Regional listed Sukuk	**1,750,262**	**1,774,289**
Regional un-listed funds	**4,393,726**	**2,801,082**
Regional un-listed shares	**334,100**	**280,074**
Local rated listed Sukuk	**33,313,527**	**33,771,348**
Local Unrated listed Sukuk	**3,957,900**	**3,957,900**
Local listed shares	**47,838**	**59,798**
Less: Impairment losses (note 8.i)	**-**	**(227,006)**
	67,481,009	**66,104,198**

	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 (note 8.i)	-	(218,531)
	50,660,152	48,040,703

8 Investment securities *(continued)*

The impairment losses against investments are as follow:

	2019 RO	2018 RO
Balance at 1 January	**227,360**	-
Transition impact IFRS 9	**-**	277,122
Impairment losses as at 1 January	**227,360**	277,122
Impairment losses during the year (note 13)	**8,312**	(49,762)
Balance at 31 December	**235,672**	227,360

9 Musharaka financing - net

	2019		
	Jointly-financed	**Self-financed**	**Total**
	RO	**RO**	**RO**
Musharaka financing corporate	**100,338,420**	**-**	**100,338,420**
Musharaka financing retail	**18,277,837**	**1,504,659**	**19,782,496**
Less: Impairment losses	**(3,461,034)**	**(1,096)**	**(3,462,130)**
Net investment in Musharaka financing	**115,155,223**	**1,503,563**	**116,658,786**

	2018		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Musharaka financing Corporate	60,866,539	-	60,866,539
Musharaka financing Retail	69,578	-	69,578
Less: Impairment losses	(1,056,086)	-	(1,056,086)
Net investment in Musharaka financing	59,880,031	-	59,880,031

The Impairment losses movement against Musharaka as follow:

	2019 RO	2018 RO
Balance at 1 January	**1,056,086**	259,866
Transition impact of IFRS 9	**-**	46,649
Impairment losses as at 1 January	**1,056,086**	306,515
Impairment losses during the year (note 13)	**2,406,044**	749,571
Balance at 31 December	**3,462,130**	1,056,086

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.

10 Investment in real estate (continued)

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 based on the latest valuation as at 31 December 2019. The Bank intends to sell the asset at the completion of lease agreement ending 30 June 2023.

11 Ijara Muntahia Bittamleek - net

	2019		
	Jointly-financed	**Self-financed**	**Total**
	RO	**RO**	**RO**
Real estate			
Cost	**335,171,683**	**13,327,534**	**348,499,217**
Accumulated deprecation	**(45,426,507)**	**(1,725,160)**	**(47,151,667)**
Net book value	**289,745,176**	**11,602,374**	**301,347,550**
Equipment			
Cost	**34,583,539**	**-**	**34,583,539**
Accumulated deprecation	**(16,971,861)**	**-**	**(16,971,861)**
Net book value	**17,611,678**	**-**	**17,611,678**
Total cost	**369,755,222**	**13,327,534**	**383,082,756**
Accumulated deprecation	**(62,398,368)**	**(1,725,160)**	**(64,123,528)**
Net book value before impairment losses	**307,356,854**	**11,602,374**	**318,959,228**
Less: Impairment losses	**(809,661)**	**(15,692)**	**(825,353)**
Net book value after impairment losses	**306,547,193**	**11,586,682**	**318,133,875**

	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 (Continued)

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

	2019 RO	2018 RO
Balance at 1 January	**1,675,141**	2,856,309
Transition impact IFRS 9	**-**	(1,310,911)
Impairment losses as at 1 January	**1,675,141**	1,545,398
Impairment (released)/ created during the year (note 13)	**(849,788)**	129,743
Balance at 31 December	**825,353**	1,675,141

12 Wakala Bil Istethmar – net

	Jointly-financed	
	2019 RO	2018 RO
Wakala Bil Istethmar	**186,351,648**	140,102,593
Less: impairment losses	**(2,679,814)**	(2,179,044)
Net investment in Wakala Bil Istethmar	**183,671,834**	137,923,549

The impairment losses movement against Wakala Bil Istethmar as follow:

	2019 RO	2018 RO
Balance at 1 January	**2,179,044**	922,331
Transition impact IFRS 9	**-**	(216,895)
Impairment losses as at 1 January	**2,179,044**	705,436
Impairment losses during the year	**500,770**	1,473,608
Balance at 31 December	**2,679,814**	2,179,044

13 Impairment losses provision movement

	2019 RO	2018 RO
Balance at 1 January	**8,451,255**	6,604,516
Transition impact IFRS 9	**-**	(150,230)
Impairment losses as at 1 January 2018	**8,451,255**	6,454,286
Impairment losses made during the year on sales and other receivables (note 7)	**1,013,757**	190,897
Impairment losses made during the year on Ijara Muntahia Bittamleek (note 11)	**(849,788)**	129,743
Impairment losses made during the year on Wakala Bil Istethmar (note 12)	**500,770**	1,473,608
Impairment losses made during the year on Musharaka financing (note 9)	**2,406,044**	749,571
Impairment losses made during the year on investments (note 8)	**8,312**	(49,762)
Impairment losses made during the year on due to banks (note 5)	**6,267**	(29,308)
Impairment losses made during the year on Inter-bank Wakala investments (note 6)	**6,520**	-
Impairment losses made during the year on non-funded facilities (note 20)	**(521,223)**	(467,780)
Total impairment losses expense during the year	**2,570,659**	1,996,969
	11,021,914	8,451,255

14 Property and equipment - net

2019	Furniture and fixture RO	Equipment RO	Motor vehicle RO	Computer hardware RO	Capital work in progress RO	Total RO
Balance at 1 January	**4,434,019**	**987,742**	**131,090**	**2,038,291**	**9,600**	**7,600,742**
Additions	**75,179**	**62,776**	**-**	**157,273**	**145,704**	**440,932**
Transfers	**103,804**	**-**	**-**	**-**	**(103,804)**	**-**
Disposal	**-**	**-**	**-**	**(355)**	**-**	**(355)**
Balance at 31 December	**4,613,002**	**1,050,518**	**131,090**	**2,195,209**	**51,500**	**8,041,319**
Accumulated depreciation at 1 January	**(3,114,807)**	**(641,162)**	**(83,047)**	**(1,733,140)**	**-**	**(5,572,156)**
Depreciation expense	**(300,928)**	**(140,727)**	**(14,848)**	**(138,133)**	**-**	**(594,636)**
Disposal	**-**	**-**	**-**	**29**	**-**	**29**
Accumulated depreciation at 31 December	**(3,415,735)**	**(781,889)**	**(97,895)**	**(1,871,244)**	**-**	**(6,166,763)**
Carrying value at 31 December	**1,197,267**	**268,629**	**33,195**	**323,965**	**51,500**	**1,874,556**

2018	Furniture and 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

15 Intangible assets

2019	**Software RO**	**Capital work in progress RO**	**Total RO**
Carrying value at 1 January	**1,838,245**	**424,028**	**2,262,273**
Additions	**251,915**	**168,873**	**420,788**
Transfers	**401,344**	**(401,344)**	**-**
Amortisation	**(315,992)**	**-**	**(315,992)**
Carrying value at 31 December	**2,175,512**	**191,557**	**2,367,069**

15 Intangible assets *(continued)*

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

16 Other assets

	2019 RO	2018 RO
Deferred tax asset (note 34.3)	**174,265**	2,108,878
Profit receivable	**6,601,057**	5,218,866
Advance payment	**488,825**	12,448
Prepaid expense	**517,793**	307,839
Refundable deposits	**83,388**	83,388
Inventory	**43,609**	44,538
Asset seized by bank	**242,832**	-
Advance to staff	**41,193**	45,373
Others	**64,894**	11,744
	8,257,856	7,833,074

17 Inter-bank Wakala

	2019 RO	2018 RO
Local banks – local currency	**11,000,000**	-
Local banks – foreign currency	**34,650,000**	-
Foreign banks – local currency	**96,228**	
Foreign banks – foreign currency	**21,078,750**	115,869
	66,824,978	115,869

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

	2019 RO	2018 RO
Current accounts	**97,277,795**	75,390,316
Margin accounts	**51,965,082**	438,827
	149,242,877	75,829,143

20 Other liabilities

	2019 RO	2018 RO
Payment orders	**3,942,035**	3,948,130
Creditors and accruals	**9,882,087**	11,647,401
Profit payable	**5,943,693**	5,238,333
Allowance for credit loss on non-funded facilities (note 13)	**987,643**	1,508,866
Others	**1,385,423**	1,244,934
	22,140,881	23,587,664

21 Equity of unrestricted investment accountholders

	2019 RO	2018 RO
Unrestricted investment accountholders	**310,071,474**	322,850,958
Investment fair value reserve	**(254,942)**	(778,117)
Investment risk reserve	**579,480**	434,216
	310,396,012	322,507,057

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 2019 and 2018 as follows:

	2019 Percentage	2018 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**		**2019 average rate of return**	2018 average rate of return
	RO	**USD**	**RO**	RO
Saving account	20% - 80%	15% - 30%	**1.07%**	0.96%
One month tenure	46% - 50%	23%-25%	**1.40%**	1.41%
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%	**2.02%**	2.04%
One year tenure	71% - 78%	35.5% - 39%	**2.64%**	2.44%
One year and a half tenure	78.5% - 85%	-	**3.21%**	3.21%
Two years tenure and above	79.5% - 87%	-	**3.16%**	3.79%

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

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.

a. Equity of unrestricted investment accountholders details

Account type	2019 RO	2018 RO
Saving account	**199,336,811**	213,143,366
Investment accounts:		
One month	**271,900**	165,600
Three months	**687,381**	838,392
Six months	**1,772,163**	1,731,962
Nine months	**267,000**	163,400
One year	**23,460,614**	22,279,535
One year and a half	**4,125,800**	3,345,000
Two years	**78,424,267**	80,223,637
Three years	**229,715**	222,701
Four years	**18,409**	17,033
Five years	**518,339**	210,454
More than five years	**959,075**	509,878
	310,071,474	322,850,958

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 2019, 'no individual shareholders' or no individual 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*

	2019 RO	2018 RO
1 January	**1,140,782**	389,622
Appropriation for the year	**1,017,861**	751,160
31 December	**2,158,643**	1,140,782

In accordance with the Commercial Company Law, 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.

25 Contingent liabilities and commitments

a) Contingent liabilities

	2019 RO	2018 RO
Letters of guarantee	**116,875,835**	73,263,381
Letters of credit	**17,795,140**	17,124,262
Acceptances	**6,580,047**	10,596,310
Bills for collection	**1,127,876**	760,202
Total contingent liabilities (a)	**142,378,898**	101,744,155

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

	2019 RO	2018 RO
Construction	**72,941,842**	41,401,796
Manufacturing	**14,702,907**	21,836,368
Service	**9,200,890**	6,892,942
Others	**45,533,259**	31,613,049
	142,378,898	101,744,155

b) Commitments

	2019 RO	2018 RO
Unutilised limits	**181,478,291**	84,065,123
Total commitments (b)	**181,478,291**	84,065,123
Total contingent liabilities and commitments (a+b)	**323,857,189**	185,809,278

26 Sales receivables and other receivables revenue

	Jointly-financed	
	2019 RO	2018 RO
Retail	**5,883,348**	5,133,105
Corporate	**5,675,312**	4,812,391
	11,558,660	9,945,496

27 Ijara Muntahia Bittamleek revenue and Ijara assets revenue

	Jointly-financed	
	2019 RO	2018 RO
Ijara Muntahia Bittamleek – real estate	**63,753,159**	37,951,810
Ijara Muntahia Bittamleek – equipment	**8,640,407**	6,762,396
Depreciation on Ijara Muntahia Bittamleek assets	**(55,407,206)**	(29,057,547)
	16,986,360	15,656,659

28 Profit from inter-bank Wakala investment

	Jointly-financed	
	2019	2018
	RO	RO
Inter-bank Wakala local	**177,706**	147,395
Inter-bank Wakala foreign	**3,792**	23,303
	181,498	170,698

29 Profit from financial assets at fair value through equity

	Jointly-financed	
	2019	2018
	RO	RO
Profit on Sukuk	**2,122,926**	1,710,710
Profit on funds investment	**109,437**	87,801
Gains (losses) on sale of Sukuk	**9,893**	(11,350)
Gain on sale of equity shares	**-**	2,922
	2,242,256	1,790,083

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

	2019	2018
	RO	RO
Saving accounts	**7,183,045**	8,156,999
Investment accounts	**7,345,694**	6,906,650
Investment risk reserve	**145,264**	153,508
	14,674,003	15,217,157

31 Bank's income from its own investments and financing

	2019	2018
	RO	RO
Rental income from investment in real estate	**1,049,000**	799,000
Profit from financial assets at amortised cost	**130,130**	308,194
Sales receivables revenue	**58,767**	53,911
Musharaka financing revenue	**14,544**	-
Ijara Muntahia Bittamleek revenue - net of depreciation	**301,117**	297,639
Loss from selling fixed assets	**(327)**	(143)
	1,553,231	1,458,601

32 Revenue from banking services

	2019	2018
	RO	RO
Commissions income	**1,211,179**	938,527
Processing fees	**2,787,471**	2,349,033
Service charges	**1,397,370**	1,186,711
	5,396,020	4,474,271

33 Operating expenses

	2019 RO	2018 RO
Staff cost	**11,832,508**	10,853,969
Rent expense	**929,606**	887,863
Advertisement	**798,581**	684,730
Operational leasing	**132,261**	122,950
Maintenance expense	**905,923**	713,157
Security and cleaning	**251,637**	243,472
Professional and consulting charges	**184,179**	186,982
Boards expenses	**125,269**	115,272
Government fee	**168,144**	174,790
Printing and stationery	**113,896**	93,646
Telephone, electricity and water	**515,790**	359,640
Traveling expense	**92,712**	70,779
Subscription expense	**101,886**	72,631
Cards expense	**994,229**	711,780
Others	**372,298**	426,134
	17,518,919	15,717,795

34 Income tax

34.1 Recognised in the statement of income

	2019 RO	2018 RO
Current tax liability	**68,146**	-
Reversal of deferred tax asset	**1,746,588**	931,115
Income tax expense	**1,814,734**	931,115

The Bank is subject to income tax at the rate of 15% of taxable profits (2018 - 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:

	2019 RO	2018 RO
Profit as per financial statements	**11,993,341**	8,442,718
Tax asset at the rate mentioned above	**1,799,001**	1,266,408
Non-deductible expenses and other permanent differences	**15,733**	95,153
Deferred tax recognised from previous years	**-**	(430,446)
	1,814,734	931,115

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 2019 RO	Recognised in income RO	Unrecognised in income RO	As at 31 Dec 2019 RO
Property, plant and equipment	**(286,098)**	**7,448**	**-**	**(278,650)**
Other provision	**28,043**	**(16,926)**	**-**	**11,117**
Losses carried forward	**2,004,643**	**(1,737,110)**		**267,533**
Net deferred tax asset	**1,746,588**	**(1,746,588)**	**-**	**-**

Deferred tax assets and liabilities routed through owner’s equity is attributable to investment fair value reserve as of 31 December 2019 amounted to RO 174,265 (December 2018: 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 2018	Recognized in income	Unrecognized in income	As at 31 Dec 2018
	RO	RO	RO	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

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

	2019	2018
	RO	RO
Net assets (RO)	**147,907,323**	137,188,802
Number of shares outstanding (note 22)	**1,500,000,000**	1,500,000,000
Net assets per share	**0.099**	0.091

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)	**10,178,607**	7,511,603
Weighted average number of shares outstanding during the year	**1,500,000,000**	1,500,000,000
Earnings per share- basic and diluted (RO)	**0.007**	0.005

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 2019	Retail banking RO	Corporate banking RO	Treasury and investment RO	Others RO	Total RO
Total revenue (joint)	**19,439,806**	**25,515,574**	**2,423,754**	**-**	**47,379,134**
Return on unrestricted investment accountholders	**(3,755,114)**	**(5,106,858)**	**-**	**1,357,808**	**(7,504,164)**
Profit paid on Wakala	**(3,478,162)**	**(9,752,153)**	**(1,041,436)**	**-**	**(14,271,751)**
Bank's share in income from investment as a Mudarib and Rabul Maal	**12,206,530**	**10,656,563**	**1,382,318**	**1,357,808**	**25,603,219**
Bank's income from its own investments and financing	**-**	**-**	**1,179,131**	**374,100**	**1,553,231**
Other operating income	**1,491,604**	**3,944,637**	**424,783**	**-**	**5,861,024**
Total revenue	**13,698,134**	**14,601,200**	**2,986,232**	**1,731,908**	**33,017,474**
Staff cost	**(7,318,826)**	**(3,653,214)**	**(860,468)**	**-**	**(11,832,508)**
Other operating expense	**(4,238,033)**	**(1,151,889)**	**(296,489)**	**-**	**(5,686,411)**
Depreciation and amortisation	**(715,330)**	**(165,162)**	**(30,136)**	**-**	**(910,628)**
Total expense	**(12,272,189)**	**(4,970,265)**	**(1,187,093)**	**-**	**(18,429,547)**
Profit before provisions and tax	**1,425,945**	**9,630,935**	**1,799,139**	**1,731,908**	**14,587,927**
Impairment losses / Write off	**(238,381)**	**(2,335,106)**	**(21,099)**	**-**	**(2,594,586)**
Profit before tax	**1,187,564**	**7,295,829**	**1,778,040**	**1,731,908**	**11,993,341**
Income tax	**-**	**-**	**-**	**(1,814,734)**	**(1,814,734)**
Profit for the year	**1,187,564**	**7,295,829**	**1,778,040**	**(82,826)**	**10,178,607**
Total assets	**383,306,014**	**446,216,793**	**192,341,213**	**12,499,482**	**1,034,363,502**
Total liabilities and equity of unrestricted investment accountholders	**381,918,625**	**415,247,157**	**66,607,137**	**22,683,260**	**886,456,179**

37 Segment reporting *(continued)*

31 December 2018	Retail banking RO	Corporate banking RO	Treasury and 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 provision and tax	1,166,666	6,962,060	1,964,763	346,198	10,439,687
Impairment loss	(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 after tax	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

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.

38 Financial instruments *(continued)*

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.

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	**63,190,250**	**3,140,954**	**-**	**66,331,204**
Investment in real estate	**-**	**-**	**14,175,000**	**14,175,000**
Total financial assets at 31 December 2019	**63,190,250**	**3,140,954**	**14,175,000**	**80,506,204**

	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

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.

39 Related party transactions *(continued)*

31 December 2019	**Principal shareholders RO**	**Sharia'a Board RO**	**Senior management RO**	**Total RO**
Sales receivables and other receivables	**10,733**	**76,601**	**166,668**	**254,002**
Ijara Muntahia Bittamleek	**431,582**	**75,003**	**1,591,491**	**2,098,076**
Musharaka Financing	**142,467**	**-**	**-**	**142,467**
Customers' accounts	**137,515**	**1,441**	**68,975**	**207,931**
Unrestricted investment accountholders / Customers' wakala	**3,043,940**	**1,069**	**127,388**	**3,172,397**
Wakala Deposits	**3,354,000**	**-**	**-**	**3,354,000**

31 December 2018	Principal shareholders RO	Sharia'a Board RO	Senior management RO	Total RO
Sales receivables and 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

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

31 December 2019	**Principal shareholders RO**	**Sharia Board RO**	**Senior management RO**	**Total RO**
Profit account	**23,359**	**7,362**	**41,965**	**72,686**
Commission income	**-**	**-**	**-**	**-**
Operating expenses				
- Staff expense	**-**	**-**	**1,813,944**	**1,813,944**
- Other expenses	**63,600**	**61,669**	**-**	**125,269**

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

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

40 Financial risk management *(continued)*

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

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

40 Financial risk management *(continued)*

Credit risk *(continued)*

Types of credit risk *(continued)*

Sales receivable and other receivables *(continued)*

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.

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.

40 Financial risk management *(continued)*

Credit risk *(continued)*

The analysis of credit portfolio is given below:

(a) Geographical concentrations

31 December 2019	**Assets** Gross due from banks and Interbank Wakala investment RO	**Assets** Gross financing RO	**Assets** Gross investments in Sukuk and securities RO	**Liabilities** Customer account, unrestricted IAH and customer Wakala RO	**Liabilities** Interbank Wakala RO	**Liabilities** Contingent liabilities and commitments RO
Sultanate of Oman	**-**	**865,760,422**	**39,891,442**	**785,870,720**	**45,650,000**	**300,354,095**
Other GCC countries	**1,417,332**	**1,379,583**	**5,822,978**	**11,295,062**	**17,710,000**	**7,217,231**
Europe and North America	**19,254,624**	**-**	**398,331**	**-**	**1,058,750**	**4,086,621**
Africa and Asia	**122,300**	**-**	**22,220,453**	**-**	**2,406,228**	**12,199,242**
	20,794,256	**867,140,005**	**68,333,204**	**797,165,782**	**66,824,978**	**323,857,189**

31 December 2018	Assets Due from banks and Interbank Wakala investment RO	Assets Gross financing RO	Assets Investments in Sukuk and securities RO	Liabilities Current, unrestricted IAH and customer Wakala RO	Liabilities Interbank Wakala RO	Liabilities Contingent liabilities and commitments 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
	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)*

(b) Customer concentrations

2019	**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	**-**	**403,520,365**	**-**	**351,795,279**	**-**	**81,718**
Corporate	**20,794,256**	**463,619,640**	**9,100,862**	**93,831,277**	**66,824,978**	**304,775,471**
Government	**-**	**-**	**59,232,342**	**351,539,226**	**-**	**19,000,000**
Total	**20,794,256**	**867,140,005**	**68,333,204**	**797,165,782**	**66,824,978**	**323,857,189**

2018	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	-	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

(c) Economic sector concentrations

31 December 2019	**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**
	RO	**RO**	**RO**	**RO**	**RO**	**RO**
Personal	**-**	**403,520,365**	**-**	**351,795,279**	**-**	**81,718**
Construction	**-**	**88,527,248**	**-**	**33,291,116**	**-**	**116,713,043**
Manufacturing	**-**	**93,312,901**	**-**	**11,622,059**	**-**	**46,255,888**
Financial services	**20,794,256**	**-**	**-**	**-**	**66,824,978**	**5,450,620**
Government	**-**	**-**	**59,232,342**	**351,539,226**	**-**	**19,000,000**
Other services	**-**	**91,877,335**	**-**	**14,326,087**	**-**	**29,727,739**
Others	**-**	**189,902,156**	**9,100,862**	**34,592,015**	**-**	**106,628,181**
	20,794,256	**867,140,005**	**68,333,204**	**797,165,782**	**66,824,978**	**323,857,189**

40 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	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

(d) Gross credit exposure

	2019	2018
	RO	RO
Gross financing	**867,140,005**	730,082,949
Due from banks and interbank Wakala	**20,794,256**	6,404,921
Investments in Sukuk and securities	**68,333,204**	50,261,234
	956,267,465	786,749,104

(e) Geographical distribution of exposures:

	Sultanate of Oman	**Other countries**	**Total**
31 December 2019	**RO**	**RO**	**RO**
Gross Sales receivables and other receivables	**241,708,213**	-	**241,708,213**
Gross Ijarah Muntahia Bittamleek	**317,579,645**	**1,379,583**	**318,959,228**
Gross Musharaka financing	**120,120,916**	**-**	**120,120,916**
Gross Wakala Bil Istethmar	**186,351,648**	**-**	**186,351,648**
Investments in Sukuk and securities	**39,891,442**	**28,441,762**	**68,333,204**
Due from banks and interbank Wakala	**-**	**20,794,256**	**20,794,256**
	905,651,864	**50,615,601**	**956,267,465**

	Sultanate of Oman	Other countries	Total
31 December 2018	RO	RO	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
	757,006,329	29,742,775	786,749,104

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

2019	**Due from banks and interbank Wakala RO**	**Gross Sales receivables and other receivables RO**	**Gross Ijarah Muntahia Bittamleek RO**	**Gross Musharaka financing RO**	**Gross Wakala Bil Istethmar RO**	**Investment in Sukuk and securities RO**	**Total RO**	**Off balance sheet exposures RO**
Construction	-	**12,982,603**	**5,135,497**	**1,155,136**	**69,254,012**	-	**88,527,248**	**116,713,043**
Electricity, gas and water	-	**663,673**	-	-	**917,000**	-	**1,580,673**	**6,742,307**
Financial institutions	**20,794,256**	-	-	-	-	-	**20,794,256**	**5,450,620**
Services	-	**21,076,024**	**15,755,079**	**34,314,114**	**19,151,445**	-	**90,296,662**	**22,985,432**
Personal financing	-	**123,629,326**	**260,108,543**	**19,782,496**	-	-	**403,520,365**	-
Government	-	-	-	-	-	**59,232,342**	**59,232,342**	**19,000,000**
Non-resident financing	-	-	**1,379,583**	-	-	-	**1,379,583**	-
Others	-	**83,356,587**	**36,580,526**	**64,869,170**	**97,029,191**	**9,100,862**	**290,936,336**	**152,965,787**
Total	**20,794,256**	**241,708,213**	**318,959,228**	**120,120,916**	**186,351,648**	**68,333,204**	**956,267,465**	**323,857,189**

2018	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross 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
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

40 Financial risk management *(continued)*

Credit risk *(continued)*
(g) Residual contractual maturities of the portfolio by major types of credit exposures:

2019	**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 and securities RO**	**Total RO**	**Off balance sheet exposures RO**
Upto 1 month	**20,794,256**	**8,316,314**	**1,711,591**	**501,740**	**17,054,101**	**4,800,669**	**53,178,671**	**20,300,506**
1 to 3 months	**-**	**12,696,830**	**9,664,591**	**8,422,785**	**44,139,872**	**18,559,289**	**93,483,367**	**21,342,362**
3 to 6 months	**-**	**33,868,241**	**4,867,387**	**3,167,991**	**25,635,166**	**562,757**	**68,101,542**	**27,251,960**
6 to 9 months	**-**	**13,374,323**	**4,084,327**	**3,759,739**	**22,281,384**	**-**	**43,499,773**	**2,888,493**
9 to 12 months	**-**	**23,422,729**	**6,669,982**	**3,426,088**	**15,087,233**	**10,444,466**	**59,050,498**	**186,086,810**
1 to 3 years	**-**	**93,042,195**	**54,232,183**	**38,101,548**	**40,839,953**	**1,599,098**	**227,814,977**	**8,192,246**
3 to 5 years	**-**	**38,291,585**	**49,771,351**	**27,678,818**	**9,855,939**	**20,327,526**	**145,925,219**	**2,312,534**
Over 5 years	**-**	**18,695,996**	**187,957,816**	**35,062,207**	**11,458,000**	**12,039,399**	**265,213,418**	**55,482,278**
	20,794,256	**241,708,213**	**318,959,228**	**120,120,916**	**186,351,648**	**68,333,204**	**956,267,465**	**323,857,189**

2018	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 and 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

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

31 December 2019	**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	**403,273,987**	**246,378**	**203,773**	**1,046,766**
Non-resident corporate financing	**1,379,583**	**-**	**-**	**6,064**
Resident corporate financing	**461,817,417**	**422,640**	**170,761**	**8,353,076**
	866,470,987	**669,018**	**374,534**	**9,405,906**

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

40 Financial risk management (*(continued)*

Credit risk *(continued)*

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

31 December 2019	**Performing financing RO**	**Non-performing financing RO**	**Impairment losses under stage III held RO**	**Impairment losses under stage I and II Held RO**
Sultanate of Oman	**865,091,404**	**669,018**	**374,534**	**9,399,842**
Other countries	**1,379,583**	**-**	**-**	**6,064**
Total	**866,470,987**	**669,018**	**374,534**	**9,405,906**

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
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

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

	2019 RO	2018 RO
Due from banks and interbank Wakala investments	**20,794,256**	6,404,921
Investment in Sukuk and securities	**68,333,204**	50,261,234
Gross Financing	**867,140,005**	730,082,949
	956,267,465	786,749,104
Off-balance sheet items		
Financial guarantee	**116,875,835**	73,263,381
Financial letter of credits	**17,795,140**	17,124,262
Acceptances	**6,580,047**	10,596,310
Bills for collection	**1,127,876**	760,202
Commitments	**181,478,291**	84,065,123
	323,857,189	185,809,278

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

31 December 2019	**Stage 1 RO**	**Stage 2 RO**	**Stage 3 RO**	**Total RO**
Exposure subject to ECL (gross) 1 January 2019				
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	199,597,216	74,191,824	382,848	274,171,888
Investment securities	18,691,024	-	-	18,691,024
Financial assets at amortised cost	-	-	-	-
Interbank wakala investments	461,408	-	-	461,408
Due from banks, central banks and other financial assets	13,927,927	-	-	13,927,927
	232,677,575	**74,191,824**	**382,848**	**307,252,247**
Exposure subject to ECL (gross) 31 December 2019				
Gross financing, commitments and financial guarantees	994,912,679	167,578,739	669,018	**1,163,160,436**
Investment securities	63,190,250	-	-	**63,190,250**
Financial assets at amortised cost	2,002,000	-	-	**2,002,000**
Interbank wakala investments	461,408	-	-	**461,408**
Due from banks, central banks and other financial assets	20,332,848	-	-	**20,332,848**
	1,080,899,185	**167,578,739**	**669,018**	**1,249,146,942**
Expected Credit Loss as at 31 December 2018				
Gross financing, commitments and financial guarantees	(4,506,185)	(3,514,470)	(197,868)	**(8,218,523)**
Investment securities	(218,531)	-	-	**(218,531)**
Financial assets at amortised cost	(8,829)	-	-	**(8,829)**
Interbank wakala investments	-	-	-	**-**
Due from banks, central banks and other financial assets	(5,372)	-	-	**(5,372)**
	(4,738,917)	**(3,514,470)**	**(197,868)**	**(8,451,255)**
Charge for the period (net)				
Gross financing, commitments and financial guarantees	237,365	(2,610,259)	(176,666)	**(2,549,560)**
Investment securities	(8,475)	-	-	**(8,475)**
Financial assets at amortised cost	163	-	-	**163**
Interbank wakala investments	(6,520)	-	-	**(6,520)**
Due from banks, central banks and other financial assets	(6,267)	-	-	**(6,267)**
	216,266	**(2,610,259)**	**(176,666)**	**(2,570,659)**
Expected Credit Loss as at 31 December 2019				
Gross financing, commitments and financial guarantees	(4,268,820)	(6,124,729)	(374,534)	**(10,768,083)**
Investment securities	(227,006)	-	-	**(227,006)**
Financial assets at amortised cost	(8,666)	-	-	**(8,666)**
Interbank wakala investments	(6,520)	-	-	**(6,520)**
Due from banks, central banks and other financial assets	(11,639)	-	-	**(11,639)**
	(4,522,651)	**(6,124,729)**	**(374,534)**	**(11,021,914)**
Net closing balance - as at 31 December 2019				
Gross financing, commitments and financial guarantees	990,643,859	161,454,010	294,484	**1,152,392,353**
Investment securities	62,963,244	-	-	**62,963,244**
Financial assets at amortised cost	1,993,334	-	-	**1,993,334**
Interbank wakala investments	454,888	-	-	**454,888**
Due from banks, central banks and other financial assets	20,321,209	-	-	**20,321,209**
	1,076,376,534	**161,454,010**	**294,484**	**1,238,125,028**

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL *(continued)*

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO	**RO**	**RO**	**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
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
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

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL *(continued)*

	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
Expected credit loss - as at 1 January 2018	(4,142,619)	(2,164,768)	(146,899)	(6,454,286)
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
Expected credit loss - as at 31 December 2018				
Gross financing, commitments and financial guarantees	(4,506,185)	(3,514,470)	(197,868)	**(8,218,523)**
Investment securities	(218,531)	-	-	**(218,531)**
Financial assets at amortized cost	(8,829)	-	-	**(8,829)**
Interbank wakala investments	-	-	-	**-**
Due from banks, central banks and other financial assets	(5,372)	-	-	**(5,372)**
	(4,738,917)	**(3,514,470)**	**(197,868)**	**(8,451,255)**
Net 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.

40 Financial risk management *(continued)*

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.

(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.

40 Financial risk management (*(continued)*

Credit risk *(continued)*

(l) Credit quality *(continued)*

Credit quality analysis
The following table provides the details for the credit quality financial assets subject to ECL:

	2019			
31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	**994,912,679**	**167,578,739**	**-**	**1,162,491,418**
ECL on Financing	**(4,268,820)**	**(6,124,729)**	**-**	**(10,393,549)**
Gross Investments	**65,192,250**	**-**	**-**	**65,192,250**
ECL on Investments	**(235,672)**	**-**	**-**	**(235,672)**
Gross Interbank	**461,408**	**-**	**-**	**461,408**
ECL on Interbank	**(6,520)**	**-**	**-**	**(6,520)**
Due from Banks, Central Banks and Other Financial Assets	**20,332,848**	**-**	**-**	**20,332,848**
ECL on Due from Banks, Central Banks and Other Financial Assets	**(11,639)**	**-**	**-**	**(11,639)**
Carrying amount	**1,076,376,534**	**161,454,010**	**-**	**1,237,830,544**
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	**-**	**-**	**669,018**	**669,018**
ECL on Financing	**-**	**-**	**(374,534)**	**(374,534)**
Gross Investments	**-**	**-**	**-**	**-**
ECL on Investments	**-**	**-**	**-**	**-**
Gross Interbank	**-**	**-**	**-**	**-**
ECL on Interbank	**-**	**-**	**-**	**-**
Carrying amount	**-**	**-**	**294,484**	**294,484**
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	**994,912,679**	**167,578,739**	**669,018**	**1,163,160,436**
Total ECL on Financing	**(4,268,820)**	**(6,124,729)**	**(374,534)**	**(10,768,083)**
Total Gross Investments	**65,192,250**	**-**	**-**	**65,192,250**
Total ECL on Investments	**(235,672)**	**-**	**-**	**(235,672)**
Total Gross Interbank	**461,408**	**-**	**-**	**461,408**
Total ECL on Interbank	**(6,520)**	**-**	**-**	**(6,520)**
Due from Banks, Central Banks and other financial assets	**20,332,848**	**-**	**-**	**20,332,848**
ECL on Due from Banks, Central Banks and other financial assets	**(11,639)**	**-**	**-**	**(11,639)**
Carrying amount	**1,076,376,534**	**161,454,010**	**294,484**	**1,238,125,028**

40 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Credit quality *(continued)*

31 December 2018	**2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	795,315,462	93,386,915	-	888,702,377
ECL on Financing	(4,506,185)	(3,514,470)	-	(8,020,655)
Gross Investments	46,501,227	-	-	46,501,227
ECL on Investments	(227,360)	-	-	(227,360)
Gross Interbank	6,404,921	-	-	6,404,921
ECL on Interbank	(5,372)	-	-	(5,372)
Carrying amount	843,482,693	89,872,445	-	933,355,138
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	286,170	286,170
ECL on Financing	-	-	(197,868)	(197,868)
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	88,302	88,302
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	795,315,462	93,386,915	286,170	888,988,547
Total ECL on Financing	(4,506,185)	(3,514,470)	(197,868)	(8,218,523)
Total Gross Investments	46,501,227	-	-	46,501,227
Total ECL on Investments	(227,360)	-	-	(227,360)
Total Gross Interbank	6,404,921	-	-	6,404,921
Total ECL on Interbank	(5,372)	-	-	(5,372)
Carrying amount	843,482,693	89,872,445	88,302	933,443,440

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, 2019 were GDP and CPI. (GDP 2019: 2.89%, 2020: 3%) and (CPI 2019: 106.2, 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 2019	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Cash and balances with Central Bank of Oman	88,792,585	-	-	-	500,000	89,292,585
Inter-bank Wakala and Due from banks	20,776,097	-	-	-	-	20,776,097
Financing to customers - net	26,734,425	138,705,239	86,843,707	334,196,782	243,042,654	829,522,807
Financial assets at fair value through equity	4,800,669	4,946,890	8,451,132	36,101,780	11,803,727	66,104,198
Financial assets at amortised cost	-	-	1,993,334	-	-	1,993,334
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	2,367,069	2,367,069
Property and equipment	-	-	-	-	1,874,556	1,874,556
Other assets	119,794	723,998	360,025	2,798,269	4,255,770	8,257,856
Total assets	141,223,570	158,551,127	97,648,198	373,096,831	263,843,776	1,034,363,502
Interbank Wakala	26,399,978	21,175,000	-	19,250,000	-	66,824,978
Customer accounts, Wakala and unrestricted accountholders	52,116,188	115,328,698	200,344,936	283,014,683	146,106,335	796,910,840
Other liabilities	-	3,712,408	8,411,666	8,500,966	1,515,841	22,140,881
Investment risk and profit equalization reserve	-	-	-	-	579,480	579,480
Owners' equity	-	-	-	-	147,907,323	147,907,323
Total liabilities, equity of unrestricted investment accountholders and owners' equity	78,516,166	140,216,106	208,756,602	310,765,649	296,108,979	1,034,363,502
Net gap	62,707,404	18,335,021	(111,108,404)	62,331,182	(32,265,203)	-
Cumulative net gap	62,707,404	81,042,425	(30,065,979)	32,265,203	-	-

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 2018						
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 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	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	-	-

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

	2019	2018
	RO	RO
Net assets denominated in US Dollars	**(1,534,296)**	6,505,640
Net assets denominated in other foreign currencies	**3,834,774**	4,919,410

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

	2019	2018
	RO	RO
+200 bps	**5,111,637**	3,676,701
+100 bps	**2,555,819**	1,838,351
-200 bps	**(5,111,637)**	(3,676,701)
-100 bps	**(2,555,819)**	(1,838,351)

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 2019	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	-	-	-	-	-	89,292,585	89,292,585
Inter-bank Wakala and Due from banks	454,888	-	-	-	-	20,321,209	20,776,097
Financing to customers – net	247,559,308	142,139,808	90,730,118	265,524,325	83,569,248	-	829,522,807
Financial assets at fair value through equity	4,740,871	19,121,890	5,113,982	21,926,780	11,803,727	3,396,948	66,104,198
Financial assets at amortized cost	-	-	1,993,334	-	-	-	1,993,334
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,367,069	2,367,069
Property and equipment	-	-	-	-	-	1,874,556	1,874,556
Other assets	-	-	-	-	-	8,257,856	8,257,856
Total assets	252,755,067	161,261,698	97,837,434	287,451,105	95,372,975	139,685,223	1,034,363,502
Interbank Wakala	-	-	-	-	-	66,824,978	66,824,978
Customer accounts, Wakala and unrestricted accountholders	18,358,649	59,441,104	72,978,705	380,315,932	104,570,259	161,246,191	796,910,840
Other liabilities	-	-	-	-	-	22,140,881	22,140,881
Investment risk and profit equalisation reserve	-	-	-	-	579,480	-	579,480
Shareholders' equity	-	-	-	-	-	147,907,323	147,907,323
Total liabilities and shareholders' equity	18,358,649	59,441,104	72,978,705	380,315,932	105,149,739	398,119,373	1,034,363,502
On-balance sheet gap	234,396,418	101,820,594	24,858,729	(92,864,827)	(9,776,764)	(258,434,150)	-
Cumulative profit sensitivity gap	234,396,418	336,217,012	361,075,741	268,210,914	258,434,150	-	-

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk (continued)

Profit rate sensitivity gap (continued)

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)

(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 2019 and 2018 as follows:

Capital structure	**2019 RO**	2018 RO
TIER I CAPITAL		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Legal reserve	**2,158,643**	1,140,782
Accumulated losses	**(5,772,315)**	(14,933,061)
Fair value gains or losses on financial assets at fair value through equity	**(1,728,512)**	(2,526,792)
Less: Intangible assets	**(2,367,069)**	(2,262,273)
Deferred tax asset	**-**	(1,746,588)
Total Tier I capital	**144,381,939**	131,763,260
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	**260,419**	56,643
Impairment losses	**7,142,919**	7,142,919
Total Tier II capital	**7,403,338**	7,199,562
Total eligible capital	**151,785,277**	138,962,822
Risk weighted assets		
Credit risk	**986,442,976**	797,090,550
Market risk	**11,990,921**	16,589,498
Operational risk	**51,566,444**	42,002,222
Total	**1,050,000,341**	855,682,270
Tier I capital	**144,381,939**	131,763,260
Tier II capital	**7,403,338**	7,199,562
Total regulatory capital	**151,785,277**	138,962,822
Tier I capital ratio	**13.75%**	15.40%
Total capital ratio	**14.46%**	16.24%
Common Equity Tier 1 (CET1)	**144,381,939**	131,763,260
Common Equity Tier 1 ratio	**13.75%**	15.40%

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, 2019 stands at 237.84 (Dec 31, 2018: 1569.344) and NSFR stands at 122.86% (Dec 31, 2018: 126.82%).

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2019)

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)
	Stage 1	940,870,397	7,846,356	2,960,359	4,885,997	933,024,041	937,910,038
Standard	Stage 2	105,368,677	692,278	1,163,683	(471,405)	104,676,399	104,204,994
	Stage 3	-	-	-	-	-	
Subtotal		**1,046,239,074**	**8,538,634**	**4,124,042**	**4,414,592**	**1,037,700,440**	**1,042,115,032**
	Stage 1	54,042,282	348,381	1,308,461	(960,080)	53,693,901	52,733,821
Special Mention	Stage 2	62,210,062	477,995	4,961,046	(4,483,051)	61,732,067	57,249,016
	Stage 3	-	-	-	-	-	-
Subtotal		**116,252,344**	**826,376**	**6,269,507**	**(5,443,131)**	**115,425,968**	**109,982,837**
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	439,273	109,818	185,789	(75,971)	329,455	253,484
Subtotal		**439,273**	**109,818**	**185,789**	**(75,971)**	**329,455**	**253,484**
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	51,397	25,699	27,616	(1,917)	25,698	23,781
Subtotal		**51,397**	**25,699**	**27,616**	**(1,917)**	**25,698**	**23,781**
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	178,348	178,348	161,129	17,219	-	17,219
Subtotal		**178,348**	**178,348**	**161,129**	**17,219**	**-**	**17,219**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	85,986,506	-	253,831	(253,831)	85,986,506	85,732,675
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		**85,986,506**	**-**	**253,831**	**(253,831)**	**85,986,506**	**85,732,675**
	Stage 1	**1,080,899,185**	**8,194,737**	**4,522,651**	**3,672,086**	**1,072,704,448**	**1,076,376,534**
Total All	Stage 2	**167,578,739**	**1,170,273**	**6,124,729**	**(4,954,456)**	**166,408,466**	**161,454,010**
	Stage 3	**669,018**	**313,865**	**374,534**	**(60,669)**	**355,153**	**294,484**
Total		**1,249,146,942**	**9,678,875**	**11,021,914**	**(1,343,039)**	**1,239,468,067**	**1,238,125,028**

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2018) (*Continued)*

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)
	Stage 1	764,671,876	7,497,204	3,118,593	4,378,611	757,174,672	761,553,283
Standard	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
	Stage 1	30,643,587	219,639	1,387,592	(1,167,953)	30,423,948	29,255,995
Special Mention	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
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-
Doubtful	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
	Stage 1	-	-	-	-	-	-
Loss	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
	Stage 1	848,221,610	7,716,843	4,738,917	2,977,926	840,504,767	843,482,693
Total All	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

31 December 2019

Assets 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	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4	(8)=(3)-(5)	(9)
Classified as performing	**Stage 1**	4,456,785	34,399	97,443	(63,044)	4,422,386	4,359,342	-
	Stage 2	11,033,967	95,194	1,254,095	(1,158,901)	10,938,773	9,779,872	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		**15,490,752**	**129,593**	**1,351,538**	**(1,221,945)**	**15,361,159**	**14,139,214**	-
Classified as non-performing	**Stage 1**	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		-	-	-	-	-	-	-
Total	**Stage 1**	4,456,785	34,399	97,443	(63,044)	4,422,386	4,359,342	-
	Stage 2	11,033,967	95,194	1,254,095	(1,158,901)	10,938,773	9,779,872	-
	Stage 3	-	-	-	-	-	-	-
		15,490,752	**129,593**	**1,351,538**	**(1,221,945)**	**15,361,159**	**14,139,214**	-

There is no restructured case as at 31 December 2018 that is required to be reported.

(c) Non-performing financing ratio

	31 December 2019		
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	1,227,620	2,570,659	(1,343,039)
Provisions required as per CBO norms/held as per IFRS 9	9,678,875	11,021,914	(1,343,039)
Gross NPA ratio	0.06	0.06	-
Net NPA ratio	0.04	0.03	0.01

	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.