

ANNUAL REPORT 2019

Innovation for the Changing World



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Mission
Statement

To be the trusted
and preferred
banking partner
dedicated to create
unique value for our
employees, customers,
shareholders and
community.



His Majesty
Sultan Haitham bin Tarik



His Majesty Sultan Qaboos Bin Said

On the day of his accession on July 23, 1970, His Majesty Late Sultan Qaboos bin Said in an address to his people said, "My people, my brothers, yesterday it was complete darkness and with the help of God, tomorrow will be a new dawn on Muscat, Oman and its people. God bless us all and may he grant our efforts success." And the Sultanate's journey over the last 49 years has indeed been from gloom, darkness and ignominy to development, prosperity and international standing.

Guided by Sultan Qaboos' vision and determination the Sultanate has achieved remarkable progress and development in various

fields. Oman has established a strong economy by harnessing its natural resources and encouraging private enterprise. Its march towards modernity has been balanced with a preservation of its centuries old rich heritage and culture. The country has assumed a position of eminence both at the regional and international levels.

Sultan Qaboos may not be there with us anymore but he will always remain in our hearts and his words of wisdom will continue to be our source of inspiration and guidance as we further build on the strong foundations under the able leadership of His Majesty Sultan Haitham Bin Tarik.



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الأهلي الإسلامي
ahli islamic



البنك الأهلي
ahlibank



Enabling Digital Transformation

ahlibank is supporting countrywide initiatives to push the digital transformation journey in the Sultanate. The automation of financial transactions through the electronic channels and driving the society to be less dependent on cash is moving in the right direction.

The introduction of EMV based chip cards, deploying an enhanced ACH system, full-fledged e-Wallet system using QR code and P2P payments are just some of our key innovate initiatives for the changing world.



Coffee



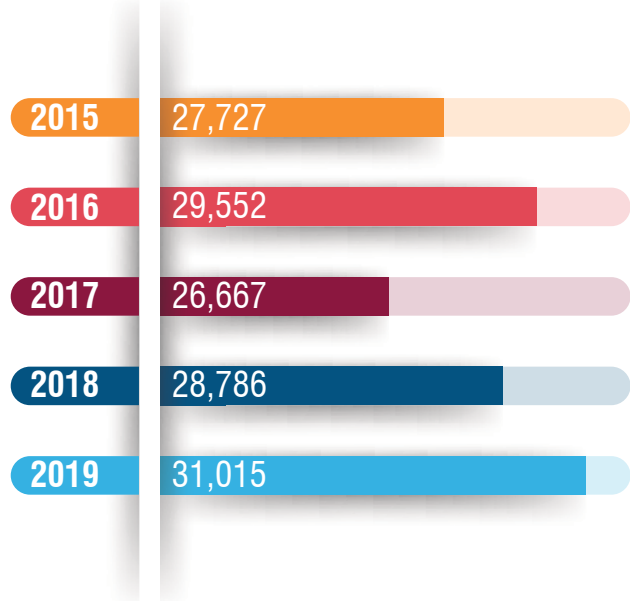
Sustainable Results

An overview

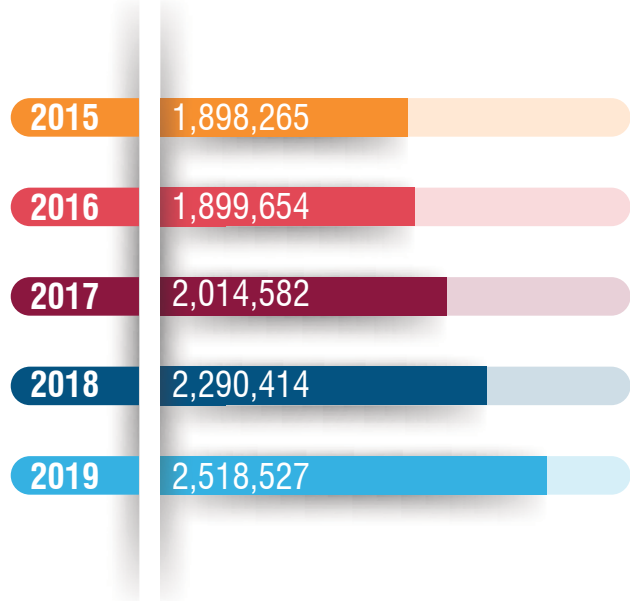
FIVE YEAR SUMMARY

RO ' Million	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
Net profit	31.0	28.8	26.7	29.6	27.7
Total assets	2,518.5	2,290.4	2,014.6	1,899.7	1,898.3
Loans & advances and financings, net	2,055.0	1,870.7	1,634.5	1,522.1	1,518.1
Total Deposits	1,711.7	1,661.6	1,450.9	1,271.0	1,300.8
Total liabilities	2,129.3	1,931.4	1,709.8	1,656.7	1,671.0
Total equity	389.2	359.0	304.8	242.9	227.3
Return on average assets (ROAA)	1.3%	1.3%	1.4%	1.6%	1.6%
Return on average equity (ROAE)	11.9%	11.3%	10.7%	12.6%	13.0%
Cost to income ratio	39.6%	37.4%	35.3%	35.9%	36.3%
Capital adequacy ratio	16.9%	17.5%	16.7%	15.0%	14.5%
Net interest margin	2.0%	2.2%	1.9%	2.2%	2.4%
Earnings per share (baizas)	20	18	19	21	19
Total Number of Branches	25	22	20	20	20
- Conventional	16	14	13	13	13
- Islamic	9	8	7	7	7
ATMs & CDMs	36	33	30	30	30
Number of staff	656	598	542	538	505

Net Profit
RO '000's



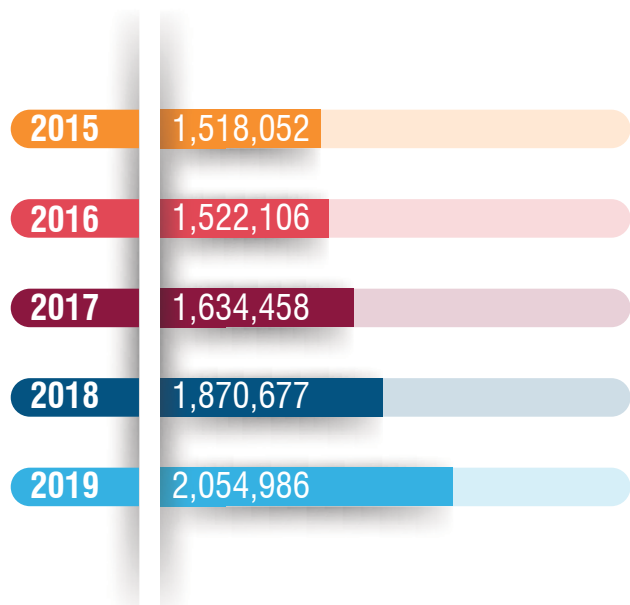
Total Assets
RO '000's



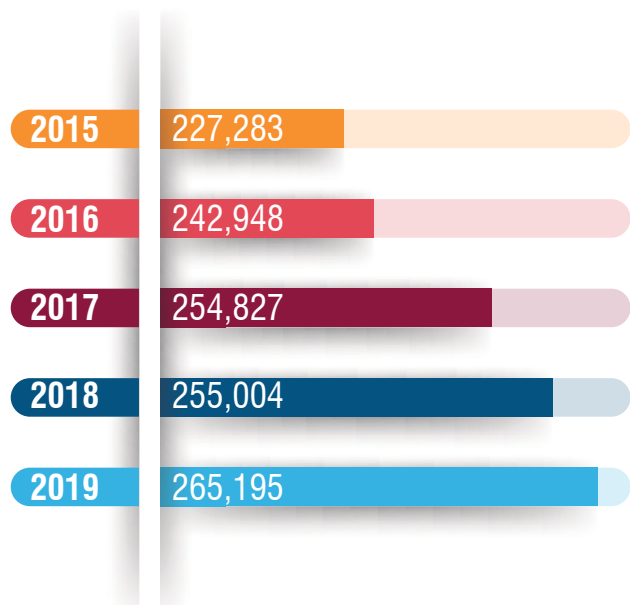
2019 AT A GLANCE

The Bank's total assets grew by 10.0% to reach RO 2.51 billion; customer deposits went up by 3% to reach RO 1.71 billion; and total loans & financing grew by 9.9% to reach RO 2.05 billion. Total Equity increased to RO 389.2 million from RO 359.0 million in 2018 and return on shareholders' equity reached 11.9%.

Total Loans, NET
RO '000's



Shareholder's Equity
RO '000's



Board of Directors



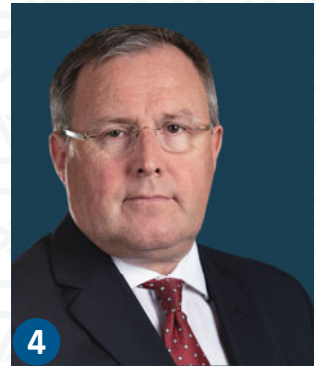
1
**Hamdan Ali Nasser
Al Hinai**



2
**Anwar Hilal Hamdoon
Al Jabri**



3
Sanjeev Bajjal



4
Keith Gale



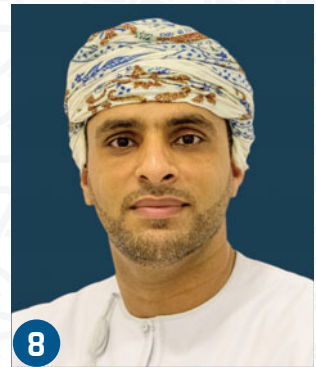
5
Mustafa Shafqat Anwar



6
**Abdul Hameed Ahmed
Mohamed Al Bulushi**



7
Rajeev Gogia



8
**Ibrahim Said Badar
Al Eisri**

1. Hamdan Ali Nasser Al Hinai Chairman

Holds Master's in Development and Project Management, Bachelor's in Business Management & Economics and Diploma in International Development Management; Director General, Purchasing and Contracts, Ministry of Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Director, Oman Trading Company.

2. Anwar Hilal Hamdoon Al Jabri, First Deputy Chairman

Certified Public Accountant (CPA), USA, Master of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 20 years of industry experience and various leadership positions.

3. Sanjeev Baijal Second Deputy Chairman

Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India.

4. Keith Gale Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.

5. Mustafa Shafqat Anwar Director

Holds a Master of Business Administration, a Master of Public Administration and a Bachelor of Social Sciences (BSS) with Honors in Public Administration from the University of Dhaka, Bangladesh; Deputy Group CEO: Operations and Technology, Ahli United Bank BSC, Bahrain; Former Director, Ahli United Finance Company, Egypt; Former Director, Ahli United Bank (Egypt) S.A.E; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank (Egypt) S.A.E.; Former Group Head Of Operations, Ahli United Bank B.S.C., Bahrain; Former Chief Operating Officer, Commercial Bank of Bahrain, Bahrain; Former Chief Operating Officer, Grindlays Bahrain Bank, Bahrain; Former Operations Manager Gulf, ANZ Grindlays Bank, UAE. Held various Management positions with ANZ Banking Group in Bangladesh, UK, UAE and Australia.

6. Abdul Hameed Ahmed **Mohamed Al Bulushi** Director

Holds High Diploma in Development, United Kingdom; Bachelor's degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 28 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

7. Rajeev Gogia Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Group Head of Strategic Development at Ahli United Bank BSC, Bahrain; Board Member of Ahli United Bank (Egypt) SAE; Board Member of Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Previous experience as Senior Division Head – Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE.

8. Ibrahim Said Badar Al Eisri Director

Member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Senior Manager Financial Controller & Investment Operations of State General Reserve Fund (SGRF); Vice-Chairman, Rakiza Infrastructure Fund; Al Hosn Investment Company; Director, Oman Energy Development; Member of the Income Tax Committee, Ministry of Finance. Having over 16 years of experience in different sectors including, Telecommunication, Oil & Gas and Financial & Investments; Held different leadership roles in Finance & Investment Operations.

Chairman's Report



Hamdan Ali Nasser Al Hinai

The Bank remains committed to its prudent growth strategy to maintain a winning streak of excellence and maximize value for all stakeholders

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and financial statements of ahlibank for the year ended 31 December 2019.

The Board of Directors, Executive Management team and the staff of ahlibank with great sorrow and deep sadness express their heartfelt condolences to His Majesty Sultan Haitham Bin Tarik, the Royal family and the people of Oman on the passing away of the visionary leader His Majesty Sultan Qaboos Bin Said, under whose benevolent leadership Oman has achieved great levels of economic and social development.

Economic Outlook

Following a recovery of 1.8% in 2018, Oman's real GDP growth is expected to grow to no less than 2% in 2019, and will continue to grow to 3% in 2020 driven largely by the rise in natural gas output as production from new fields comes on stream. The government's diversification efforts would continue to facilitate an increase in non-hydrocarbon revenue over the medium term.

The 2020 Budget represents the final year of the Ninth Five-Year Development Plan (2016-2020), and also reflects the last year of Oman Vision 2020. Therefore, the budget

	31-Dec-19	31-Dec-18	Growth %
	RO Million		
Total assets	2,518.5	2,290.4	10.0%
Loans & advances and financing, net	2,055.0	1,870.7	9.9%
Customers' deposits	1,711.7	1,661.6	3.0%
Equity	389.2	359.0	8.4%
Operating income	69.75	62.15	12.2%
Operating expenses	27.65	23.25	18.9%
Profit for the year	31.01	28.79	7.7%

complements previous budgets and comes to pave the way for Oman Vision 2040 and Tenth Five-Year Development Plan (2021-2025).

The 2020 Budget deficit is anticipated at RO 2.5billion, i.e. 8% of GDP, a decline of 1% from year 2019. The budget 2020 seeks to continue to spur the national economy by maintaining investment-spending levels, and also supporting economic diversification policy through expanding the participation of private sector so as to play a greater role in the economy and create more job opportunities.

The banking sector remained resilient in spite of slower credit growth, volatile market conditions and tightening liquidity conditions. With anticipated improvement in economic conditions in 2020, the banking sector is likely to continue on growth trajectory.

Financial Performance

The Bank completed its 12 successful years since its incorporation as commercial Bank and continued to move ahead with another steady performance across key financial indicators for the period ending December 2019.

The Bank's total assets grew by 10.0% as of December 2019 on a year-on-year basis to reach RO 2.51 billion.

The customer deposits went up by 3% to reach RO 1.71 billion. Net loans & advances and financing grew by 9.9% reaching to RO 2.05 billion. The Bank maintained the Capital Adequacy Ratio of 16.9%, well above the regulatory requirements. Pursuing prudent growth strategy, the Bank remains focused on high quality assets and well managed liquidity.

During the period, the Bank's net profit increased by 7.7% to RO 31.0 million compared to RO 28.8 million in December 2018. Total operating income increased by 12.2% to RO 69.7 million. The Bank's operating expenses increased to RO 27.6 million, however the cost to income ratio remained at 39.6%, one of the most competitive in the banking industry.

Achievements

To get closer to the customers across the Sultanate with a widespread branch network, the Bank opened two Conventional branches and a Islamic Branch during the year. The Bank has also relocated certain conventional and Islamic branches to new state-of-the-art branches. Furthermore, new branches are planned as per the Bank's vision for offering the best banking services with unparalleled customer experience.

During the year, ahlibank rebranded its Islamic Banking window to "ahli islamic", with a vision to become the leading Omani service provider abiding by the ethics and values of Islamic finance. The Bank launched its Shariah compliant Islamic prize money scheme 'Qitaf'.

The Bank launched its contactless debit and credit cards complementing market demands and customers evolving lifestyle. As part of the continuous efforts to create more value for the customers, the Bank introduced a new dynamic loyalty program called 'AhliRewards' for the debit and credit cardholders which is designed to provide exclusive privileges by enhancing the lifestyle experience of our customers.

In alignment with the Central Bank of Oman's vision for a robust national repository of the customers' data and financial information, ahlibank signed a membership agreement with Oman Credit and Financial Information Centre (OCFC) that offers the latest information and insights into the credit behavior of the borrowers. This partnership will enable the Bank to make the right credit decisions, improve productivity and offer agile and efficient services to the customers.

Recognition

Our efforts to be a new age bank that is committed to leverage the latest technologies and provide unparalleled customer experience, and proactively serve the nation's socio-economic needs are recognized at various forums.

ahlibank was felicitated with the 'Excellence in SME Solutions' Award at Alam al-Iktisaad Wal A'mal (AIWA) Excellence Awards for supporting the nation's drive to encourage entrepreneurship culture and young business talent.

The Bank was named among winners of the OER Top 20 Award presented by Oman Economic Review in recognition of good financial management, agility and robustness in delivering on customer expectations. For the second consecutive year, the Bank won the Best Performing Company Award by Alam al-Iktisaad Wal A'mal (AIWA) in the Large Cap Category, solidifying its position as the fastest growing bank in Oman.

The Bank was also ranked 10th conservative year as the "Best Bank in Oman" at Oman Banking & Finance Awards 2019. Similarly, the Bank won the "Quality of Disclosure" award for the year 2019 awarded by Muscat Securities Market.

Corporate Social Responsibility

As a responsible bank, we are committed to Corporate Social Responsibility (CSR) initiatives that leads to higher In Country Value (ICV) generation and complement the government's efforts for socio-economic development across local communities. ahlibank supported the Sultan Qaboos University Economic Research Forum in alignment to actively contribute to the economic diversification and the new Vision 2040 of Oman. To promote young talent, encourage art and celebrate the 49th National Day, the Bank partnered with the 6th edition of the 'Y Portrait by A Nation' initiative. It was a great platform for the children of Oman to celebrate the National Day of Oman and felicitate His Majesty.

ahlibank had extended support to "Fak Kurba" initiative promoted by Oman Lawyers Association. During holy month of Ramadhan, ahlibank distributed water bottles in various wilayats across the Sultanate, special Iftar with 'Association of early intervention for children with disability and special needs', charitable donations to Oman autism society & Al wafa social center. The Bank took part in the 'Not Alone Young Minds' Forum in association with Whispers of Serenity, a leading mental health and counselling organization in Oman.

The Bank will continue to maintain a steadfast

resolve to be integral to social initiatives and serve for the cause of the community at large.

Looking Ahead

Going forward, the Bank remains committed to its prudent growth strategy to maintain a winning streak of excellence and maximize value for all stakeholders. We will continue expanding the branch network of ahlibank and ahli islamic across Oman while keeping pace with changing market demands to tailor innovative customer-centric services. The focus will be on leveraging new digital technologies to provide a bouquet of financial services to meet the lifestyle needs of our burgeoning customer base in a seamless manner.

Acknowledgements

On behalf of the Board of Directors, we would like to pledge our support and allegiance to His Majesty Sultan Haitham Bin Tarik, in continuing the Sultanate's renaissance journey and leading the country for further prosperity and growth.

I would also like to express sincere appreciation to all regulatory authorities for their continued guidance and support, and for providing a healthy environment towards a robust banking sector in Oman.

Finally, I would like to convey our acknowledgement and appreciation to the Bank's Executive Management team and employees for their loyalty and dedication to the overall achievements of the Bank, and to our clients for their loyalty and trust.



Hamdan Ali Nasser Al Hinai
Chairman

Dated: 23 January 2020





Richer Customer Experience

ahlibank's focus is on ensuring customers' ease and seamless engagements with the bank to guarantee richer customer experience leading to long term customer loyalty. The strategic expansion in ahlibank's branch network is increasing our touch points with customers, catering to their needs conveniently and contributing to the development of local communities.

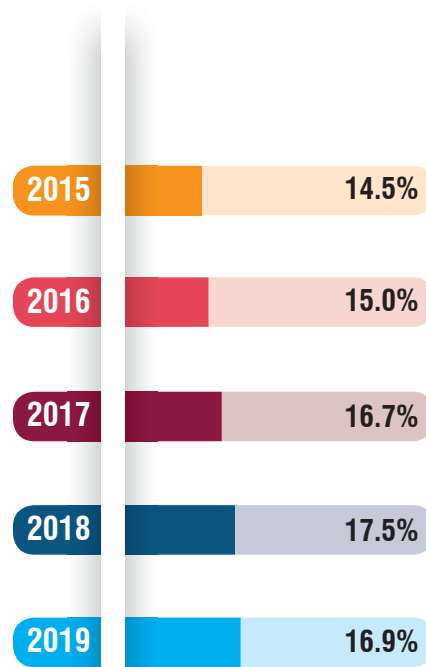




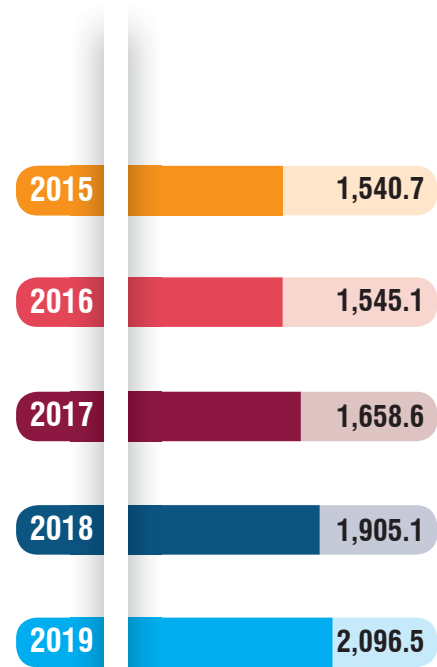
Secured Online Banking

ahlibank provides banking services at customers' fingertips by offering state-of-the-art Internet and Mobile Banking platforms to conduct banking and e-commerce transactions backed up by high security features such as 3DSecure. We remain committed in keeping pace with the changing market demands to tailor innovative customer-centric services.

Capital Adequacy Ratio
Percent



Gross Loans & Advances and Financing RO' Million



**MANAGEMENT
DISCUSSION
AND
ANALYSIS**

ECONOMIC REVIEW

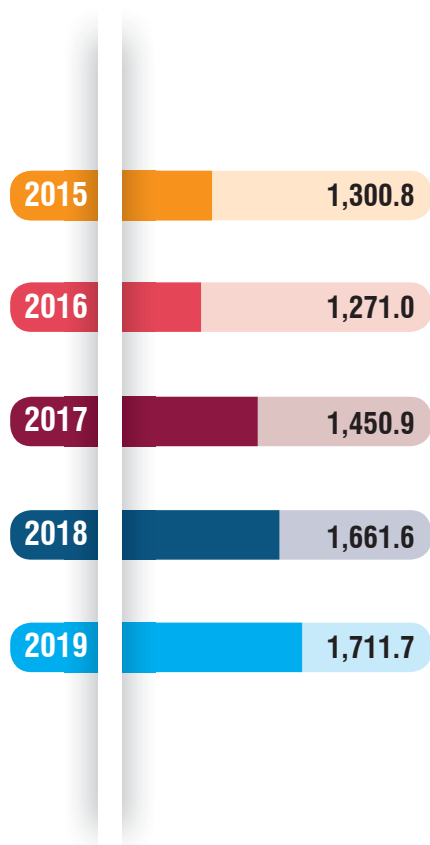
Following a recovery of 1.8% in 2018, Oman's real GDP growth is expected to grow at 2% in 2019, and will continue to grow to 3% in 2020 driven largely by the rise in natural gas output as production from new fields comes on stream. The government's diversification efforts would continue to facilitate an increase in non-hydrocarbon revenue over the medium term.

The 2020 Budget represents the final year of the Ninth Five-Year Development Plan (2016-2020), and reflects the last year of Oman Vision 2020. Therefore, the budget complements previous budgets and comes to pave the way for Oman Vision 2040 and Tenth Five-Year Development Plan (2021-2025).

The 2020 Budget deficit is anticipated at RO 2.5billion, i.e. 8% of GDP, a decline of 1% from year 2019. The budget 2020 seeks to continue to spur the national economy by maintaining investment-spending levels, and supporting economic diversification policy through expanding the participation of private sector to play a greater role in the

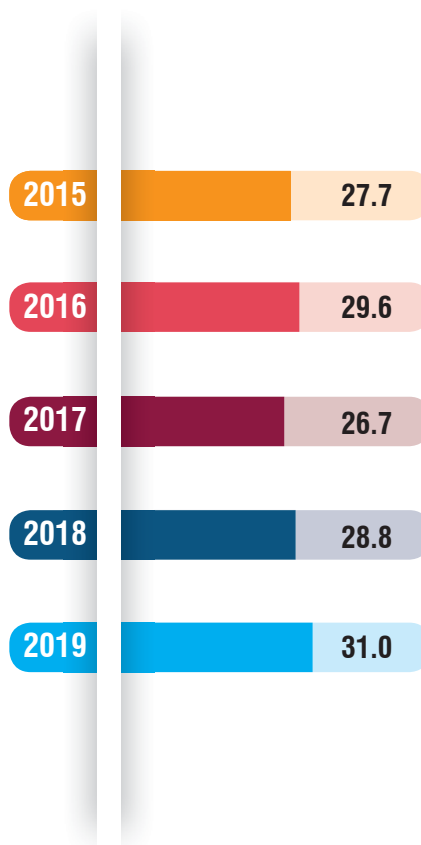
Customer Deposits

RO' Million



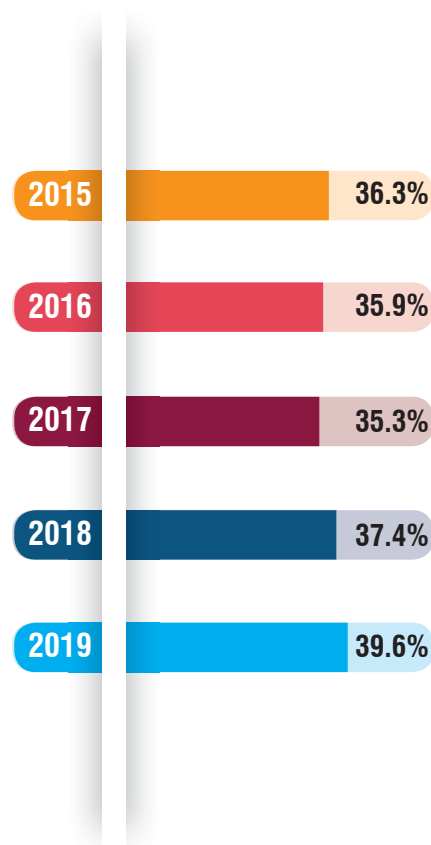
Profit after Tax

RO' Million



Cost-to-Income Ratio

Percent



economy and create more job opportunities. The Government has continued to provide allocations in the 2020 budget for the development and growth of five non-hydrocarbon sectors, namely manufacturing, transport & logistics, tourism, mining and the fisheries sectors, which have been identified by the Tanfeedh program as priority sectors for the economic diversification efforts. These efforts have been yielding the desired results as the overall percentage contribution of these five sectors to the GDP in 2019 is close to the targeted figures for 2020. The private sector is expected to play a greater role in development projects and job creation. The new Foreign Capital Investment Law, the Commercial Companies Law, the Bankruptcy Law, the Privatization Law and the Public Private Partnership Law, all issued in 2019, which are investor friendly are expected to assist in achieving targeted rates of foreign and domestic investment.

FINANCIAL SECTOR

The banking sector remained resilient in spite of slower credit growth, volatile market conditions and tightening liquidity conditions. With anticipated improvement in economic

conditions in 2020, the banking sector is likely to continue on growth trajectory. The Omani banking sector showed a healthy growth in credit of about 3.1% on year-on-year basis by reaching RO 25.8 billion mark as at the end of December 2019. Total customer deposits registered a growth of 1.7% to RO 23.7 billion as at the end of November 2019.

The main index of Muscat Securities Market (MSM) has cut its losses to 342 points in 2019 as against 775 points in 2018. Over the past three years, MSM lacked local incentives in the backdrop of persisting oil price fluctuations. Last year's dealings reflected a number of local developments that affected the money market negatively, including a decrease in the performance of various public stock companies listed on the MSM and benchmark MSM 30 Index closed at 3,981 points at year-end 2019.

Bank's Performance

The bank completed 12 successful years since its conversion to a full-fledged commercial bank and continued to move ahead with another steady performance across key financial indicators for the year ended

December 2019. The bank's total assets grew by 10 % as at 31 December 2019 on a year-on-year basis to reach RO 2,518.5 million. Net Loans & advances and financing grew by 9.9 per cent reaching to RO 2,055.0 million. Pursuing prudent growth strategy, the Bank remains focused and maintained its Non-Performing loans at 1.74%, the best amongst the peers. Customer deposits went up by 3.0 per cent to reach RO 1,712 million. Total operating income increased by 12.2% to RO 69.75 million. The Bank's operating expenses increased to RO 27.65 million, however the cost to income ratio remained at 39.6%, one of the most competitive in the banking industry.

Capital and Reserves

Capital and Reserves of the Bank as of 31 December 2019 stood at RO 389.2 million compared to RO 359.0 million as at 31 December 2018. The bank has further raised Basel III compliant Perpetual Subordinated Bonds (Additional Tier 1 Capital Instruments) through private placement basis for RO 20 million in June 2019. The bank maintained sufficient capital buffers and remained highly capitalized, the capital adequacy ratio of the

Management Discussion and Analysis (continued)

bank stood at 16.91% comfortably above the regulatory requirement of 13.50% (including capital conversion buffer)

Loans and Financing

The increase in gross loans and financing during 2019 reflects the bank's strategy of active balance sheet management during challenging times, to position the bank for sustainable profitable growth in the coming years. The Bank's gross loan and financing increased by RO 191.420 million to RO 2.097 billion as at 31 December 2019 from RO 1.905 billion as at 31 December 2018. The focus in 2019 having been to maintain high asset quality which reflected in the low Non Performing Loans to Gross Loans ratio of 1.74%; comparably the lowest amongst peers in the industry.

Customer Deposits

Customer deposits of RO 1.712 billion at year-end 2019 reflected an increase of 3% compared to 2018 which is mainly on account of increase in low cost deposits. The bank maintains its strategy to focus on expanding a lower cost funding base, through new product launches and retail branches expansion.

Profitability

Net profit after tax increased by 7.7% to RO 31.01 million as compared to 2018 mainly because of increase in Operating income combined with cost efficiency initiatives. The bank maintained the cost to income ratio at 39.6%, the best amongst peers in the industry.

BUSINESS UNITS

The Bank is devoted to constantly augment its effective governance policies, prudent risk assessment procedures, cost efficiency strategy and the introduction of new products and services to promote the interests of our stakeholders and hence to ensure the long-term sustainability of the bank. Our employees are encouraged

to aim high and are enabled with a sense of empowerment to achieve their tasks. Coupled with continued training and development, the management aim to continually build a talent pool that is able to achieve performance and innovation.

Furthermore, the Bank strives to provide customers with optimal banking propositions, through convenient channels, in a timely manner, with the highest levels of accuracy and reliability. In line with the latest trends in digital banking, the Bank is continuously investing in new technologies to provide the best-in-class customer services and experience through multiple choice of platforms in a highly secured manner.

Corporate Banking

ahlibank's corporate banking brand continues to grow in stature. Our industry specific teams have a deep understanding of their respective local and regional market segments, to ensure the delivery of insightful relationship management with fast turnaround times, across our product spectrum. The industry specific divisions comprise:

- food and general trading;
- contracting and manufacturing;
- energy and utilities;
- real estate;
- financial services;
- travel and tourism;
- Sharia compliant Islamic Banking Services through ahli islamic counters

We have aligned the teams to focus on the sectors that form a part of the Sultanate's diversification strategy, as we continue to contribute towards the economic development of these sectors through funding of various projects, providing a comprehensive range of competitively priced funded and non-funded financial products and advisory services, complemented by our electronic-banking business to business platform and Corporate internet banking which were both migrated and upgraded

during the year 2019 to further streamline services to corporate clients focusing on driving efficiencies to enable the client to focus on their core businesses.

SME Banking

SMEs plays an important role in the economic development of our country. The role in terms of production, employment generation, contribution to exports, facilitating equitable distribution of income is very critical. With Oman reviving and refocusing its interest and energy in small and medium enterprises, recognizing their contribution to economic growth and employment generation, the country has developed programs to set up new units, support them and help them succeed.

Retail Banking

ahlibank continues to focus on innovative products and services for its customers, in order to increase our foothold and market presence. In the year 2019, the bank has opened three new branches as part of network expansion and business plans.

Products and services that are in development for launch in the year 2020 includes digitalizing our customer banking experiences, e-channel enhancements, greater rewards for our customers and much more. Retail banking focus is our customers ease and seamless engagements with the bank to ensure richer customer experience leading to sustainable growth in the long term.

Retail banking will further benefit from a strategic expansion in ahlibank's branch network. The main objective of this expansion is to increase touch points with customers, cater to their needs conveniently and contribute to the development of local communities. Increased geographical coverage along with strategic sales plans will facilitate maximizing stakeholder's equity in an efficient manner over the medium term.

Premium Banking

With extensive regional and international experience, our clients benefit through our expert talent pool, who deliver an extensive range of services.

Our dedicated Relationship Managers offer personalized services to clients through our branches. Additionally, clients benefit from a vast range of financial and non-financial privileges available especially for them.

Services

- Dedicated Relationship Manager available at all times to meet your banking needs.
- Premium service center and lounges to conduct your banking transactions privately.
- 24 hour call center support and free SMS Banking Services.
- Free Internet Banking and Mobile Banking Services.

Benefits

- Free for life Credit Card & Debit Card
- Preferential pricing on Deposits and Loans.
- Special discounted tariffs on bank charges.
- Discounts and offers from selected premium merchants.
- Personalized concierge service, free travel insurance, purchase protection and extended warranty.
- Access to our wealth management advisors.

Private Banking "Exclusive"

ahlibank aims to help our clients manage their wealth effectively in order to maximise returns and minimise risk. We provide personalized services to our clients by understanding their financial requirements and providing world class, tailor made investment solutions. ahlibank presents a unique combination of local knowledge of the region with global experience. ahlibank is able to provide our

clients with financial solutions that benefit from continuing on-going research in investment opportunities with one-to-one personalized service that promises complete confidentiality.

Services

- Dedicated Private Banking Manager available at all times to meet your banking needs.
- Service centers and lounges to conduct your banking transactions conveniently.
- 24 hour call centre support & Free SMS and Internet Banking.

Benefits

- Free for life Infinite Credit card & Signature Debit Card.
- Unlimited Complimentary lounge access to over 750 international airports.
- Preferential pricing on Deposits and Loans.
- Special discounted tariffs on bank charges.
- Discounts and offers from selected exclusive merchants.
- Personalized concierge service, free travel insurance, purchase protection and extended warranty.

Wealth Management

- Tailor made portfolios to suit your investment needs.
- Convenient subscription to IPOs.
- Protection products for you and your family.
- Brokerage Services.
- Asset Management Services: DPM, sectoral funds, real estate funds.

Cards

ahlibank offer a comprehensive range of credit and debit cards, across various customer segments including Classic, Gold, Platinum, Signature and Infinite in credit card category and Platinum and Signature in debit card category.

The credit cards are equipped with a

variety of exciting features which include redemption against travel miles, travel protection insurance, extended warranty on appliances, airport lounge access, purchase protection, concierge services etc. During the year/, the retail banking introduced Ahlirewards, a card rewarding system for our customers.

Personal Loans

ahlibank's personal loan facility branded as "MyLoan", offers ready cash with high loan amounts, easy and suitable repayment options, along with competitive interest rates. With simple documentation requirements and a hassle free experience, MyLoan fulfills all dreams in one go; cash for expanding a business, providing children with the best education, taking dream vacations with loved ones and much more.

Home Loans

With the most experienced and highly trained staff in Home Financing, ahlibank offer home financing under the brand of "MyHome", offering convenient plans to suit everyone's needs. With a host of attractive features including long tenor, standard documentation and attractive interest rates, owning a home is no longer a distant dream. Customers can now build or purchase their dream home as per their wishes, financed by ahlibank's MyHome facility.

Car Loans

ahlibank offer Instant Car Loans to customers which guarantee fast approvals, financing for new and used car purchases, competitive interest rates, long repayment tenors up to 7 years and high loan amounts.

MySmart

MySmart from ahlibank is a unique savings proposition that offers a high interest bearing savings account, along with the flexibility of a transactional account. The

Management Discussion and Analysis (continued)

account calculates interest on average balances and pays out on monthly basis; this is coupled with the use of a cheque book to transact freely! Customers are free to use their funds anytime without any notice period, while enjoying high interest rates on the balance available in their account.

Wafra

The Wafra, prize draw savings scheme from ahlibank is a savings product that offers cash prizes to lucky customers, based on an automated draw system. Customers keeping high balances with the bank get higher number of chances to win prizes.

The main feature of Wafra is that customers can simply open an account today and win tomorrow. Wafra offers one of the unique prizes of RO 250,000 "Salary for Life" paid as RO 1000 monthly for 250 months. In 2020, there will be four draws for "Salary for Life" at the end of each quarter rewarding more prizes for more of our customers.

MySaver

With My Saver Plan, customers can invest small amounts on a monthly basis, which multiplies with regular bonuses over a period of time, to offer a large sum to fulfill their end goals. Interest rate of 2% p.a. is paid monthly to the account based on daily available balance and free life insurance coverage is bundled with the account for up to RO 50,000.

Bancassurance

ahlibank offer a wide range of insurance products to protect our customer's assets and property. The insurance products cover unexpected events, where the customer is protected from collateral damage that could otherwise erode savings or investments.

Alternative Channels

In order to meet the growing demand for

efficient ATM and online services, ahlibank continues to enhance customer experience by providing banking services at customers' fingertips. By offering secure and reliable banking technologies, ahlibank is making banking more convenient, together with launching exciting and innovative products.

Recently, the Bank launched the addition of the Central Bank of Oman's Mobile Payments System to our mobile banking and wallet App that enables users to receive and transfer money. This upgrade was in line with the Bank's objective of offering innovative and top-class banking solutions to the Bank's customers in Oman and implementing new technologies in banking that will benefit customers and stakeholders.

ahlibank was among the first banks in the Sultanate to rollout the A2A transfer (ATM to ATM transfer), which allows ahlibank ATM card holders to transfer funds to any other bank's ATM in Oman. Further, ahlibank offers state-of-the-art Internet and Mobile banking platforms for its customers.

ahlibank's free e-channel service offers 24-hour access to banking services, and is an alternative to visiting a branch. With ahlibank's conventional and Islamic branches network across the Sultanate, coupled with host of e-channel services including Internet Banking, Mobile Banking, SMS Banking, 24x7 Call Centre, ATMs, CDMs, Service Centres and Kiosks, the bank remains accessible to customers whenever and wherever they require.

By subscribing to ahlibank's Internet Banking Service, customers can enjoy easy access to services like viewing transactions of accounts and credit cards, making funds transfer locally and internationally, bill payments and issuance of cheque books without having to visit a branch. All these services come with the assurance of the highest standards of online security. For further convenience, all these services are also accessible on smartphones through

ahlibank's Mobile Banking and SMS Banking services. Additionally, ahlibank's e-statement service allows customers to receive bank account statements and view the summary of every transaction via e-mail. Statements can be received on a daily, weekly or monthly basis.

Apart from the wide range of innovative product and services, ahlibank also has a network of ATMs, CDMs and kiosks across Oman, which makes the bank accessible to customers including cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top ups among other services.

TREASURY AND FINANCIAL INSTITUTIONS

Treasury

ahlibank's professional and experienced Treasury team, provides a comprehensive package of services in both treasury and investment products to the corporate, commercial and government institutions. The Treasury prides itself on being one of the most proficient dealing rooms in Oman, providing corporate and individual clients with a wide selection of foreign exchange, money market and derivative products ranging from the traditional to the customized.

Our Treasury and Investment division is able to offer best in class service with unparalleled access to the local market and regional markets. Delivering everyday banking needs effectively and efficiently, is critical to our success. With a Treasury team that understands business needs and ambitions, with our award-winning service and solutions, we are committed to helping clients succeed.

Financial Institutions

Financial Institutions Group (FI) covers global relationships with credit institutions and serves as entry point and first contact for

credit institutions with ahlibank. Leveraging ahlibank's regional knowledge and banking expertise, the FI team seek to build strategic and long-term relationships in order not only to meet but exceed expectations of its corporate and retail clients. ahlibank is recognized for customer knowledge and its prospective relationship is highly qualified for global financial institutions to expand Oman corporate business in various countries. Our bank also provides "Nostro service" in major currencies and "Vostro service" for Omani Riyal Account. In addition, ahlibank is providing interbank clearing with over 100 overseas networks in various countries. Complementing the activities of FI is a "Trade Finance Team" specialized in structuring products and services that meet unique needs of different banks and clients.

FI is highly active in supporting and coordinating ahlibank's relationship with various correspondent banks and provides an array of products and services including trade finance and international payments. FI manages its correspondent credit relationships through dedicated and experienced relationship managers.

TRADE FINANCE

The Trade Finance Department is a full-fledged specialized department of the bank handling all trade requirements of corporate and consumer customers. The department is aligned with the bank's Wholesale & Retail Banking in providing various fund based credit facilities such as Export Finance, Bill Discounting, Receivables/Invoice Finance, Loans against Imports and Non-Fund based credit facilities such as Issuance of Letters of Credit, Guarantees, Export and Import Bills for Collection, Avalisation of import bills for collection, advising and handling of documents under export letters of credit and risk participation for local and overseas transactions. The Bank's Trade Finance team is well experienced, trained and updated with the requisite skill set, latest developments in the local and international markets, the rules

governing international trade with a focus on customer service.

ASSET MANAGEMENT

ahlibank managed equity funds and discretionary portfolios in a challenging market environment where slower growth and geo-political tensions pushed MSM to its historical low levels. Our ahli islamic MENA Fund (Sharia compliant) gained 8.63% per cent (FY 2019). In contrast, MSM Sharia Index declined 9.43% while S&P GCC Sharia Index ended up at 6.21% in 2019.

The asset management division is planning to expand its offering to markets beyond the GCC as well as multiple asset classes. Our deep understanding of regional markets combined with investment discipline has enabled us to outperform against respective benchmarks and are confident that our value investing based strategy will reward our clients in 2020.

AHLI ISLAMIC

Ahli islamic has shown strong growth since its launch in 2013. The Sharia compliant products and services offered by ahli islamic cater to all customer segments, including institutional, corporate, SME and retail, through 10 dedicated branches located in Wattaya, Bahla, Rustaq, Saham, Salalah, Samail, Al Khoud , Sinaw, Ghoubra and Barka. In addition to the branches in strategic place, customers are served through ATMs, CDMs, e-banking and mobile banking services across the Sultanate. With the launch of e-Banking and Mobile Banking, ahli islamic has achieved yet another milestone in offering seamless, round the clock banking services to its customers. With this state of the art system, customers can now view their balances and statements, transfer funds between the bank accounts, to other banks in Oman and internationally, open linked accounts and term deposits, get cheque books and manager cheques issued anytime at their convenience.

Deposit Products

1. Current Account - Non-profit paying, transactional account for individuals, corporates and institutions.
2. Savings Account - Profit paying account for regular savers who want to get the benefit of receiving Sharia compliant profit on their savings.
3. Al Namaa Islamic Savings Account - High profit paying, transactional account for individuals who want high profit earning based on their balances, without binding the funds for any tenor.
4. Term Investment Account - Term deposits under Mudaraba and Wakala modes for customers who want to earn higher profit, at easy terms of 12 months, 24 months, 36 months etc.
5. Qitaf Savings Account - Profit paying account, transaction account for individuals allowing them to win cash prizes Weekly, Monthly, Quarterly and on special occasion.

Ahli islamic's deposit products are bundled with a free cheque book (current and Al Namaa savings account), free debit card, free account statements, free cash deposit / withdrawals through branches and ATMs / CDMs, free e-Banking, mobile banking and a host of other features.

Financing Products

1. Personal (Goods) Finance - High financing amount with long repayment period of 10 years at a very competitive profit rate, in order to meet personal financing requirements of Islamic Banking customers.
2. Auto Finance - Easy repayment tenors at very affordable profit rate with higher amount limit for new and used car buyers, with the option of salary and non-salary transfers, ahli islamic's Auto Financing is the most attractive product in the market.
3. Home Finance - Up to 80% of the property value for both, ready property

Management Discussion and Analysis (continued)

buying and for construction for period of up to 25 years for people who are looking to buy or construct their houses.

4. Service Ijarah Personal Finance - services agreements with various service providers (Education Financing, Membership Financing, Travel Financing, Hajj and Umrah Services Transportation, Medical Expenses Financing, Marriage Expenses Financing, Construction / Developer Expenses Financing), whereby ahli islamic purchase your desired services and extend to you through services Ijara.
5. Credit Cards - Visa Platinum and Signature, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, no annual fee, and takaful insurance protection, travel and lifestyle deals. This unique value proposition revolves around social responsibility, where every time the cardholder uses his/ her ahli islamic Credit Card, 0.50% of every transaction profit is donated to a charity organization.

In addition to the above, ahli islamic Banking Services also offer a range of customized products for corporate and SME entities, including ;

1. Term and fixed asset financing
2. Project financing
3. Trade services - import murabaha
4. Vehicle and machinery leasing

Ahli islamic, with thorough expertise in Islamic Banking, can also design customized products for its clients, in order to fulfill their banking needs.

RISK MANAGEMENT

The Risk Management Division closely monitors the core risk areas and reports to the Board Risk Committee. The primary goal of risk management is to ensure that the bank's asset and liability profile, its trading

positions and its credit and operational activities are not exposed to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, nor concentrated, relative to the bank's capital and financial standing.

The bank manages the risks effectively and efficiently by monitoring and approving all retail and commercial credit applications. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks. The bank complies with Basel III Norms as well as IFRS9 guidelines issued by Central Bank of Oman. The bank has implemented IT system for calculating liquidity ratios and capital adequacy ratio and is also in the final stages of implementation of IT system for facilitating IFRS9 related calculation.

Risk Management Division formulates policies and procedures taking into account of regulatory requirements and best international practices, to monitor and control exposures within pre-determined acceptable limits.

The key to this approach is a robust and responsive organizational structure around each of the risk categories with appropriate delegated authorities from the Board of Directors. To ensure its independence, the bank's risk management department reports directly to the Executive Risk Committee, a Board Sub-Committee.

The Board of Directors ensures that the senior management establish a framework that identifies, measures, monitors and reports all relevant significant risks. Risks covered include credit, market, operational, interest rate risk, liquidity risk, etc. The Risk Management Division has identified material risks that the bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

The following Board and Management committees manage and control material risks to the Bank:

Board Committees

- Audit and Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination and Remuneration Committee

Executive Management Committee

- Credit & Investment Committee
- Assets and Liabilities Committee
- Credit Risk Management Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Special Assets Committee

The bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

Policies and Procedures

The Board of Directors under its terms of reference controls and directs the bank on behalf of the shareholders, its conduct of business, setting objectives and strategy by establishing policies under which the bank operates. The Board of Directors approve the bank's risk appetite, risk management strategies, policies and their framework for their effective implementation and control, including delegated authorities to the Executive and Credit Committee and Management to approve all credit exposures. In this context, the Board of Directors has approved the following policies:

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Committee and Procedures
4. Voice Recording Policy

5. Compliance Policy
6. Communications Policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy
9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy
13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Management Policy
19. Business Continuity Management Policy
20. Credit and Investment Policy
21. Operational Risk Policy & Procedure
22. Fraud Risk Management Policy
23. Liquidity and Funding Policy
24. Market Risk Policy
25. Risk Management-Approach & Framework
26. Social and Environment Management System Policy
27. Security and Safety Policy and Plan
28. Asset Management Policy
29. Brokerage Policy
30. FATCA Policy
31. Customer Complaints Redressal Policy
32. Social Media Policy
33. Third Party Risk Management Policy

Islamic Banking related

1. Profit Distribution Policy
2. Charity Policy
3. Zakah Policy
4. Cost Sharing Policy
5. Segregation of Funds Policy
6. Shari'a Governance Manual

All policies are subject to annual reviews. Any change in law or regulation is automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

Internal Audit

The Internal Audit function reviews and provides an independent assurance to the

Board of Directors and executive management on the effectiveness of the Bank's internal control, risk management and governance systems and processes. It is an integral part of the control environment of the Bank and provides independent assessment and reviews through the audits based on an annual plan. It shares the findings with the senior management and submits the same to the Audit & Compliance Committee. All issues are followed up for its logical conclusion and timely corrective action.

INFORMATION TECHNOLOGY

IT has invested considerable effort in refreshing and updating the underlying infrastructure. The IT infrastructure programme has been successfully delivered, allowing work on information systems and interoperability to commence, thus supporting the drive for better knowledge management and greater operational efficiencies.

The Business Continuity was key focus area by introducing resilient components to every part of the infrastructure. ahlibank acquired a co-location service through Oman Data Park (ODP) and placed the secondary data centre in ODP. It's developed using a Hyper Defined Converged technology and on premise cloud ready environment. The Bank has also invested in connectivity links between Head Office (HO) Data Centre (DC) and Disaster Recovery Centre (DRC) by moving the link to dark fibre. The investment on DRC and on the link will provide sufficient bandwidth to run bank's technology services from the alternative location in the time of need.

IT Strategy is to focus primarily on the informatics agenda, deriving benefits from the data that we hold. Advance analytics and Customer Relationship Management (CRM) systems are part of many digital initiatives that will be given top priority in the next few months to come.

IT deployed many initiatives as part of Digital Transformation strategy covering all

the line of business. Some of our recently implemented solutions include state of the art Point of Sale (PoS), Contact-less cards, and full pledged automated machines thus providing services round the clock.

ahlibank has revamped many customer facing digital touch points including Internet & Mobile Banking systems & Transaction Banking system to ensure seamless and efficient customer experience while using our services.

ahlibank is fully committed to support countrywide initiatives carried-out by Central Bank of Oman to push the digital transformation journey in financial industry. The automation of financial transactions on to electronic channels and making the society less dependent on cash is moving in the right direction. We have carried out a number of initiatives in that regards some of which include introduction of EMV based chip cards, deploying an enhanced ACH system, strong security features (3DSecure) for e-commerce transactions & a full pledged e-Wallet system using QR code, P2P payments.

IT is exploring emerging technology trends along with several other aspect of delivery methodologies to ensure time to market for our product and services remain as one of the key objectives going forward.

HUMAN RESOURCES

ahlibank believes that its employees are key to success for the organization goals and strategy. In this context, the Human Resource Department plays a central role by aligning individual goals of employees with the goals of the bank. The bank has nurtured a culture i.e., a balance between performance orientation and employee well-being. This balance helped us to sustain higher levels of performance as well as provide an enriching experience for its employees.

The Bank's Human Resource philosophy is to hire the right talent and provide a

Management Discussion and Analysis (continued)



collaborative work environment to all employees that enables them to perform, develop and grow. The structured investment in Middle Management Development Programs, Leadership Development, Job Rotation and various other programs helps in enhancing the capabilities of the employees and providing career growth opportunities that helps them to contribute more to the growth of the bank. Further, as part of the bank's Social Responsibility initiatives, many programs were conducted with active participation by all employees which enhance the connect among employees as well as strengthen their bond with the bank.

For enabling & empowering young Omani talent, the Bank has designed & implemented many programs. Apart from exceeding the Omanisation targets, the Bank has inducted Management Trainee's into its workforce through a structured program. Internship

programs were conducted for young Omani's to gain first-hand experience of working in an office set-up and make them more employable after they complete their education.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible Bank, we are committed to Corporate Social Responsibility (CSR) initiatives that leads to higher In Country Value (ICV) generation and complement the government's efforts for socio-economic development across local communities.

ahlibank has a series of Corporate Social Responsibility initiatives that are aimed to help local communities, and constantly participates in resolving issues that affect the society and the people of the country. To raise awareness on various types of cancers and to support those recovering from cancer, ahlibank participated in the Annual Cancer

Walkathon organized by the Oman Cancer Association. The event is a platform to educate people about the disease, its causes, symptoms and ways to avoid it. The Bank's participation in this event was aligned with its ahli_Cares initiative and its philosophy of being a socially conscious Bank.

The Bank organized a blood donation camp at its headquarters for its customers and staff members. The Blood donation camp was organized to promote voluntary blood donations and educate the community on its importance. The event invited participation from many customers, bank employees that included both Omanis and expatriates.

To promote young talent, encourage art and celebrate the 49th National Day, the Bank partnered with the 6th edition of the 'Y Portrait by A Nation' initiative. It was a great platform for the children of Oman to



The focus will be on leveraging new digital technologies to provide a bouquet of financial services to meet the lifestyle needs of our burgeoning customer base in a seamless manner

celebrate the National Day of Oman and felicitate the Late His Majesty Sultan Qaboos Bin Said.

ahlibank supported the Sultan Qaboos University Economic Research Forum in alignment with our strategy to actively contribute to the economic diversification and the new Vision 2040 of Oman. Support to the Forum was in alignment with ahlibank's focus on associating with conferences and events that serves as knowledge platforms and offers a global window for discussing various critical issues, new developments and creating networking opportunities.

Within the framework of its occupational security and safety policy, ahlibank held a mock drill on fire and safety at its head office in Wattayah. The Bank believes in the importance of training and awareness in fire prevention to ensure safety and

security at the workplace, with a complete understanding of fire and safety procedures.

The Bank will continue to maintain a steadfast resolve to be integral to social initiatives and serve for the cause of the community at large.

LOOKING FORWARD

Oman has started the year 2020 on a very grievous note. The demise of the Late His Majesty Sultan Qaboos Bin Said, the architect of modern Oman, was a huge loss for the Sultanate. He led the nation for almost 50 years on the path of social and economic development. Following his footsteps, His Majesty Sultan Haitham Bin Tarik has promised both continuity and reforms, and looks all set to lead the nation on a new phase of development. ahlibank is committed to support His Majesty Sultan Haitham Bin Tarik in taking the Sultanate forward.

We expect the new regulations issued in year 2019 that are effective from the year 2020 to give a further stimulant to the investments and economic activity in year 2020. The government's efforts to diversify the

economy with new projects in various stages of planning and development across the country especially in Duqm augurs well for the economy. These developments are anticipated to expand the private sector and increase the contribution of sectors such as tourism, logistics and manufacturing to the GDP.

ahlibank will continue to empower the youth and support SMEs to build national talent and local capabilities. The Bank remains committed to its prudent growth strategy to maintain a winning streak of excellence and maximise value for all stakeholders by optimizing on the emerging opportunities and remaining resilient to the market challenges. We will continue expanding the branch network of ahlibank and ahli islamic across Oman while keeping pace with changing market demands to tailor innovative customer-centric services. The focus will be on leveraging new digital technologies to provide a bouquet of financial services to meet the lifestyle needs of our burgeoning customer base in a seamless manner.

We look forward to continue our march towards becoming a new age bank with a human touch preferred by one and all!

Executive Management



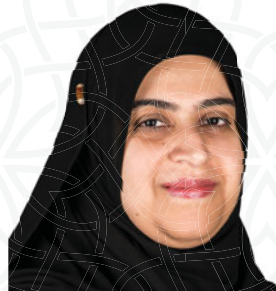
Said Abdullah Al Hatmi
Chief Executive Officer



Abdullah Salim Al Jabri
Deputy CEO
Support & Services



Bilal Anwar
Deputy CEO
Wholesale Banking Group



Ghada Abdullatif Al Balushi
General Manager
Head of Risk Management



Hana Mohammed Al Kharousi
General Manager
Head of Corporate Banking



Zaliya Lal Bakhsh Al Balushi
Deputy General Manager
Head of Mid Market & SME



Yousuf Salim Al Rawahi
Deputy General Manager
Head of Ahli Islamic



Hana Fahad Al Hina
Deputy General Manager
Retail Banking



Abdul Majeed Al Hooti
Deputy General Manager
Head of Legal , Collection &
Remedial



Said Noor Mohammed Al Hamdani
Deputy General Manager
Head of Internal Controls



Sriram Balakrishnan
Deputy General Manager
Head of Finance



Dur Mohammed Lal Mohammed Al Balushi
Deputy General Manager
Head of Information Technology



Fahad Fraish Al Shuaili
Deputy General Manager
Head of Internal Audit



Ibrahim Abdullah Al Maamari
Assistant General Manager
Head of Compliance



Azzan Abdul Amir Al Saleh
Assistant General Manager
Large Corporate Banking



Tariq Noor Mohammed Al Zadjali
Assistant General Manager
Head of Projects & Application Development



Taher Al Bakhsh Al Balushi
Assistant General Manager
Head of Central Operation



Muneer Ahmed Al Balushi
Assistant General Manager
Head of Distribution



Mohammed Mohsin Al Mufargi
Assistant General Manager
Head of Human Resources



Said Ahmed Al Mahrooqi
Assistant General Manager
Head of Information Security & Operational Risk



Farid Mohamed Al Bahri
Assistant General Manager
Head of Credit Risk

Innovative Solutions for Corporates

ahlibank's corporate banking brand continues to grow in stature. We have aligned our teams to focus on the sectors that form part of the Sultanate's diversification strategy through funding of various projects, providing a comprehensive range of financial products services. This is complemented by our electronic-banking business-to-business platform and Corporate internet banking for large as well as small & medium businesses driving efficiencies to enable them to focus on their core businesses.







وقتته!

لربح أكثر من مليون ريال
مع حساب

iqtaf

مزايا الحساب: فتح الحساب مجاني، سحب الأموال من أي فرع أو مكتب خدمة عملاء، إمكانية فتح الحساب عبر الإنترنت، إمكانية فتح الحساب من أي مكان، إمكانية فتح الحساب من أي وقت.

نوع الحساب	مزايا الحساب	شروط الحساب
حساب التوفير	فتح الحساب مجاني	أقل من 100 ريال
حساب المدخرات	فتح الحساب مجاني	أقل من 100 ريال
حساب الاستثمار	فتح الحساب مجاني	أقل من 100 ريال



000 @alhislamic

www.alhislamic.om



Collect Receipt

Insert Card



Collect Receipt

Easy Access to Banking Services Round-the-Clock

Apart from a wide range of innovative products and services, ahlibank also has a wide network of ATMs, CDMs and kiosks across Oman, which makes the bank accessible to customers including cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top ups among other services.

The bank remains accessible to customers anytime, anywhere!



Report of factual findings to the shareholders of Ahli Bank SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular number E/4/2015, dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of Ahli Bank SAOG ("the Bank") as at and for the year ended 31 December 2019 and application of the corporate governance practices in accordance with amendments to the CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').
2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors of the Bank in complying with the requirements of the Code issued by the CMA.
3. We have performed the following procedures:
 - (a) We have checked that the Corporate Governance Report issued by the Board of Directors includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and
 - (b) We obtained the detailed list of areas of non-compliance identified by the Bank's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes and/or a checklist prepared by the Board of Directors to identify any non-compliance.
4. As a result of performing the above procedures, we have no exceptions to report.
5. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Corporate Governance Report.
6. Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.
7. Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in its annual report for the year ended 31 December 2019 and does not extend to the financial statements of Ahli Bank SAOG taken as a whole.

Muscat, Sultanate of Oman
9 March 2020

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos
 P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408,
www.pwc.com/me

Corporate Governance Report-2019

INTRODUCTION

Good Corporate Governance practices are important in creating and sustaining shareholder value, ensuring appropriate disclosure and transparency. The Bank's Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the Bank. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the bank is an important part of corporate governance. This improves the public understanding of the structure, activities and policies of the bank. The Capital Market Authority (CMA) directives including the Code of Corporate Governance and the Central Bank of Oman (CBO) circular BM 932 on Corporate Governance in Banks are the principal codes and drivers of the Corporate Governance practices in Sultanate and Ahli Bank SAOG (the Bank) fully complies with all of their provisions.

Corporate Governance practice embodies the dual goals of protecting the interests of all stakeholders while respecting the duty of the board and senior management to oversee the affairs of a bank, ensure accountability, inculcate integrity and promote long-term growth and profitability. We believe that sound Corporate Governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of

the term. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

Our Corporate Governance philosophy is based on the following principles:

1. Satisfy the spirit of the law and not just the letter of the law.
2. Be transparent and maintain a high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the Bank is run internally.
4. Have a simple and transparent corporate structure driven solely by business needs.
5. Management is the trustee of the shareholders' capital and not the owner.
6. Fairness and equality treatment to shareholders, employees and related parties.

At the core of Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Bank. We believe that an active, well-informed and

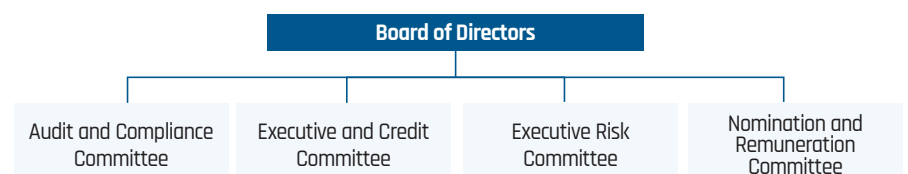
independent board is necessary to ensure the highest standards of corporate governance.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

Good corporate governance is vital in supporting the delivery of our strategic objectives. Our Board Committees play an important role in working with management to ensure our business is financially strong, that it is well governed and that risk if any are identified and mitigated. Over the years, the Board has developed a corporate governance culture to help fulfill our corporate responsibility to various stakeholders. This ensures that the Board will have the necessary authority and practice in place to review and evaluate our operations periodically.

In compliance with the regulatory requirements and as per the best industry practices, four board level sub-committees have been set up to ensure effective functioning of the Board.

The Corporate Governance Structure of the Ahli Bank SAOG is depicted below:



Corporate Governance Report-2019 (continued)

BOARD OF DIRECTORS AND SUB-COMMITTEES OF AHLI BANK SAOG

Board of Directors:

Our principal duty, collectively, is to promote the long-term success of the ahlibank by creating and delivering sustainable shareholders value. We do this by setting the strategy and overseeing its implementation by management. While our ultimate focus is long-term growth, we also need to deliver on the short term objectives and we seek to ensure that the management strikes the right balance between the two.

Size and terms of the Board

The Board of Directors consists of 8 non-executive Directors. The term of office of the Board of Directors is three years, which will expire in March 2020.

Profile of Board Members

The profile of the Board members is provided below;

Hamdan Ali Nasser Al Hinai,

Chairman

Holds Master in Development and project management, Bachelors in Business Management & Economics and Diploma in international Development Management; Director General, Purchasing and Contracts, Ministry of Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Director, Oman Trading Company.

Anwar Hilal Hamdoon Al Jabri,

First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 20 years of industry experience and various leadership positions.

Sanjeev Bajjal,

Second Deputy Chairman

Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India.

Keith Gale,

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.

Mustafa Shafqat Anwar,

Director

Holds a Master of Business Administration, a Master of Public Administration and a Bachelor of Social Sciences (BSS) with Honors in Public Administration from the University of Dhaka, Bangladesh; Deputy Group CEO: Operations and Technology, Ahli United Bank BSC, Bahrain; Former Director, Ahli United Finance Company, Egypt; Former Director, Ahli United Bank (Egypt) S.A.E; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank (Egypt) S.A.E.; Former Group Head Of Operations, Ahli United Bank B.S.C., Bahrain; Former Chief Operating Officer, Commercial Bank of Bahrain, Bahrain; Former Chief Operating Officer, Grindlays Bahrain Bank, Bahrain; Former Operations Manager Gulf, ANZ Grindlays Bank, UAE. Held various Management positions with ANZ Banking Group in Bangladesh, UK, UAE and Australia.

Abdul Hameed Ahmed Mohamed Al Bulushi,

Director

Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 28 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

Rajeev Gogia,

Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Group Head of Strategic Development at Ahli United Bank BSC, Bahrain; Board Member of Ahli United Bank (Egypt) SAE; Board Member of Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Previous experience as Senior Division Head - Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE.

Ibrahim Said Badar Al Eisri,

Director

Member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Senior Manager Financial Controller & Investment Operations of State General Reserve Fund (SGRF); Vice-Chairman, Rakiza Infrastructure Fund; Al Hosn Investment Company; Director, Oman Energy Development; Member of the Income Tax Committee, Ministry of Finance. Having over 16 years of experience in different sectors including, Telecommunication, Oil & Gas and Financial & Investments; Held different leadership roles in Finance & Investment Operations.

Executive powers of the board are:

1. Power of approving financial objectives, the business and financial policies of the Bank.
2. Power of approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.
3. Power of reviewing and monitoring the disclosures and the compliance with regulatory requirements.
4. Power of nominating the members of the

Sub-Committees, CEO and the key employees.

Details of number of Board Meetings held during the year 2019

Sl. No.	Board Meeting
1.	28-Jan-2019
2.	27-Mar-2019
3.	30-Apr-2019
4.	29-Jul-2019
5.	20-Oct-2019
6.	10-Dec-2019

Directors Attendance Record in the Board Meetings

Name of Director	Position	Type of Directorship	Board Meetings Attended	# Sub-committees memberships (at year end)	Whether attended last AGM
Hamdan Ali Nasser Al Hinai	Chairman	Independent	6	NRC	Yes
Anwar Hilal Hamdoon Al Jabri	First Deputy Chairman	Independent	6	ECC, NRC	Yes
Sanjeev Bajjal	Second Deputy Chairman	Non-Independent	5	ACC	Yes
Keith Henry Gale	Director	Non-Independent	6	ECC, ERC, NRC	Yes
Mustafa Shafqat Anwar	Director	Non-Independent	6	ERC	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Director	Independent/ Representing Civil Service Employees Pension Fund	6	ACC	Yes
Rajeev Gogia	Director	Non-Independent/ Representing Ahli United Bank	5	ECC	Yes
Ibrahim Said Badar Al Eisri*	Director	Independent	4	ACC, ERC	N/A
Khalid Ali Saif Al Yahmadi**	Director	Independent	1	ACC, ERC	No

* Appointed as Board Member on 27th March 2019.

** Resigned from the Board on 27th March 2019.

Audit and Compliance Committee - ACC,
Executive and Credit Committee - ECC,
Executive Risk Committee - ERC,
Nomination and Remuneration Committee - NRC.

Independent directors are defined as per principle Eight of Code of Corporate Governance of MSM Listed Companies, revised definition issued through circular E/4/2015 dated 22nd July 2015.

Corporate Governance Report-2019 (continued)

SUB-COMMITTEES

ahlibank has four Board sub-committees to ensure the smooth functioning of the Bank; these are:



A. Audit and Compliance Committee:

The role of the Audit and Compliance Committee includes:

- Reviewing the scope of external and internal audits and over-see of the adequacy of the Bank's internal control systems through the reports of the internal and external auditors.
- Reviewing the quarterly and annual financial reports before submission to the Board for approval.
- Assist in discharging Board's oversight responsibilities relating to the Bank's accounting, corporate governance, Risk Management systems and compliance procedures

Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2019:

Composition of Audit and Compliance Committee		Meetings Dates			
Director's Name	Position	28-Jan-19	30-Apr-19	29-Jul-19	20-Oct-19
Abdul Hameed Ahmed Mohamed Al Bulushi	Chairman	Yes	Yes	Yes	Yes
Sanjeev Bajjal	Member	Yes	Yes	Yes	Yes
Ibrahim Said Badar Al Eisri*	Member	N/A	Yes	Yes	Yes
Khalid Ali Saif Al Yahmadi **	Member	Yes	N/A	N/A	N/A
Attendance	-	3	3	3	3

* Appointed as Board Member on 27th March 2019. ** Resigned from the Board on 27th March 2019.

B. Executive and Credit Committee:

The role of the Executive and Credit Committee includes:

- To provide the Board with a mechanism for considering in depth, any issue that the Board considers that requires detailed attention.
- To allow management to obtain input for the development of proposals prior to Board submission.
- To approve matters beyond the management's delegated authority but which do not need full Board approval.
- To focus on strategic reviews and proposals, investments, treasury and liquidity management, business plans and such other matters

Composition of Executive and Credit Committee and Details of Meetings held and Attendance Record of Members during the year 2019:

Composition of Executive and Credit Committee		Meetings Dates			
Director's Name	Position	23-Jan-19	25-Apr-19	28-Jul-19	24-Oct-19
Anwar Hilal Al Jabri	Chairman	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Rajeev Gogia	Member	Yes	Yes	Yes	Yes
Attendance	-	3	3	3	3

C. Executive Risk Committee:

The role of the Executive Risk Committee includes:

- Integrated approach to managing the risks inherent in various aspects of our business.
- Executive Risk Committee is responsible for monitoring risk levels according to various parameters and management is responsible for ensuring mitigation measures.
- To focus on review of all policies governing Bank's risk and funding exposure.
- To ensure the consistent adherence and implementation of the Board approved policies and treasury strategies in monitoring market and other risks.

Composition of Executive Risk Committee and Details of Meetings held and Attendance Record of Members during the year 2019:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	23-Jan-19	25-Apr-19	28-Jul-19	24-Oct-19
Keith Henry Gale	Chairman	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar	Member	Yes	No	Yes	Yes
Ibrahim Said Badar Al Eisri*	Member	N/A	Yes	Yes	Yes
Khalid Ali Saif Al Yahmadi**	Member	Yes	N/A	N/A	N/A
Attendance		3	2	3	3

* Appointed as Board Member on 27th March 2019. ** Resigned from the Board on 27th March 2019.

D. Nomination and Remuneration Committee:

The role of the Nomination and Remuneration Committee includes:

- The committee reviews the performance of all directors and management.
- To advise the Bank's Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.
- To help the General Meeting nominate competent Board members and elect the best out of them.
- Annual assessment of the Board's/Sub-Committees overall performance

Composition of Nomination and Remuneration Committee and Details of Meetings held and Attendance Record of Members during the year 2019:

Composition of Nomination and Remuneration Committee		Meetings Dates	
Director's Name	Position	28-Jan-19	29-Jul-19
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes
Anwar Hilal Hamdoon Al Jabri	Member	Yes	Yes
Keith Henry Gale	Member	Yes	Yes
Attendance		3	3

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD:

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of Association, is required to submit an application form (as prescribed by the Capital Market Authority) at least 2 working days before date fixed for the General Meeting for election of the Board members. The application shall be reviewed by the Nomination and Remuneration Committee of the Bank to ensure eligibility of the candidate and further recommendation to the Annual General Meeting. The Bank shall lodge the application form with the Capital Market Authority before the date of general meeting.

The director shall be elected by direct secret ballot by the shareholders. Each shareholder shall have number of votes equal to that of the shares held by him/her.

SHARIA SUPERVISORY BOARD OF AHLI ISLAMIC BANKING SERVICES-AHLI BANK SAOG

Sharia Supervisory Board:

The Sharia Supervisory Board (the SSB) is an independent body of specialized jurists in fiqh al-muamalat (Islamic commercial jurisprudence),

which is appointed with the responsibilities of giving Sharia directives, advices and approvals from formation stage of the Bank to operations stage and to ensure Sharia compliance of the Bank by giving decisions on Sharia Audit reports and producing a statement about Sharia compliance of the Bank. The SSB complies with regulatory requirements of Central Bank of Oman in respect of their supervision and advisory role for the Bank. The Fatawa and rulings of the SSB are binding on the Bank's Islamic Banking Services. The SSB of the Ahli Islamic is comprised of four members.

Corporate Governance Report-2019 (continued)

Profile of SSB Members:

The profile of SSB members is provided below;

Dr. Ahmed Mohiyeldin Ahmed, Chairman

Dr. Ahmed is Head of Banking Research & Studies Department of Bank's Establishment and Studies, Al Barakah Group, Saudi Arabia. He holds PhD in Islamic Economics from Um Al Qorah University, Kingdom of Saudi Arabia. He is a leading spokesperson of Sharia and its application in Islamic finance, and has played vital role by serving several Islamic financial institutions with Sharia supervisory services. He has more than twenty years' experience of Sharia supervision of Islamic financing institutions and sits on the SSB of several Islamic financial institutions. He is well known for his extensive contribution for the institutionalization of Islamic banking and finance industry through his immense contribution with research, studies and practices.

Dr. Mohammed Taher Al-Ibrahim, Member

Dr. Mohammed Taher has held several senior positions in academics and judiciary. He has been an Assistant professor at Sultan Qaboos University (SQU) and a judge and lawyer at High Court. Academically, Dr. Taher has a doctorate degree in Constitutional Jurisprudence from Edinburgh University, U.K. He is a researcher of Legal and Sharia studies and has been supervising masters' students research thesis.

Dr. Abdullaouf Abdullah Hamood Al-Tobi, Member

Dr. Abdullaouf has a PhD in Law from International Islamic University Malaysia, Master of Law - LLM in Law from UK and Bachelor Degree in Sharia Judicial Science. He is a highly talented, knowledgeable and an experienced professional and has meticulous experience of Legal and Islamic Banking practices. Currently, He is working as the General Council, Compliance Officer and Board Secretary of Abraj Energy Services SAOC and previously he held various positions at different organizations.

Dr. Mustaien Ali Abdulhamid, Member

Dr. Mustaien worked as Sharia supervisor at AlRajhi bank and as Sharia senior adviser at Bank albilad, Riyadh, Kingdom of Saudi Arabia, a position held continuously for approximately twenty years between summer 1995 and late spring 2016. He holds PhD in Islamic Economics from Um ul Qura University in Markka, Kingdom of Saudi Arabia. In the course of his respective duties in several Islamic financial institutions in the region, a key part of his job is to ensure compliance with Sharia requirements. In this regard, he is well known for his quite detailed knowledge and understanding of Islamic banking. He has been instrumental in clarifying various Islamic based decisions handled down by the banks Sharia scholars in a number of professional institutions and consultancy firms in Saudi Arabia and Sudan and contributed and supervised various Sharia auditing programs.

Composition of SSB and Details of Meetings held and Attendance Records of Members during the year 2019:

Composition of Sharia Supervisory Board		Meetings Dates			
Member Name	Position	14-May-19	11-Jul-19	10-Oct-19	10-Dec-19
Dr. Ahmed Mohiyeldin Ahmed	Chairman	No	Yes	Yes	Yes
Dr. Mohammed Taher Al-Ibrahim	Member	Yes	Yes	Yes	Yes
Dr. Abdullaouf Abdullah Hamood Al-Tobi	Member	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhamid	Member	Yes	Yes	Yes	Yes
Attendance		3	4	4	4

SSB Remuneration and Sitting Fee expenses:

The shareholders' of the Bank in the AGM held on 27 March 2019 have approved the remuneration and sitting fee of the SSB as below;

Designation	Amount
Chairman of SSB	RO 9,625 per annum
Member of SSB	RO 6,738 per annum
Sitting fees per meeting (maximum of five sitting per year per member)	RO 385 per meeting

Below table shows the remuneration and sitting fee expenses of SSB

Member Name	Position	Remuneration	Sitting Fee
Dr. Ahmed Mohiyeldin Ahmed	Chairman	9,625	1,155
Dr. Mohammed Taher Al-Ibrahim	Member	6,738	1,540
Dr. Abdullaouf Abdullah Hamood Al-Tobi	Member	6,738	1,540
Dr. Mustaien Ali Abdulhamid	Member	6,738	1,540
Total		29,839	5,775

EXECUTIVE MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

Said Abdullah Al Hatmi,
Chief Executive Officer

Holds a Bachelor Degree in Finance and a Master Degree in Business Administration. Certified Management Accountant from Institute of Management Accountant, USA and has completed the Oxford Advanced Management and Leadership Program, Executive Management Programs from HBS and University of Virginia. Has over seventeen years of diverse commercial banking experience in the areas of corporate banking, retail banking, risk management, finance and banking operations. Previously held various senior positions at HSBC Bank Middle East, Oman.

Abdullah Salim Saud Salim Al Jabri,
DCEO – Support Services

Having over 23 years of banking experience in conventional and Islamic Banking with ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where held various positions including Manager Retail Banking and Head of Central Operations. Lead the operations team in centralization of operations after the conversion to full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, became General Manager of ahli Islamic (erstwhile Al Hilal Islamic Banking Services) and contributed in the success of Islamic Banking. Certified Islamic Banker from General Council for Islamic Banks and Financial Institution, Bahrain. Hold National Diploma in Engineering from Business & Technology Education Council, UK. Hold Leadership and Management certificate from Darden School of Business, University of Virginia, USA. Hold advance Leadership and management certificate from University of Cambridge Judge Business School, UK.

Bilal Anwar,
DCEO – Wholesale Banking

Hold Bachelor of Commerce from University of Allahabad, India; Certified Associate of Indian Institute of Bankers (CAIIB) from Indian Institute of Bankers, Mumbai, India; Chartered Financial Analyst (CFA- ICFAI) from Institute of Chartered Financial Analyst of India; Post Graduate Diploma in Business Administration from ICFAI Business School, Hyderabad, India. Having more than eighteen years of experience in banking with various banks including, Ahli United Bank BSC, Bahrain; IDBI Bank Limited, Mumbai, India; Abu Dhabi Commercial Bank, Mumbai, India

Hanaa Mohammed Al Kharusi,
General Manager – Corporate Banking

Hold Bachelor degree in Science from Indiana University, USA and has attended Executive Programs at the London Business School, UK and IMD, Switzerland as well as Said Business School, Oxford, UK. She is a Graduate member of the prestigious National CEO Program (NCP) sponsored by the Diwan of Royal Court. Having over 19 years of banking experience in leading Omani banks and has successfully led high performing teams in Corporate banking, Corporate Liabilities and electronic Banking, successfully leading major strategic financial transactions and advisory projects in Oman Bilaterally and on syndicated basis.

Ghada Abdul Latif Al Balushi,
General Manager – Chief Risk Officer

Holds Master of Business Administration from University of Hull; UK, Bachelor of Science in Economics from Sultan Qaboos University and has completed the Cambridge's flagship Advanced Leadership Program. Having more than nineteen years of Banking experience in the areas of Corporate Banking and Risk Management Departments in leading Omani banks. Previously worked in several banks in various senior positions including National Bank of Oman and Oman Development Bank.

Sriram Balakrishnan,
DGM – Chief Financial Officer

Holds Bachelor degree of commerce from University of Madras, India. Chartered Accountant from Institute of Chartered Accountant of India, Completed final examination of Institute of Cost Accountants of India. Post qualification of over 22 years in various industries including significant banking experience.

NON-COMPLIANCE

There has neither been any non-compliance of legal requirements nor have been any penalties or strictures imposed by the regulators on any matters relating to the Capital Market Authority over the last three years.

The Bank has been imposed penalties of RO 52,000 by Central Bank of Oman over the last three years based on findings of CBO examination report observations;

2019: RO 20,000 - Related to some provisions of the Law on Combating Money Laundering and Terrorism Financing.

2018: RO 4,000 - Related to Islamic financing facilities allowed to customers.

2017: RO 28,000 - Non-compliance of personal loans directives, annual report disclosures, outsourcing rules, Electronic Banking System Security directives.

REMUNERATION MATTERS

An amount of RO 161,800 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2019. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al-Hinai	4,600
Anwar Hilal Hamdoon Al Jabri	5,600
Sanjeev Baijal	3,700
Keith Henry Gale	6,800
Mustafa Shafqat Anwar	3,900
Abdul Hameed Ahmed Mohamed Al Bulushi	5,000
Rajeev Gogia	3,700
Ibrahim Said Badar Al Eisri *	3,800
Khalid Ali Saif Al Yahmadi **	1,100
Total	38,200

* Appointed as Board Member on 27th March 2019.
** Resigned from the Board on 27th March 2019.

Total remuneration paid to the top executives (top six) of the bank amounted to RO 1,107,746 during the year 2019 which included salary, benefits, perquisites, bonuses and gratuities.

Incentives and bonuses are based on key performance indicators towards achievements of Bank's long-term strategic objectives.

The duration of the standard service contract for expatriate executives is two years. The notice period for executives ranges from one to three months depending on the executive's contract.

No severance fees are payable to the top executive officers other than compensation for short notice of termination of services.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Ahli Bank SAOG publishes quarterly accounts and the same are uploaded on the Muscat Securities Market (MSM) website. The latest news and information about the Bank is also available on its website, www.ahlibank.om.

Corporate Governance Report-2019 (continued)

All annual reports include a comprehensive management report. Management makes regular presentations to analysts, the press and investors. These briefings outline the Bank's performance, and strategy on future prospects.

The Management discussion and analysis report is part of the Annual Report.

MARKET PRICE DATA:

High / Low share prices in 2019

Table below shows the high / low prices of the Bank's shares in Rial Omani during the months in the year 2019.

Month	High	Low
Jan-19	0.147	0.142
Feb-19	0.145	0.137
Mar-19	0.147	0.120
Apr-19	0.127	0.119
May-19	0.120	0.118
Jun-19	0.120	0.114
Jul-19	0.115	0.110
Aug-19	0.120	0.110
Sep-19	0.125	0.117
Oct-19	0.127	0.122
Nov-19	0.132	0.125
Dec-19	0.130	0.123

DONATIONS AND CHARITY

The Bank paid a donation/charity of RO 40,000 on various initiatives to various associations.

In addition, Ahli Islamic paid RO 16,400 to various charitable organizations including RO 5,000 from the Charity Fund.

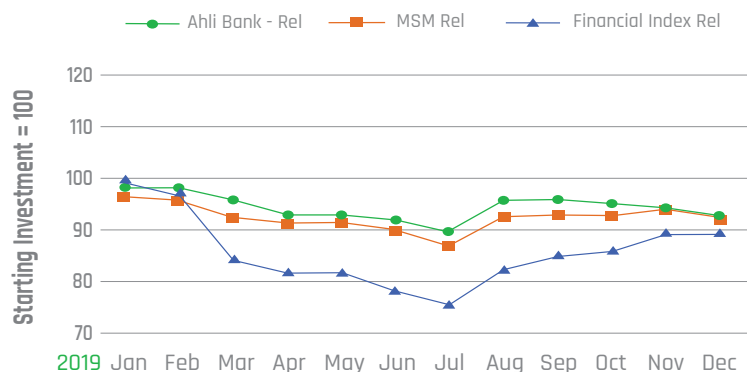
EXTERNAL AUDITOR'S PROFILE - PwC

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

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

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

Performance of Ahli Bank SAOG Vs MSM and Banking Indices



Bank has outstanding Tier 1 perpetual subordinated bonds as follows:

Issue Date	RO	First Recall Option
11 October 2017	50 million	11 October 2022
17 December 2018	54 million	17 December 2023
13 June 2019	20 million	13 June 2024

* These bonds are listed in Muscat Securities Market.

Distribution of share ownership among shareholders as of 31 December 2019:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	549,885,812	35.00%
Southern Orbit Investments LLC	Oman	155,413,096	9.89%
Oman Investment Fund Holding LLC & Oman Investment Fund	Oman	152,373,812	9.70%
Civil Service Employees - Pension Fund	Oman	133,863,622	8.52%
Ubhar Capital SAOC - Asset Management	Oman	133,316,964	8.49%
Ministry of Defense - Pension Fund	Oman	90,891,486	5.79%
Others		355,357,557	22.61%
Total		1,571,102,349	100%

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

PwC billed an amount of RO 70,500 towards professional services rendered to the Company for the year 2019 (RO 66,500 for audit and RO 4,000 for tax and other services)

Other Important Matters:

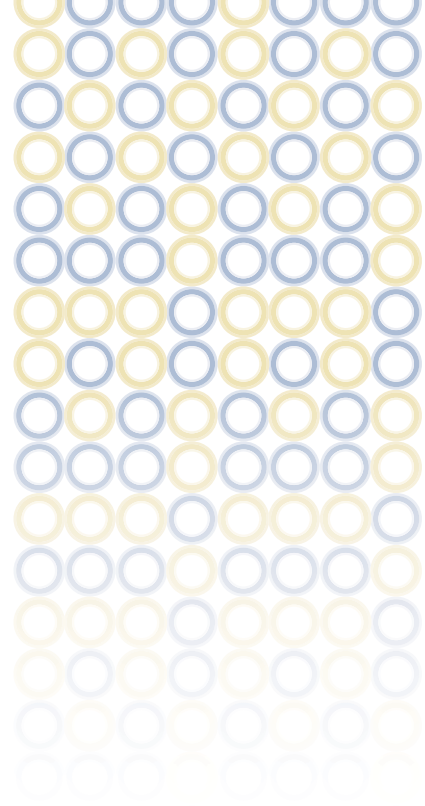
As required by the Code of Corporate Governance, the Shareholders appointed an independent third party for appraising the performance of the Board of Directors for the financial year 2019.

ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS

- The Board is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.
- The Board has reviewed the efficiency and adequacy of internal control systems of the issuer and it complies with internal rules and regulations.
- There is no material thing that affects the continuation of the bank and its ability to continue its operations during the next financial year.

Hamdan Ali Nasser Al Hinai
Chairman
Board of Directors

Abdul Hameed Ahmed Al Bulushi
Chairman
Audit and Compliance Committee



BASEL II PILLAR III AND BASEL III Report

31 December 2019





Report of factual findings to the Board of Directors of Ahli Bank SAOG in respect of Basel II - Pillar III and Basel III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Ahli Bank SAOG (the Bank) set out on pages 45 to 76 as at and for the year ended 31 December 2019. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007, Circular No. BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

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

**Muscat, Sultanate of Oman
9 March 2020**

PricewaterhouseCoopers LLC Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

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BASEL II PILLAR III AND BASEL III Report

31 December 2019

1. INTRODUCTION

This report represents the Basel II Pillar III and Basel III qualitative and quantitative disclosures, highlighting the capital adequacy, risk profile and control process of Ahli Bank SAOG ("the Bank") as per the requirements of CBO. The disclosures are intended to complement the Pillar I, minimum capital requirements and Pillar II, supervisory review process of the framework. They should be read in conjunction with the financial statements as of 31st December 2019.

The Bank has a formal "**Disclosure Policy**" for disclosure of information that it makes available to the general public as well as to the regulatory bodies. This policy is framed to enhance transparency about its activities and promote good governance. The Bank makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

2. SCOPE

The Bank prepares this report in accordance with the Basel Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO).

The Scope of application covers the Bank only and is not part of any group either as a member or as top corporate entity in the group.

3.. CAPITAL STRUCTURE

The capital base for complying with regulatory purposes differs from accounting capital. The Bank's regulatory capital is classified into two categories- Tier I and Tier II capital.

Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by cumulative unrealized losses on FVOCI investments and any other applicable deduction specified in the Basel Accord. AT1 capital consists of perpetual capital instruments.

Tier II capital consists of revaluation reserves/ cumulative fair value gain or losses on Fair value through other comprehensive income (FVOCI) instruments, Stage 1 & Stage 2 expected credit loss allowance as allowed by CBO and subordinated debt.

There is no innovative or complex capital instrument in the capital structure of the Bank.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3.. CAPITAL STRUCTURE (Continued)

CAPITAL MANAGEMENT

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The Bank has following credit ratings at present:

Capital Intelligence		Fitch Rating	
Foreign currency Long Term Rating;	BBB-	Viability rating;	bb
Foreign currency Short term;	A3	Long term foreign currency and local currency IDRs;	BB+
Outlook;	Stable	Short term foreign currency and local currency IDRs;	B
		Support rating; 3 Outlook;	Stable

The process of assessing the capital requirements of the Bank commences with the compilation of the annual business plan by individual business units which are then consolidated into the annual budget plan of the Bank. The annual budget plan provides an estimate of the overall growth in assets, its impact on capital and targeted profitability.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Bank employs capital rationing techniques to allocate capital for each of the Bank's business risk departments in order to optimize returns.

Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework. The Bank also manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue return capital to shareholders or issue capital securities.

The Bank's Finance department monitors and reports the planned versus actual position, to ensure that the Bank is always adequately capitalized. Risk weighted assets and capital are monitored by the Risk Management department also periodically to assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted returns.

The Bank's capital structure as at 31 December 2019, based on the CBO guidelines is as follows:

Sl.No	Elements of Capital	Amount (RO'000)
	Tier I Capital	
1	Share capital*	164,966
2	Legal reserves	31,632
3	Subordinated debt reserve	14,000
4	Retained earnings*	31,892
	Common Equity Tier I before deductions	242,490
	Deductions:	
5	Cumulative unrealized losses recognized directly in equity	(8,669)
	Common Equity Tier 1	233,821
	Additional Tier I Capital	
	Tier 1 perpetual subordinated bonds	124,000
	Tier I capital after all deductions	357,821
	Tier II Capital	
7	Revaluation reserves / cumulative fair value gains on FVOCI Instruments	1,173
8	Stage 1 & Stage 2 expected credit losses	15,640
9	Subordinated debt	3,000
	Total Tier II Capital	19,813
	Total Regulatory Capital	377,634

* The Board of Directors has proposed a cash dividend of 10% and stock dividend of 5%, which have been adjusted and is subject to CBO approval and shareholder approval in the AGM.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3. CAPITAL STRUCTURE (Continued)

CAPITAL ADEQUACY

Qualitative disclosures

The Bank's capital management framework sets out to define, measure, raise and deploy capital in a co-ordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The capital management process of Islamic window is aligned with the strategic planning process of the Bank. Capital planning is carried out in conjunction with the strategic business and financial planning exercise. Bank maintains a five year rolling strategic plan which is updated and reviewed by the Board of Directors on an annual basis. Capital requirements are assessed based on projected business plans and budget. The Bank uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Bank's total capital adequacy ratio is 16.91% as against the CBO requirement of 13.5% as at 31 December 2019. The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market, risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures. In order to equip the requirements of the advanced approaches, the Bank has already implemented obligor rating models and the ratings are being tracked regularly.

In order to meet with Pillar 2 requirements of Basel II Norms, the Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing the Bank's capital adequacy in relation to various risks such as interest rate risk, liquidity risk, concentration risk etc., as well as a strategy for maintaining the capital adequacy level. Based on the guidelines issued by Central Bank of Oman, assessment under ICAAP has been completed for the years from 2019-2022 and it has been determined that the Bank is adequately capitalized to undertake its planned business activities.

ICAAP process is divided into a base case and stressed scenarios. The Bank has assumed three different kinds of stress scenarios, namely Mild, Medium and Severe. These stress scenarios differ in terms of stress event impact level (Mild being the lowest and Severe being the highest).

The following stress scenarios are applied:

- Rise in NPL by % of direct credit facilities
- Portion of SME sector performing loans become NPLs
- Decline in prices of the Bank's portfolio of investments
- Appreciation / depreciation of local currency against all other currencies
- Withdrawal of customer deposits
- Decline in liquid assets
- Shift in LIBOR yield curve
- Increase in cost of funding due to reputational risk
- Branch generated less than expected profitability
- Consolidated impact of different scenarios

In addition to the above, the Bank has also identified additional stress scenarios to include testing of expected credit losses under IFRS9.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3. CAPITAL STRUCTURE (Continued)

Quantitative disclosures

I) Position of various risk weighted assets is presented as under (RO '000):

As on 31 December 2019

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	2,551,300	2,382,184	1,948,432
2	Off-balance sheet items	115,049	108,970	106,976
3	Derivatives	3,187	3,187	1,392
4	Market risk	-	-	68,763
5	Operational Risk	-	-	107,150
	Total	2,669,536	2,494,341	2,232,713
5	Tier 1 capital			357,821
6	Tier 2 capital			19,813
7	Total Regulatory Capital			377,634
7.1	Capital requirement for credit risk			277,668
7.2	Capital requirement for market risk			9,283
7.3	Capital requirement for operational risk			14,465
8	Total required capital			301,416
9	CET 1 ratio			10.47%
10	Tier 1 ratio			16.03%
11	Total capital ratio			16.91%

II) Capital adequacy

As on 31 December 2019

Sl. No	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	357,821
2	Tier II capital (after supervisory deductions and up to eligible limits)	19,813
3	Risk weighted assets - banking book	2,056,800
4	Risk weighted assets - operational risk	107,150
5	Total Risk Weighted Assets - Banking Book + Operational Risk	2,163,950
6	Minimum required capital to support RWAs of banking book and operational risk	292,133
	i) Minimum required Tier I capital for banking book and operational risk	248,854
	ii) Tier II capital required for banking book and operational risk	43,279
7	Tier I capital available for supporting trading book	88,840
8	Tier II capital available for supporting trading book	-
9	Risk Weighted Assets - trading book	68,763
10	Total capital required to support trading book	9,283
11	Minimum Tier I capital required for supporting trading book	2,646
12	Total Regulatory Capital	377,634
13	Total Risk Weighted Assets - Whole bank	2,232,713
14	BIS Capital Adequacy Ratio	16.91%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

4. RISK EXPOSURE AND ASSESSMENT

Risk Management Principles

Risk is an inherent part of the Bank's business activities. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the Bank's capital and financial positions. The Bank has already in place a risk appetite statement set by the Board.

The Bank manages the risks effectively and efficiently by making risk management an integral part of commercial banking business. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading the Bank to identifying the various associated risks.

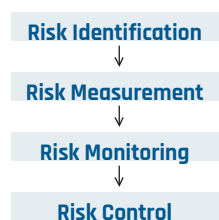
Having identified the risks, the Risk Management Department formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank's risk management department reports directly to the Executive Risk Committee (a Board Committee).

The Bank's Risk Management includes the following four elements:



Risk framework

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

- ▶ Audit and Compliance Committee
- ▶ Executive & Credit Committee
- ▶ Executive Risk Committee
- ▶ Nomination and Remuneration Committee

Management Committees:

- ▶ Credit & Investment Committee
- ▶ Assets and Liabilities Committee
- ▶ Credit Risk Management Committee
- ▶ Operational Risk Committee
- ▶ IT Steering Committee
- ▶ New Product Committee
- ▶ Special Assets Committee

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

4. RISK EXPOSURE AND ASSESSMENT (Continued)

Policies and Procedures:

The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

- | | |
|--|---|
| 1. Anti-Money Laundering Manual | 21. Operational Risk Policy & Procedure |
| 2. Personal Account Dealing Policy | 22. Fraud Risk Management Policy |
| 3. New Product Committee and Procedures | 23. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 24. Market Risk Policy |
| 5. Compliance Policy | 25. Risk Management-Approach & Framework |
| 6. Communications Policy | 26. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 27. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 28. Asset Management Policy |
| 9. Dividend Policy | 29. Brokerage Policy |
| 10. Expenses Policy | 30. FATCA Policy |
| 11. Capital Management Policy | 31. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 32. Profit Distribution Policy |
| 13. Board Remuneration Policy | 33. Charity Policy |
| 14. Financial Institutions Policy | 34. Zakah Policy |
| 15. Human Resources Policy | 35. Cost Sharing Policy |
| 16. Outsourcing Policy | 36. Segregation of Funds Policy |
| 17. Code of Business Conduct | 37. Social Media Policy |
| 18. Information Security Management Policy | 38. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 39. Third Party Risk Management Policy |
| 20. Credit and Investment Policy | |

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

The bank has exposure to the following risks:

5. CREDIT RISK

Qualitative Disclosure

Credit risk arises from the potential financial loss resulting from customers / counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Bank evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Bank, and proactive management is critical to the Bank's long-term success.

The Bank has a comprehensive due diligence system for approving credit facilities, and well defined policies on controlling credit risk at the counterparty, group, economic sector, and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the Board, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the CBO. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

With regard to credit culture, Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of loans through a Loan Review Mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

The Bank also has a robust system of borrowers' risk ratings that assesses the risk of corporate borrowers and monitors ratings changes periodically. In case of financial institutions, ratings by credit rating agencies are considered.

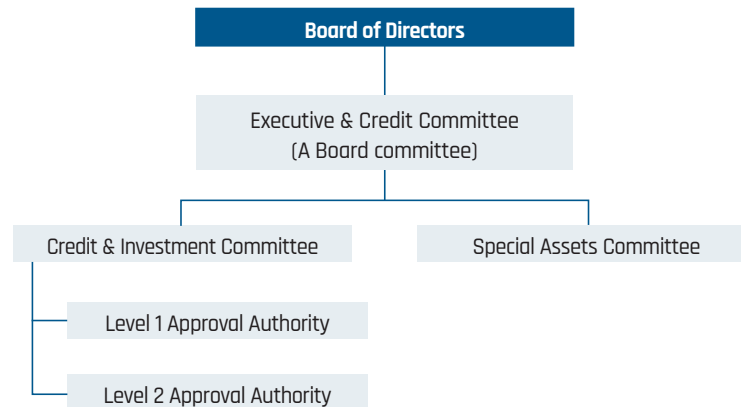
BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

Structure and policies of credit risk management

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the Board of Directors. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks / FIs or Sovereigns and also lending related to the Bank's brokerage activities, the legal nature of the borrowers and their credit risk rating.

In regards to transaction risk, Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

The Credit Risk Management Committee (CRMC) oversees, adherence to the limits, exceptions and makes recommendations to the Board in respect of policy related matters pertaining to credit risk management.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

Past due credit exposures and Impairment policy

As a matter of policy, the Bank creates allowance for impairment of financing contracts promptly and in a consistent manner. The Bank has adopted IFRS 9 "Financial Instruments" accounting standard in 2018 based on which impairment is assessed on a forward looking expected credit loss (ECL) basis, as required by CBO.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank has established a policy to perform an assessment on a monthly basis 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 classified below:

Stage 1:

When Loans and advances & financing are first recognized, the Bank recognizes 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 Loans and advances & financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for lifetime ECLs. 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:

Loans and advances & financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs.

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

l) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Sl. No.	Type of credit exposure	Average gross exposure		Total gross exposure	
		31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
1	Overdrafts	72,957	62,482	76,477	69,437
2	Personal loans	699,668	654,240	728,241	671,095
3	Loans and against trust receipts	62,151	65,087	60,641	63,661
4	Other loans	1,141,437	976,158	1,211,698	1,071,175
5	Bills purchased/ discounted	24,593	23,860	19,458	29,727
	Total	2,000,806	1,781,827	2,096,515	1,905,095

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

II) Geographic distribution of exposures by major type of credit exposure: (RO '000)

SI No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Others	Total
1	Overdrafts	76,477	-	-	-	-	76,477
2	Personal loans	728,241	-	-	-	-	728,241
3	Loans against trust receipts	60,641	-	-	-	-	60,641
4	Other loans	1,194,930	10,100	2,750	412	3,506	1,211,698
5	Bills Purchased/discounted	19,458	-	-	-	-	19,458
6	Any other	-	-	-	-	-	-
	Total	2,079,747	10,100	2,750	412	3,506	2,096,515

III) Industry or counter party type distribution of exposures, broken down by major types of credit exposure: (RO '000)

SI No.	Economic sector	Overdrafts	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Wholesale and retail trade	16,078	157,124	4,647	-	177,849	39,212
2	Mining and quarrying	1,475	105,271	1,419	-	108,165	-
3	Construction	25,433	425,708	8,193	-	459,334	117,357
4	Manufacturing	12,257	86,888	1,566	-	100,711	28,518
5	Transport and communication	852	63,567	-	-	64,419	260
6	Electricity, gas and water	5,056	111,586	-	-	116,642	6,053
7	Financial institutions	26	148,018	-	-	148,044	3,583
8	Services	8,888	145,743	3,633	-	158,264	3,067
9	Personal loans	2,521	725,720	-	-	728,241	134
10	Non- resident lending	-	16,768	-	-	16,768	-
11	All others	3,891	14,187	-	-	18,078	26,350
	Total	76,477	2,000,580	19,458	-	2,096,515	224,534

IV) Residual contractual maturity of the whole portfolio, broken down by major types of credit exposure:(RO'000)

SI No	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Upto 1Month	3,824	160,521	6,486	-	170,831	95,344
2	1-3 Months	3,824	193,543	10,855	-	208,222	24,532
3	3-6 Months	3,824	76,298	1,783	-	81,905	23,502
4	6-9 Months	3,824	47,127	313	-	51,264	9,858
5	9-12 Months	3,824	34,248	21	-	38,093	6,040
6	1-3 Years	19,119	226,744	-	-	245,863	48,686
7	3-5 Years	19,119	174,801	-	-	193,920	15,523
8	Over5 Years	19,119	1,087,298	-	-	1,106,417	1,048
	Total	76,477	2,000,580	19,458	-	2,096,515	224,534

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

(V) Major industry or counterparty type :(RO'000)

SI No	Economic sector	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance	Stage 3 allowance	Impairment allowance made during the year	Advances written off, net during the year
1	Wholesale & retail trade	177,849	5,641	2,766	269	1,598	-
2	Mining & quarrying	108,165	24	1,799	11	413	-
3	Construction	459,334	6,903	6,232	4,027	608	463
4	Manufacturing	100,711	831	1,267	615	895	-
5	Electricity, gas & water	116,642	-	136	-	53	-
6	Transport & communication	64,419	756	1,067	217	(238)	-
7	Financial institutions	148,044	-	934	-	429	-
8	Services	158,264	2,952	1,834	1,415	(270)	-
9	Personal loans	728,241	19,321	4,250	11,820	3,431	12
10	Nonresident lending	16,768	-	331	2,440	112	-
11	All others	18,078	10	99	-	80	-
	Total	2,096,515	36,438	20,715	20,814	7,111	475

The Bank has set aside an additional amount of RO 1.893 million as a non-distributable special reserve on restructured loans based on CBO circular as at 31 December 2019.

Stage 3 allowance includes reserve interest amounting RO 2.877 million.

(VI) Amount of impaired loans broken down by significant geographical areas including, with the amounts of impairment allowances related to each geographical area:(RO'000)

SI No.	Countries	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance	Stage 3 allowance	Impairment allowance made during the year	Advances written off, net during the year
1	Oman	2,079,747	33,688	20,381	18,377	6,997	475
2	Other GCC countries	10,100	-	316	-	2	-
3	OECD countries	2,750	2,750	-	2,201	(101)	-
4	India	412	-	-	236	219	-
5	Pakistan	-	-	-	-	-	-
6	Others	3,506	-	18	-	(6)	-
	Total	2,096,515	36,438	20,715	20,814	7,111	475

Stage 3 allowance includes reserve interest amounting to RO 2.877 million.

(VII) Movement of gross loans(RO '000)

SL No.	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	1,706,131	166,149	32,815	1,905,095
2	Mitigation/ changes (+/-)	(206,192)	199,762	6,430	-
3	New loans	968,073	495,124	10,157	1,473,354
4	Recovery of loans	(784,046)	(485,104)	(12,309)	(1,281,459)
5	Loans written off	-	-	(475)	(475)
6	Closing balance	1,683,966	375,931	36,618	2,096,515
7	Impairment allowance held	6,117	14,598	20,814	41,529
8	Reserve interest	-	-	2,877	2,877

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

Credit risk- Disclosures for portfolios subject to the standardized approach.

As part of the standardized approach, the Bank follows the simplified approach for credit risk capital charge calculation. Accordingly, keeping in view the CBO guidelines, the Bank has used the financial collaterals such as cash, acceptable bank guarantees and shares listed on the MSM main index as part of the credit risk mitigation for arriving at the capital adequacy.

Qualitative Disclosures:

The Bank is following Moody's, S&P and Fitch rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk. As per the guidelines, the ratings corresponding to the two lowest risk weights are considered and the higher of the two risk weights is applied. There has been no change in the approach compared to previous year.

The bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans and SME which are risk weighted at 35% and 75% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, the bank uses the discretion of the simple approach for recognizing collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2019, subject to the standardized approach is as below:

S. No.	Product / Rating	Capital Charge						Total
		0%	20%	35%	50%	75%	100%	
	Rated							
1	Sovereign	334,369	-	-	-	-	818	335,187
2	Banks	-	31,751	-	15,711	-	-	47,462
	Unrated							
1	Corporate	-	-	-	-	74,116	1,124,239	1,198,355
2	Banks	-	19,845	-	7,068	-	-	26,913
3	Retail	-	-	-	-	-	454,122	454,122
4	Claims secured by residential property	-	-	73,090	-	-	182,206	255,296
5	Claims secured by commercial property	-	-	-	-	-	249,850	249,850
6	Past due loans	-	-	-	-	-	12,747	12,747
7	Other assets	15,057	-	-	-	-	74,546	89,603
	Total Banking Book	349,426	51,596	73,090	22,779	74,116	2,098,528	2,669,535

Credit Risk Mitigation: Disclosures for standardized approaches

Qualitative disclosure

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on- and off-balance sheet netting (and the extent to which the Bank makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Bank also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the policy is assigned in the Bank's favor. Real estate collateral is valued on regular intervals and also on need basis based on the assessment of risk and economic scenario prevailing.

The Bank normally accepts the following types of collateral:

- Cash margins and fixed deposits
- Real estate comprising income-producing and non-income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Debt securities subject to meeting approved criteria.
- Funds subject to meeting approved criteria

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (Continued)

The Bank also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2019 towards loan and advances not impaired amounted to RO 826,904million.

Quantitative disclosure

As per Basel & CBO guidelines the Bank stands in possession of the following eligible collateral:

1) Cash 2) Shares 3) Sovereign Guarantee.

Exposure covered by cash collateral - RO 82.249 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral - RO 211.861 Million; after application of haircut (50%) exposure stands at RO. 105.931 Million.

Exposure covered by Sovereign guarantee RO 8.2 Million; after application of haircut (0%) exposure stands at RO Nil.

Particulars	RO 'Mn
Gross Exposure - banking book	2,669,536
Credit risk mitigation	(196.38)
Risk weight impact - for banking book	(416.355)
Risk weighted assets - banking book	2,056.8
Capital charge for credit risk	277.668

The Risk weighted assets for credit risk as per Basel II is RO 2,056.800 million.

Counterparty Credit Risk:

Counterparty Credit Risk (CCR) is the risk that the customer or trading counterparty of the Bank, usually an OTC derivative contract, may fail to fulfill its obligation which may result in replacement or termination of transaction at a loss to the Bank.

Bank has implemented Current Exposure Method (CEM) for the measurement of Risk Weighted Assets under CCR. Exposure under CEM method is defined as sum of Potential Future Exposure (PFE) and Current Credit Exposure (CCE). The PFE is the estimate of amount of exposure that may occur over a one year time horizon while CCE is the sum of positive MTM (Mark to Market) values. Bank has total exposure (CEM) of OMR on account of OTC derivatives (FX forwards, Interest Rate Swaps etc) and RWA of RO 3.187 million as at 31 December 2019.

6. MARKET RISK :

Qualitative disclosure

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank. Market risk arises from fluctuations in interest rates, foreign exchange rates, commodity and equity prices. Market risk has been categorized into interest rate risk, equity position risk and foreign exchange risk. The Bank does not take any trading positions in commodities

The Bank has a robust Market Risk Management framework which comprises of risk identification, setting up of limits, monitoring, reporting, escalation matrix and resolution. The policy and procedure ensures that all limits are within risk appetite of the Bank and approved by the Board.

Details of various market risks are as below:

Interest Rate Risk Principles and Framework

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK (Continued)

adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in Trading Book

Interest rate risk in the trading book is the risk of losses in the market value of underlying financial instruments and arises from the sensitivity of interest bearing instruments to interest rate volatility. Interest rate risk in the trading book is monitored through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

As of 31 December 2019, there were no trading book position sensitive to interest rate changes.

Equity Position Risk

Equity position risk occurs due to change in market value of the Bank's equity portfolio due to change in general market or security specific conditions. The ALCO monitors all equity investment on periodic basis. The Market Risk and Mid Office is responsible to ensure appropriate risk limits are in place and reports the same to appropriate authorities.

As of 31 December 2019, equity investments classified as FVTPL amount to OMR 0.470 million.

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions. Treasury takes every possible measure to cover open positions created by customer transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, deposits, etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are centrally managed by the Bank's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies to monitor and control foreign exchange exposures.

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at RO 76.135 million (including RO 74.233 million open position in effectively pegged currencies) as on 31 December 2019.

Quantitative Disclosure:

Capital Charge:

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positions are monitored on daily basis to ensure open currency position is maintained within the regulatory limit. For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date.

In addition, the Bank holds insignificant FVTPL investments. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits.

Table showing capital charge for interest rate, equity and FX risk as on 31 December 2019 is shown below:

Type of risk	2019	2018
Interest rate risk	41	-
Equity position risk	40	76
Foreign exchange risk	5,420	5,029
Percentage of NOP to regulatory capital	20.16%	17.12%
Regulatory ceiling (% to total network)	40%	40%

Total risk weighted assets for trading book is RO 68.763 million.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK (Continued)

Investments in the banking book

The Bank's investments will have to be within the overall limits and restrictions as CBO may prescribe from time to time.

However, the Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors based on the product category like Repo, CBO CD or Equity / Bonds, as a percentage of the Capital Base of the Bank. All investment proposals are routed through the ALCO to the relevant approval authority.

In addition to the CBO restrictions on investments by banks, and such internal limits as described above, the following restrictions will apply:

The Bank's appetite for private subscriptions and unlisted / unquoted equity is low, and any such proposals should be adequately justified on a case by case basis, and has to be approved at least by the Executive & Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's capital base.

All investments of the Bank should be in either USD or USD pegged GCC currencies or any investments in other currencies should be approved at least by the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base, after review and recommendation of the ALCO. Aggregate investments in all such currencies should not exceed a limit based on the Bank's capital base unless approved by the Board of Directors. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

Any investments of the Bank outside the GCC countries or US will have to be specifically approved by at least the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

The Bank will try to achieve reasonable diversification of its equity investment portfolio among the economic sectors, and will not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

- a. Trading and retailing
- b. Real estate development, management and rental income
- c. Construction / contracting and building materials
- d. Travel / tourism, hotels, restaurants, entertainment, health services and education
- e. Warehousing / storage, logistics, supply management and transportation, utilities and telecom
- f. Oil and gas
- g. Banking and financial services
- h. Conglomerates or holding companies investing in any of the above business lines

This should include all proprietary investments made through the Bank's Asset Management Department.

Any proposal that leads to contravention of the above or any proposal for investment in any sector or industry not listed above will need approval of the Executive Credit Committee.

All investment approval requests for specific transactions or trading limits must be made by the relevant Business Line, approved by the Credit and Investment Committee and submitted to the Executive & Credit Committee as delegated. Any approval above those delegated limits is to be elevated to the Board level for approval. Any restrictions on investments as per effective CBO regulations shall apply. The details of investments are provided in Note 9 of the financial statements.

Investment exits/ Stop loss (does not cover Asset Management Division operations)

Exit strategies is clearly outlined in all investment proposals. In case of a change in the exit strategy, approval from the same approving body is obtained. Sale of FVOCI investments to book profit is approved/ ratified by the ALCO.

Unless stated otherwise in the investment application the tolerance level of a decrease in the value of a liquid investment is a maximum of 15%. Any holding with loss equivalent or greater than 10% is notified to ALCO members. In case the investment is witnessing a material change (downgrading or expected downgrade etc.), the Business Unit notifies the Credit and Investment Committee outlining the action/remedial plan.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK (Continued)

Interest Rate Risk in Banking Book (IRRBB)

The Bank monitors its interest rate risk in the banking book through performing repricing gap analysis of interest rate sensitive assets and liabilities. Under repricing gap analysis, the Bank distributes interest rate sensitive assets and liabilities into time bands according to their maturity (if fixed rate) or time remaining to their next repricing (if floating rate). The size of the gap for a given time period – that is assets minus liabilities that reprice or mature within that time band – gives an indication of the Bank's repricing risk exposure. The Bank evaluates the effect of a parallel shift in yield curve on its economic value by applying a proxy for modified duration multiplied by the assumed parallel change in interest rates to the gap under each time band.

The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement, are given below.

Interest rate risk is mainly related to retail banking book as they are re-priced with any change in the CBO's interest rate and for corporate customer re-priced in line with the market conditions.

Deposits are re-priced based on their final maturity, or if linked to a floating rate index, on the re-pricing date. Deposits that are insensitive to interest rate movements are categorized separately. The earnings at risk are calculated based on interest rate re-pricing gaps. The Bank is confident of sourcing the cheaper source of funds by way of customers' deposits. ALCO along with the risk management department identifies interest rate risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using re-pricing gaps.

Quantitative Disclosure:

Exposure and sensitivity analysis

The assumption used for assessing the impact of interest rate risk is by applying a 200 bps interest rate sensitivity. Earning impact of a 200 basis points parallel shift in interest rate is provided below:

	2019	2018
	RO '000	RO '000
Impact of +200 bps interest rate increase	7,487	6,590
Impact of -200 bps interest rate decrease	(7,487)	(6,590)
Impact of +200 bps interest rate increase as % of Capital	+1.98%	+1.87%
Impact of -200 bps interest rate decrease as % of Capital	-1.98%	-1.87%

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2019 is highlighted in Note 36.3.2 of the financial statements.

7. LIQUIDITY RISK

Qualitative Disclosure

The Bank defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Bank:

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its Demand & time deposit liabilities with CBO in the form of clearing balances
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Bank's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The Risk Management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management Departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and Funding Policy and a liquidity contingency plan have been established by the Bank.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

7. LIQUIDITY RISK (Continued)

Liquidity and Funding Policy

The Liquidity and Funding policy of the Bank is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's ALCO reviews the Liquidity Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position. The key ones are:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi-currency liquidity management

The Bank also maintains significant investments in liquid instruments issued by Government & banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Bank with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. The degree of diversification of the liquid assets portfolio is reviewed by the ALCO on a monthly basis.

As per the guidelines of CBO, the Bank is required to maintain Liquidity Coverage Ratio (LCR) of at least 100%. Further, Net Stable Funding Ratio (NSFR) is also prescribed at a minimum of 100%. Internally, the Bank has implemented a more stringent requirement for these ratios which is reviewed by ALCO on a monthly basis. A detailed disclosure on the position of the Bank in regards to these ratios is contained later in this report.

Diversification of liabilities

The Bank seeks to maintain a diversified funding base, and monitors the degree of diversification in its liability base on a monthly basis. Depositor concentration is reviewed by the ALCO on a monthly basis.

The liquidity policy recognizes the inherent value of the Bank's longer term depositors. The Bank seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Bank also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The Bank's exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Bank addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Bank assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

The Treasurer along with the Head of Risk Management derives and documents the Maturity Profile behavioral adjustments, based on redemptions and withdrawal requests. These are communicated to the ALCO for discussion and acceptance.

Liquidity Contingency Plan:

It is imperative for the Bank to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. The Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

7. LIQUIDITY RISK (Continued)

crisis. LCP will serve as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations at both solo and consolidated level.

The Bank has adopted quantitative and qualitative key warning indicators which is monitored by Market Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking, DCEO - Support Services, Head of Finance, Head of Treasury and Head of Risk.

Quantitative disclosure

The maturity gaps are measured and reported as per CBO circular BM 955 dated May 7, 2003 and subsequent amendments including the CBO circular dated March 20, 2018 on Maturity of Assets and Liabilities. Disclosure pertaining to the maturity profile of assets and liabilities as at 31 December 2019 are provided in note 36.2.2 of financial statements. Following is the position of currency-wise cumulative gaps as % of cumulative liabilities as monitored against CBO prescribed maximum limits:

as of 31 December 2019

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	33.2%	18.8%	9.6%	-1.3%	-21.3%
OMR	47.0%	32.0%	19.4%	2.1%	-22.9%
USD	16.1%	-0.3%	-8.0%	-10.4%	-22.4%
Others	38.9%	13.7%	11.6%	10.2%	7.7%

as of 31 December 2018

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Consolidated	58.7%	37.1%	11.1%	-0.1%	-16.0%
OMR	53.4%	42.6%	21.1%	7.4%	-11.9%
USD	58.8%	26.9%	-4.6%	-12.6%	-24.0%
Others	599.8%	206.2%	111.2%	76.9%	71.5%
CBO prescribed Limits	-15%	-15%	-20%	-25%	-25%

8. OPERATIONAL RISK

Operational Risk Framework

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

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

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. The Bank has an Operational Risk Management Framework elucidating the processes involved in the operational risk management. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

The Bank identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Bank's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

8. OPERATIONAL RISK (Continued)

The Bank has identified the following operational risks and has been implementing an effective framework to manage them:

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk

In order to effectively manage the risks arising from frauds, in line with the CBO Circular on Fraud Risk Management, the Bank has introduced separate Fraud Risk Management (FRM) Policy & FRM Process. The FRM unit forms part of the Operational risk management division of Risk Management functions and is independent of other departments.

Control and Mitigation of Operational Risk

The Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Bank has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Bank also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis.

The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Bank ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Bank takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Bank's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Bank's profitability or image. Reputation risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in. The Bank identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Bank's commitment to their interests
- Quality of products, services and sales practices
- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies and procedures in place to manage and monitor reputation risk.

Business Continuity Risk

The Bank has documented the Business Continuity Policy (BCP) which outlines the business continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

8. OPERATIONAL RISK (Continued)

Business Continuity Test

During the year 2019, the Bank has carried out a comprehensive BCP test and a volume test on a working day in order to test the resilience of the Bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the results of the BCP/ volume tests were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Fraud Risk Management

The Bank takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Bank.

Concentration Risk

Concentration risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from large exposure to counterparty, a sector or country. Concentration risk can be mitigated by formulating limits, by a thorough check on counterparty's quality or adequate collateral support etc. As part of ICAAP, thresholds for exposure concentrations has been set up, this will trigger additional capital requirements based on concentration in terms of large exposures to counterparties, sector exposure concentration (excluding retail lending) and geographical exposure concentration (other than to Oman).

Information Security Risk

The bank has adopted an Information Security Management System (ISMS) /process and a framework by which the Bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

Other Risks

The Bank is also exposed to other risks such as reputational risk, strategic risk, business cycle risk, legal risk, residual risk, settlement risk, Shariah non-compliance risk (Pertaining to Islamic Banking) etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

The Bank follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-/+) gain/ loss on sale of investments (-) extraordinary / irregular items of income.

Item (RO '000)	2019	2018	2017
Net interest income	57,039	52,054	44,599
Non-interest income	12,710	10,099	10,352
Provision for unpaid interest	747	970	91
Gain on sale of investment	-	-	(554)
Insurance and other irregular items	(30)	(61)	(48)
Gross income	70,466	63,062	54,440
Average Income			62,656
Gross Income times of Alpha (15%)			9,398
Operational risk based on Basic Indicator Approach			117,480

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 8,572 million as of 31 December 2019

The Risk weighted assets for operational risk as per Basel II is RO 107.150 million.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

9. COMPENSATION POLICY

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is endeavored to attract, retain and motivate the best people in the industry. The Bank has a Board appointed Nomination and Remuneration Committee whose primary objective is to advise the Bank's Board Chairman on the remuneration of Board members, appointment and remuneration of senior management personnel.

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. The objective of Performance Review process is to assess the employee on his/her performance against assigned key Performance Indicators and objectives. At senior management levels, the overall Bank's performance is the overriding criteria while awarding performance awards. The payout is based on consideration of all aspects governing performance including the stage of business, market conditions, and time horizon of risks, sustainable returns and the cyclical nature of certain businesses. The Bank is committed to responsible compensation practices which balance reward based on performance and promoting principled behavior and actions. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

The key management comprises of 6 members (2018: 6 members) of the management committee.

The below table provides details of key management compensation:

	2019	2018
	RO '000	RO '000
Salaries and allowances	1,068	834
End of service benefits	39	24
Total	<u>1,107</u>	<u>858</u>

10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2019.

11. BASEL III CAPITAL DISCLOSURE

The below capital disclosures are prepared in accordance with the requirements of the CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013.

11.1 THE 3 STEP APPROACH TO RECONCILIATION

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III COMMON DISCLOSURE TEMPLATE

Common Equity Tier 1 capital: instruments and reserves		RO(000's)
1	Directly issued qualifying common share capital () plus related stock surplus/premium	164,966
2	Retained earnings	31,892
3	Accumulated other comprehensive income (and other reserves)	45,632
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	242,490
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	(8,669)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitization gain on sale (as set out in paragraph 14.9 of CP-1)	-

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common equity Tier 1	(8,669)
29	Common Equity Tier 1 capital (CET1)	233,821
Additional Tier 1 capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	124,000
31	of which: classified as equity under applicable accounting standards	124,000
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	-
		124,000
Additional Tier 1 capital : regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH:	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	124,000
45	Tier 1 capital (T1 = CET1 + AT1)	357,821
Tier 2 capital: instruments and provisions		

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	3,000
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	16,813
49	of which: instruments issued by subsidiaries subject to phase out	19,813
50	Provisions	
51	Tier 2 capital before regulatory adjustments	19,813
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	Total National specific regulatory adjustments	-
	Of which: Investments in Tier 2 capital of unconsolidated banking and financial subsidiary companies, associates or affiliates ect.,	-
	Of which: shortfall in the Tier 2 regulatory capital in the unconsolidated entities	-
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	19,813
59	Total capital (TC = T1 + T2)	377,634
60	Total risk weighted assets	2,232,713
60a	Credit risk weighted assets	2,056,800
60b	: Market risk weighted assets	68,763
60c	: Operational risk weighted assets	107,150
	Capital Ratios and buffers	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.47%
62	Tier 1 (as a percentage of risk weighted assets)	16.03%
63	Total capital (as a percentage of risk weighted assets)	16.91%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.500%
65	of which: capital conservation buffer requirement	2.500%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.62%
	National Minima (if difference from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	9.500%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	11.500%
71	National total capital minimum ratio (if different from Basel 3 minimum)	13.500%
	Amounts below the thresholds for deduction (before risk weighting)	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

72	Non-significant investments in the capital of other financials	8,729
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,640
77	Cap on inclusion of provisions in Tier 2 under standardised approach	20,310
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2019	Published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	108,492	108,492
Certificates of deposit	-	-
Due from banks	50,276	50,276
Loans and advances	2,054,986	2,054,986
Investments in securities	258,148	258,148
Loans and advances to banks	-	-
Property and equipment	21,194	21,194
Deferred tax assets	-	-
Other assets	25,431	25,431
Total assets	2,518,527	2,518,527
Liabilities		
Due to banks	197,705	197,705
Customer deposits	1,711,726	1,711,726
Borrowings	127,050	127,050
Deferred tax liabilities	121	121
Other liabilities	75,730	75,730
Subordinated bonds	17,000	17,000
Total liabilities	2,129,332	2,129,332

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

Year ended 31 December 2019	Published financial statements	Under regulatory scope of consolidation
Shareholders' Equity		
Paid-up share capital	157,110	157,110
Share premium	-	-
Legal reserve	31,632	31,632
General loan loss reserve	-	-
Impairment reserve	9,334	9,334
Retained earnings	55,459	55,459
Special reserve	1,893	1,893
Cumulative changes in fair value of investments	(4,233)	(4,233)
Subordinated debt reserve	14,000	14,000
Total shareholders' equity	265,195	265,195
Tier 1 Perpetual subordinated bonds	124,000	124,000
Total equity	389,195	389,195
Total liability and shareholders' funds	2,518,527	2,518,527

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

Table 2b - Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

For the year ended 31 December 2019	2019 financial Statement	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	108,492	108,492	
Balance with banks and money at call & short notice	50,276	50,276	
Balance with banks and money at call & short notice, of which:		50,279	
- Stage1 / 2 impairment allowance , of which	-	3	
- amount eligible for T2	-	3	G
Investments, of which:	258,148	258,148	
Fair Value Through Other Comprehensive income (FVOCI)	-	257,678	
Fair Value Through Profit & Loss (FVTPL)	-	470	
- Stage1 / 2 impairment allowance , of which	-	-	
- amount eligible for T2	-	-	
Loans and advances - Net, of which:	2,054,986	2,054,986	
- Loans and advances to domestic banks	-	-	
- Loans and advances to domestic customers	-	1,647,876	
- Loans and advances to non-resident for operations abroad	-	15,910	
- Loans and advances to SMEs	-	92,991	
- Financing from Islamic banking window	-	339,738	
- Expected credit loss allowance , of which:	-	(41,529)	
- Stage 3 impairment allowance and Reserve interest & profit	-	(20,814)	
- Stage1 / 2 impairment allowance , of which	-	(20,715)	
- amount eligible for T2	-	14,876	G
- amount ineligible for T2	-	5,840	
Fixed assets	21,194	21,194	
- Intangibles(CET1 adjustment)	-	3,340	E
- Other fixed asset	-	17,854	
Other assets	25,431	25,431	
Other assets, of which	-	25,442	
- Stage1 / 2 impairment allowance , of which	-	(11)	
- amount eligible for T2	-	7	G
- amount ineligible for T2	-	4	
Total Assets	2,518,527	2,518,527	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

For the year ended 31 December 2019	2019 financial Statement	Under Regulatory scope of consolidation	Reference
Capital & Liabilities			
Paid-up Capital, of which:	157,110	157,110	
- Amount eligible for CET1	-	157,110	A
Reserves & Surplus; of which	232,085	232,085	
- Amount eligible for CET1 (Legal reserve)	31,632	31,632	C
- Amount eligible for CET1 (Subordinated debt reserve)	14,000	14,000	D
- Amount eligible for CET1 (Retained earnings)	55,459	31,892	B
- Proposed cash dividend (removed from retained earnings)	-	15,711	
- Proposed stock dividend (removed from retained earnings)	-	7,856	A
- Amount ineligible for CET1 (Special Reserve)	1,893	1,893	
- Amount eligible for AT1	124,000	124,000	I
- Amount ineligible for T2 (Impairment reserve)	9,334	9,334	
- Amount eligible for T2 (Investments Fair value gains)	(4,233)	1,173	H
- FVOCI investments fair value loss (CET1 adjustment)	-	(5,329)	E
- FVOCI investments fair value gain unutilized	-	(77)	
Total Capital	389,195	389,195	
Deposits from banks	197,705	197,705	
Customer deposits, of which	1,711,726	1,711,726	
- Deposits for customers	-	1,504,513	
- Deposits of Islamic Banking window	-	207,213	
Borrowings, of which:	127,050	127,050	
- From banks	127,050	127,050	
Borrowings in form of bonds, Debentures & sukuks, of which	17,000	17,000	
- Amount eligible for T2		3,000	F
- Amount ineligible for T2		14,000	
Other liabilities & provisions	75,851	75,851	
Other liabilities & provisions, of which		74,755	
- Stage 3 provision		-	
- Stage1 / 2 impairment allowance , of which		1,096	
- amount eligible for T2		754	G
- amount ineligible for T2		342	
Total Capital & Liabilities	2,518,527	2,518,527	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.1 The 3 step approach to reconciliation (Continued)

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)		
For the year ended 31 December 2019	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	164,966 A
2	Retained earnings	31,892 B
3	Accumulated other comprehensive income (and other reserves)	45,632 c+d
4	Common Equity Tier 1 capital before regulatory adjustments	242,490
5	Prudential valuation adjustments	(8,669) E
6	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
7	Total regulatory adjustments to Common equity Tier 1	(8,669)
8	Common Equity Tier 1 capital (CET1)	233,821
9	Additional Tier 1 capital (AT1)	124,000 I
	Tier 1 capital (T1 = CET1 + AT1)	357,821
10	Directly issued qualifying Tier 2 instruments plus related stock surplus	3,000 F
11	Expected credit loss allowance / Provisions	15,640 g
12	Fair value reserve of FVOCI investments	1,173 H
	Tier 2 capital before regulatory adjustments	19,813
	Tier 2 capital: regulatory adjustments	-
	Tier 2 capital (T2)	19,813
	Total capital (TC = T1 + T2)	377,634

* The Board of Directors have proposed cash dividend of 10% and stock dividend of 5%, which has been adjusted in the capital of the Bank.

11.2 Main Features of regulatory capital

Table below discloses the key features of all the regulatory capital issued by the Bank;

1	Ahli Bank SAOG	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1	Tier II	Additional Tier I	Additional Tier I	Additional Tier I
5	Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Eligible	Eligible	Eligible
6	Eligible at solo/group/group & solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated debt	Rights Issue of Perpetual Subordinated bonds	Private placement	Private placement

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.2 Main Features of regulatory capital (Continued)

8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 157.110 million	RO 14.000 million	RO 50 million	RO 54 million	RO 20 million
9	Par value of instrument	RO 157.110 million	RO 17.000 million	RO 50 million	RO 54 million	RO 20 million
10	Accounting classification	Shareholders' Equity	Liability amortised cost	Equity	Equity	Equity
11	Original date of issuance	Bank started operations in 1997	*Refer to the below table	11-October-2017	17- December-2018	13- June-2019
12	Perpetual or dated	Perpetual	Dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	**Refer to the below table	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.
16	Subsequent call dates, if applicable	NA	NA			
	Coupons / dividends					
17	Fixed or floating dividend/ coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	NA	4%-5%	7.50%	7.50%	7.50%
19	Existence of a dividend stopper	NA	No	NA	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	NA	NA	NA
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	Statutory approach	NA	NA	NA
25	If convertible, fully or partially	NA	May convert fully or Partially	NA	NA	NA
26	If convertible, conversion rate	NA	Average price *	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	Optional	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	CET 1	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	Ahli Bank	NA	NA	NA
30	Write-down feature	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Statutory approach	Statutory approach	Statutory approach	Statutory approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent	Permanent

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

11. BASEL III CAPITAL DISCLOSURE (Continued)

11.2 Main Features of regulatory capital (Continued)

34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA	NA	NA

Number Of Subordinated debt (as per Basel III) (R0 '000)	Par value of instrument	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 2	1,000	800	30-Sep-14	30-Sep-21
Subordinated debt 3	5,000	4,000	01-Oct-14	02-Oct-21
Subordinated debt 4	5,000	5,000	10-Nov-14	10-Nov-20
Subordinated debt 7	3,000	2,400	30-Jun-15	29-Jun-21
Subordinated debt 8	3,000	1,800	10-Jun-15	13-Jun-22
Total	17,000	14,000		

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

12. BASEL III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III - Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	256,694	255,346
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	294,607	14,312
3	Stable deposits	96,955	4,585
4	Less stable deposits	197,653	9,727
5	Unsecured wholesale funding, of which:	491,401	233,540
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	10,733	2,683
7	Non-operational deposits (all counterparties)	399,598	149,786
8	Unsecured debt	81,071	81,071
9	Secured wholesale funding	73,144	-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	163,954	163,954
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	69,798	6,980
14	Other contractual funding obligations		
15	Other contingent funding obligations	100,016	5,001
16	TOTAL CASH OUTFLOWS	1,192,921	423,786
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	190,095	112,304
19	Other cash inflows	187,229	163,954
20	TOTAL CASH INFLOWS	377,324	276,258
21	TOTAL HQLA		255,346
22	TOTAL NET CASH OUTFLOWS		147,528
23	LIQUIDITY COVERAGE RATIO (%)		173.08%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

12. BASEL III LIQUIDITY DISCLOSURE (Continued)

NET STABLE FUNDING RATIO (NSFR)

Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

NSFR disclosure is presented below based on positions as on 31 December 2019.

Bank has maintained NSFR levels of 101%-105% during the year.

Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	Weighted Value
ASF ITEM						
1	Capital	402,014	-	-	-	402,014
2	Regulatory Capital	402,014	-	-	-	402,014
3	Other Capital Instruments					
4	Retail Deposits and Deposits from small Business Customers	223,281	18,364	30,372	62,249	309,779
5	Stable Deposit	53,638	253	398	435	52,008
6	Less Stable Deposit	169,644	18,111	29,974	61,814	257,771
7	Wholesale Funding	339,343	315,720	342,426	391,933	890,678
8	Operational	1,601	-	-	-	801
9	Other Wholesale Funding	337,742	315,720	342,426	391,933	889,877
10	Liabilities with matching interdependent Assets					
11	Other Liabilities	-	-	-	127,050	127,050
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	265,785	-	-	-	-
14	Total ASF					1,729,520
15	Total NSFR high-quality liquid assets (HQLA)					16,345
16	Deposits held at other financial institutions for operational purposes	30,735	-	-	-	15,368
17	Performing Loans and Securities					
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	133,902	4,593	-	22,382
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	-	-	1,326,655	1,127,656
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	77,416	263,152	60,523	-	200,546
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	175,413	114,019
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	4,316	3,669
25	Assets with matching interdependent liabilities					
26	Other Assets:					
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	295	261	164	720
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	86,189	86,189
32	Off-balance sheet items	-	193,054	31,141	65,257	14,473
33	Total RSF	-	-	-	-	1,601,366
34	NET STABLE FUNDING RATIO	-	-	-	-	108.00%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

12. BASEL III LIQUIDITY DISCLOSURE (Continued)

LEVERAGE RATIO (LR)

Common Disclosure Template

The below Leverage Ratio disclosure is prepared in accordance with the requirements of the CBO letter BSD/2017/BKUP/Leverage/564 – Implementation of Basel III Leverage Ratio issued on 27 August 2017.

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure			
	Item	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	2,518,527	2,517,694
2	Adjustments for derivative financial instruments	3,186	3,922
3	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	82,147	151,433
4	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	102,065	116,399
5	Other adjustments	-	-
6	Leverage ratio exposure	2,705,925	2,789,448

Table 2: Leverage ratio common disclosure template			
	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,518,527	2,517,694
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,518,527	2,517,694
Derivative Exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	866	871
5	Add-on amounts for PFE associated with all derivatives transactions	2,319	3,051
11	Total derivative exposures (sum of lines 4 to 10)	3,186	3,922
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	69,493	146,409
14	CCR exposure for SFT assets	12,654	5,034
16	Total securities financing transaction exposures (sum of lines 12 to 15)	82,147	151,443
Other Off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	224,534	238,892
18	(Adjustments for conversion to credit equivalent amounts)	(122,469)	(122,493)
19	Off-balance sheet items (sum of lines 17 and 18)	102,065	116,399
Capital and total exposures			
20	Tier 1 capital	373,532	350,073
21	Total exposures (sum of lines 3, 11, 16 and 19)	2,705,924	2,789,458
Leverage Ratio			
22	Basel III leverage ratio (%)	13.8%	12.5%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

12. Basel III LIQUIDITY DISCLOSURE (Continued)

The financial statements and other related disclosures are also available on the Bank's website, to view it on the website refer the link <http://ahlibank.om/investor-relations/financial-reports/>.

The Basel II, Pillar III report is prepared in accordance with the requirements of Basel II, Pillar III disclosures as set out in the CBO circulates BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III - Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated 26 October 2016. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on 27 August 2017 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated 30 December 2018.

For Ahli Bank SAOG



Hamdan Ali Nasser Al Hinai
Chairman

Date: 23 January 2020



Financial Statements of the Bank

For the year ended 31 December 2019





Independent auditor's report to the shareholders of Ahli Bank SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ahli Bank SAOG (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter • Expected credit losses on loans and advances and financing to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

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Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Our audit approach (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="314 749 799 814">Expected credit losses on loans and advances and financing to customers</p> <p data-bbox="314 858 799 1054">The Bank applies the requirements of International Financial Reporting Standard 9 ‘Financial Instruments’ (IFRS 9) to determine Expected Credit Loss (ECL) on its loans and advances and financing portfolios.</p> <p data-bbox="314 1098 799 1273">We focused on this area because management make complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment, such as:</p> <ul data-bbox="314 1295 799 1841" style="list-style-type: none"> • establishing portfolios of similar financial assets for the purposes of measuring ECL; • choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD); • determining criteria for significant increase in credit risk (SICR); • establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; 	<p data-bbox="807 858 1523 989">We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances.</p> <p data-bbox="807 1011 1523 1054">We performed the following substantive procedures:</p> <ul data-bbox="807 1076 1523 1753" style="list-style-type: none"> • read the Bank’s IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation; • obtained an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; • tested a sample of loans to determine the appropriateness and application of the staging criteria; • obtained an understanding of the methodology to identify and calculate individual impairment allowance for stage 3 exposures and tested a sample of credit exposures against the methodology; • assessed the related financial statement disclosures to determine if they are in accordance with the requirements of International Financial Reporting Standards. <p data-bbox="807 1775 1523 1841">We involved our specialists in areas that required specific expertise (e.g. ECL model) including:</p> <ul data-bbox="807 1862 1523 1928" style="list-style-type: none"> • testing the implementation of IFRS 9 methodology for the ECL calculation;



Independent auditor’s report to the shareholders of Ahli Bank SAOG (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> judgement to determine when a default event has occurred (for stage 3 customers); and determining disclosure requirements in accordance with IFRS. <p>Information on the accounting policy and credit risk management is included in notes 4.3 and 36.1 to the financial statements respectively. Disclosures relating to the ECL provisions are included in notes 8 and 28 to the financial statements.</p>	<ul style="list-style-type: none"> testing the reasonableness of historical macroeconomic and forward looking information and assumptions used; assessing the appropriateness of the definition of default and testing the application of the default criteria; assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD; assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; testing and assessing the reasonableness of the Bank’s use of scenarios, weightings and discounting.

Other information

The directors are responsible for the other information. The other information comprises the Chairman’s report, Management Discussion and Analysis, Financial Statements of Ahli Islamic, Corporate Governance Report, Shari’a Compliance Report of Shari’a Supervisory Board, Sustainable Results including five years summary and Basel II Pillar II and Basel III Report of the Bank and Ahli Islamic (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report and the Bank’s Annual Report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Bank’s Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.



Independent auditor's report to the shareholders of Ahli Bank SAOG (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Independent auditor's report to the shareholders of Ahli Bank SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

A large, handwritten signature in blue ink, appearing to read 'Kashif Kalam', is written over the printed name.

Kashif Kalam
Muscat, Sultanate of Oman
9 March 2020

A smaller, handwritten signature in blue ink, appearing to read 'Kashif Kalam', is written below the printed name.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

2018 US\$ '000	2019 US\$ '000		Note	2019 RO '000	2018 RO '000
ASSETS					
398,457	281,797	Cash and balances with Central Bank of Oman	6	108,492	153,406
62,408	130,587	Due from banks	7	50,276	24,027
4,858,901	5,337,626	Loans & advances and financing, net	8	2,054,986	1,870,677
556,033	670,514	Investment securities	9	258,148	214,073
27,899	66,055	Other assets	12	25,431	10,741
45,429	55,049	Property, equipment and software	10	21,194	17,490
5,949,127	6,541,628	TOTAL ASSETS		2,518,527	2,290,414
LIABILITIES					
381,239	513,519	Due to banks	13	197,705	146,777
4,315,961	4,446,042	Customers' deposits	14	1,711,726	1,661,645
135,000	330,000	Borrowed funds	15	127,050	51,975
652	314	Deferred tax liability	11	121	251
118,863	196,701	Other liabilities	16	75,730	45,762
64,935	44,156	Subordinated liabilities	17	17,000	25,000
5,016,650	5,530,732	TOTAL LIABILITIES		2,129,332	1,931,410
EQUITY					
388,647	408,078	Share Capital	18	157,110	149,629
74,104	82,161	Legal reserve	19	31,632	28,530
48,312	36,364	Subordinated debt reserve	17	14,000	18,600
(17,821)	(10,995)	Fair value reserve		(4,233)	(6,861)
5,005	4,917	Special reserve	8	1,893	1,927
20,026	24,244	Impairment reserve	8	9,334	7,710
144,074	144,049	Retained earnings		55,459	55,469
662,347	688,818	TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK		265,195	255,004
270,130	322,078	Tier 1 Perpetual subordinated bonds	21	124,000	104,000
932,477	1,010,896	TOTAL EQUITY		389,195	359,004
5,949,127	6,541,628	TOTAL LIABILITIES AND EQUITY		2,518,527	2,290,414
Net assets value per share (US cents / baizas)					
44	44		22	169	170
813,566	754,512	Contingent liabilities and commitments	23	290,487	313,223

The financial statements and notes 1 to 38 were approved by the Board of Directors on 23 January 2020 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 78-82

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

2018	2019		Note	2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
237,317	274,036	Interest income	24	105,504	91,367
(122,717)	(157,842)	Interest expense	25	(60,769)	(47,246)
114,600	116,194	NET INTEREST INCOME		44,735	44,121
43,086	49,527	Income from Islamic financing and investments	24	19,068	16,588
(22,480)	(17,569)	Unrestricted investment account holders' share of profit and profit expense	25	(6,764)	(8,655)
20,606	31,958	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		12,304	7,933
21,091	26,662	Fees and commission income	27	10,265	8,120
(1,143)	(678)	Fees and commission expense	27	(261)	(440)
19,948	25,984	Net fees and commission income		10,004	7,680
6,283	7,029	Other operating income	26	2,706	2,419
161,437	181,165	OPERATING INCOME		69,749	62,153
(13,267)	(15,249)	Net impairment on financial assets	28	(5,871)	(5,108)
148,170	165,916	NET OPERATING INCOME		63,878	57,045
(38,777)	(44,194)	Staff expenses	29	(17,015)	(14,929)
(3,592)	(5,907)	Depreciation and amortisation	10	(2,274)	(1,383)
(18,026)	(21,713)	Other operating expenses	30	(8,360)	(6,940)
(60,395)	(71,814)	OPERATING EXPENSES		(27,649)	(23,252)
87,775	94,102	PROFIT BEFORE TAXATION		36,229	33,793
(13,005)	(13,543)	Tax expense	11	(5,214)	(5,007)
74,770	80,559	PROFIT FOR THE YEAR		31,015	28,786
		OTHER COMPREHENSIVE INCOME / (EXPENSE)			
		Items that will not be reclassified to profit or loss			
(2,486)	(1,444)	Changes in fair value of FVOCI equity investments		(556)	(957)
68	166	Realized gain on equity investment at FVOCI		64	26
		Items that will be reclassified to profit or loss			
(317)	(473)	Changes in fair value of cash flow hedge - net		(182)	(122)
(10,738)	8,743	Changes in fair value of FVOCI debt investments - net		3,366	(4,134)
(13,473)	6,992	OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR		2,692	(5,187)
61,297	87,551	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		33,707	23,599
5	5	Basic and diluted earnings per share (US cents / baizas)	31	20	18

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 78-82

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

		Attributable to the owners of the Bank								Tier 1		
		Share capital	Legal reserve	General loan loss reserve	Subordinated debt reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Perpetual subordinated bonds	Total equity
Note		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2019		149,629	28,530	-	18,600	(6,861)	1,927	7,710	55,469	255,004	104,000	359,004
		149,629	28,530	-	18,600	(6,861)	1,927	7,710	55,469	255,004	104,000	359,004
Profit for the year		-	-	-	-	-	-	-	31,015	31,015	-	31,015
Other comprehensive income		-	-	-	-	2,692	-	-	-	2,692	-	2,692
Total comprehensive income		-	-	-	-	(4,169)	-	-	31,015	33,707	-	33,707
Transactions within equity												
Transfer to legal reserve		19	3,102	-	-	-	-	-	(3,102)	-	-	-
Transfer to subordinated debt reserve		17	-	-	3,400	-	-	-	(3,400)	-	-	-
Transfer from subordinated debt reserve		17	-	-	(8,000)	-	-	-	8,000	-	-	-
Transfer to impairment reserve		8	-	-	-	-	-	1,624	(1,624)	-	-	-
Transfer from special reserve			-	-	-	-	(34)	-	34	-	-	-
Gain on sale of equity investments at FVOCI			-	-	-	(64)	-	-	64	-	-	-
Interest paid on Tier 1 perpetual subordinated bond		21	-	-	-	-	-	-	(8,553)	(8,553)	-	(8,553)
			3,102	-	(4,600)	(64)	(34)	1,624	(8,581)	(8,553)	-	(8,553)
Transactions with owners recognised directly in equity												
Cash dividends		20	-	-	-	-	-	-	(14,963)	(14,963)	-	(14,963)
Issue of bonus shares		18, 20	7,481	-	-	-	-	-	(7,481)	-	-	-
Total transactions with owners			7,481	-	-	-	-	-	(22,444)	(14,963)	-	(14,963)
Proceeds from Tier 1 perpetual subordinated bond		21	-	-	-	-	-	-	-	-	20,000	20,000
At 31 December 2019		157,110	31,632	-	14,000	(4,233)	1,893	9,334	55,459	265,195	124,000	389,195
At 31 December 2019 (US\$ '000)		408,078	82,161	-	36,364	(10,995)	4,917	24,244	144,049	688,818	322,078	1,010,896

STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Attributable to the owners of the Bank									Tier 1 Perpetual subordi- nated bonds	Total equity
		Share capital	Legal reserve	General loan loss reserve	Subordi- nated debt reserve	Fair value reserve	Special reserve	Impair- ment reserve	Retained earnings	Total		
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000		
At 1 January 2018		142,504	25,651	6,543	13,600	(122)	228	-	66,423	254,827	50,000	304,827
Impact of initial application of IFRS 9		-	-	(6,543)	-	(1,526)	-	1,082	1,526	(5,461)	-	(5,461)
Restated balance at 1 January 2018		142,504	25,651	-	13,600	(1,648)	228	1,082	67,949	249,366	50,000	299,366
Profit for the year		-	-	-	-	-	-	-	28,786	28,786	-	28,786
Other comprehensive expense, net of tax		-	-	-	-	(5,187)	-	-	-	(5,187)	-	(5,187)
Total comprehensive income		-	-	-	-	(5,187)	-	-	28,786	23,599	-	23,599
Transactions within equity												
Transfer to legal reserve	19	-	2,879	-	-	-	-	-	(2,879)	-	-	-
Transfer to impairment reserve	8	-	-	-	-	-	-	6,592	(6,592)	-	-	-
Transfer to special reserve		-	-	-	-	-	1,699	-	(1,699)	-	-	-
Gain on sale of equity investments at FVOCI		-	-	-	-	(26)	-	-	26	-	-	-
Technical write off of loans and advances		-	-	-	-	-	-	36	3	39	-	39
Interest paid on Tier 1 perpetual subordinated bond	21	-	-	-	-	-	-	-	(3,750)	(3,750)	-	(3,750)
Transfer to subordinated debt reserve	17	-	-	-	5,000	-	-	-	(5,000)	-	-	-
		-	2,879	-	5,000	(26)	1,699	6,628	(19,891)	(3,711)	-	(3,711)
Transactions with owners recognised directly in equity												
Cash dividends	20	-	-	-	-	-	-	-	(14,250)	(14,250)	-	(14,250)
Issue of bonus shares	18, 20	7,125	-	-	-	-	-	-	(7,125)	-	-	-
Total transactions with owners		7,125	-	-	-	-	-	-	(21,375)	(14,250)	-	(14,250)
Proceeds from Tier 1 perpetual subordinated bond	21	-	-	-	-	-	-	-	-	-	54,000	54,000
At 31 December 2018		149,629	28,530	-	18,600	(6,861)	1,927	7,710	55,469	255,004	104,000	359,004
At 31 December 2018 (US\$ '000)		388,647	74,104	-	48,312	(17,821)	5,005	20,026	144,074	662,347	270,130	932,477

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 78-82

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

2018	2019		Note	2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
87,775	94,102	Profit before taxation		36,229	33,793
		Adjustments for:			
3,592	5,907	Depreciation and amortisation	10	2,274	1,383
13,267	15,249	Net impairment on financial assets	28	5,871	5,108
249	270	End of service benefits provision	16	104	96
322	(29)	(Gain) / loss on sale of FVTPL investments	26	(11)	124
(3)	52	Unrealised loss/(gain) on FVTPL investments	26	20	(1)
105,202	115,551	Operating profit before working capital changes		44,487	40,503
50,618	(8,558)	(Decrease)/increase in due to banks		(3,295)	19,488
(640,906)	(493,974)	Increase in loans & advances and financing		(190,180)	(246,749)
7,122	(38,156)	(Increase)/decrease in other assets		(14,690)	2,742
547,517	130,081	Increase in customers' deposits		50,081	210,794
7,963	74,962	Increase in other liabilities		28,861	3,066
77,516	(220,094)	Cash (used in)/ generated from operations		(84,736)	29,844
(12,218)	(9,109)	Tax paid		(3,507)	(4,704)
(106)	(86)	End of service benefits paid		(33)	(41)
65,192	(229,289)	Net cash (used in)/generated from operating activities	16	(88,276)	25,099
		CASH FLOWS FROM INVESTING ACTIVITIES			
(5,636)	(15,527)	Purchase of property and equipment	10	(5,978)	(2,170)
(2,360,745)	(2,571,752)	Purchase of investments		(990,125)	(908,887)
2,357,384	2,470,698	Proceeds from sale / maturity of investment		951,219	907,593
(8,997)	(116,581)	Net cash used in investing activities		(44,884)	(3,464)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	338,117	Proceeds from borrowed funds		130,175	-
(15,000)	(143,117)	Repayments of borrowed funds		(55,100)	(5,775)
-	(20,779)	Repayment of subordinated liabilities		(8,000)	-
-	(2,078)	Payment of lease liabilities		(800)	-
(37,013)	(38,865)	Dividend paid	20	(14,963)	(14,250)
140,260	51,948	Proceeds from issuance of Tier 1 perpetual subordinated bond	21	20,000	54,000
(9,740)	(22,216)	Interest paid on Tier 1 perpetual subordinated bond	21	(8,553)	(3,750)
78,507	163,010	Net cash generated from financing activities		62,759	30,225
134,702	(182,860)	NET CHANGE IN CASH AND CASH EQUIVALENTS		(70,401)	51,860
217,680	352,382	Cash and cash equivalents at 1 January		135,667	83,807
352,382	169,522	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)		65,266	135,667
CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING:					
2018	2019			2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
397,094	280,433	Cash and balances with Central Bank of Oman	6	107,967	152,881
62,408	130,587	Due from banks	7	50,276	24,027
123,501	129,962	Treasury bills with three months maturity or less		50,035	47,548
(230,621)	(371,460)	Due to banks		(143,012)	(88,789)
352,382	169,522	Cash and cash equivalents		65,266	135,667

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Ahli Bank SAOG (the 'Bank') is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial & investment banking activities through a network of twenty five branches as at year end with sixteen conventional and nine Islamic branches. (2018 - fourteen conventional and eight Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, PC 116, Sultanate of Oman.

Al Hilal Islamic Banking Services (the Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of the Bank. During the board of directors meeting held on 6 December 2018 it was approved to change the name of the Islamic Window from "Al Hilal Islamic Banking Services" to "Ahli Islamic" (herein referred to as Islamic Window). Accordingly Islamic Window name was changed effectively from 1 May 2019. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO.

The Bank had 656 employees as at 31 December 2019 compared to 598 as at 31 December 2018.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019 and disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

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

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income which have been measured at fair value. The statement of financial position is presented in the order of liquidity as this presentation is more appropriate to Bank's operations.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani to US\$ for information purposes as a supplementary information only, using the exchange rate of RO 0.385 = US\$ 1.00. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 BASIS OF PREPARATION (continued)

2.5 Standards, amendments and interpretations effective in 2019 and relevant for the Bank's operations

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

The adoption of those standards and interpretations has resulted in changes to the Bank's accounting policies and has not affected the amounts reported for prior periods. Refer note 3 for further details in regard to changes to the Bank's accounting policy.

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

2.6.1 Amendments to the Conceptual Framework for Financial Reporting - effective for annual periods commencing 1 January 2020

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

2.6.2 Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates.

As part of the Bank's risk management strategy, the Bank uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments. LIBOR reforms and expectation of cessation of LIBOR will impact the Bank's current risk management strategy and possibly accounting for certain financial instruments.

The amendments made to IFRS provide relief from the potential effects of the uncertainty caused by the reform. These amendments are effective from periods beginning on or after 1 January 2020 with earlier application is permitted. The Bank is assessing the impact of these reforms and next steps to ensure a smooth transition from LIBOR to the new benchmark.

2.6.3 IFRS 17 "Insurance Contracts" - effective for annual periods beginning on or after 1 January 2021

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Bank expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

2.6.4 Definition of materiality (Amendments to IAS 1 and IAS 8) - effective for annual periods beginning on or after 1 January 2020

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 CHANGES IN ACCOUNTING POLICIES

3.1 IFRS 16 Leases

IFRS 16 "Leases" replaced the existing guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now require lessees to recognise a lease liability reflecting future lease payments and a right of use asset (ROU) for virtually all lease contracts. It includes an optional exemption for certain short term leases and leases of low value assets. However, this exemption can only be applied by lessees. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases.

The Bank applied IFRS 16 with a date of initial application from 1 January 2019 which has resulted in a change in accounting policy. Further details are provided in note 4.11.

3.2 Transition

The Bank applied IFRS 16 using the modified retrospective approach, under which ROU assets are measured at an amount equal to the lease liability. Accordingly, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Under IFRS 16, the Bank recognises ROU assets and lease liabilities for most leases - i.e., these leases are on balance sheet. The Bank decided to apply recognition exemptions for short term leases / leases of low value assets.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to all leases.
- Applied the exemption not to recognise ROU assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

As at 31 December 2018, the total operating commitments as disclosed in financial statements was RO 0.648 million (equivalent US\$ 1.682 million). At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate as at 1 January 2019. ROU assets are measured at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments using the modified retrospective approach. Accordingly on transition to IFRS 16, the Bank recognised RO 1.630 million of ROU assets (equivalent US\$ 4.236 million) and RO 1.272 million of lease liabilities (equivalent US\$ 3.304 million) as at 1 January 2019 and no adjustment was carried out in the opening retained earnings on that date.

The Bank leases various branches. Rental contracts are typically made for fixed periods of 1 to 4 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Bank contracts relating to equipments fall under lease of low value assets and accordingly no ROU asset has been recognized. Therefore the impact is mainly related to branches of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.2 Transition (continued)

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate and the measurement of lease liability as at 1 January 2019 is as below:

Particulars	Amount (RO'000)
Operating lease commitment at 31 December 2018 as disclosed in the financial statements	648
Discounted using the incremental borrowing rate at 1 January 2019	633
Extension and termination options reasonably certain to be exercised	639
Lease liabilities recognised at 1 January 2019 (RO'000)	1,272
Lease liabilities recognised at 1 January 2019 (US\$'000)	3,304
Advance paid to lessor	2,278
Less: accrued operating lease payments due	648
ROU asset recognised at 1 January 2019 (RO'000)	1,630
ROU asset recognised at 1 January 2019 (US\$'000)	4,234

ROU assets and lease liabilities as at 31 December 2019:

The carrying amount of property and equipment and ROU assets as at 31 December 2019 is as below:

Property and equipment	18,868
ROU assets	2,326
Total (RO'000)	21,194
Total (US\$'000)	55,049

The Bank had taken branch premises as a 'lessee' and is presented as ROU assets in the financial statements, for which the breakup of those balances as at 31 December 2019 is presented below:

ROU Assets

Balance as at 1 January 2019	1,689
Additions during the year	1,394
Depreciation charge for the year	(757)
Balance as at 31 December 2019 (RO'000)	2,326
Balance as at 31 December 2019 (US\$'000)	6,042

Lease liabilities

The table below summarises the maturity profile of the Bank's lease liabilities based on expected undiscounted payment obligations.

Less than one year	869
One to three years	1,721
More than three years	130
Total (RO'000)	2,720
Total (US\$'000)	7,065

Amounts recognised in the statement of comprehensive income

Interest on lease liabilities	77
Expenses relating to short term leases	144
Expenses relating to low value assets	62
Depreciation	757
Total (RO'000)	1,040
Total (US\$'000)	2,701

The total cash outflow for leases in the year 2019 was RO 2.484 million equivalent to US\$ 6.452 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign currency translation

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

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

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

4.2 Revenue and expense recognition

4.2.1 Interest income and expense

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

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

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Interest income and expense presented in the statement of comprehensive income include:

- i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- ii) Interest on debt investment securities on an effective interest rate basis.

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

4.2.2 Fees and commission

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

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

4.2.3 Dividends

Dividend income is recognised when the right to receive dividend is established.

4.2.4 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities

4.3.1 Recognition and initial measurement

The Bank initially recognises loans and advances & financing, deposits, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

4.3.2 Measurement categories of financial assets and financial liabilities

Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income

a) Debt instruments

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

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

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

b) Equity instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income. Dividends are recognised in the statement of comprehensive income only when the right of payment has been established.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Measurement categories of financial assets and financial liabilities (Continued)

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition or mandatorily required to be measured at fair value as per IFRS 9. It is initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of comprehensive income.

Business model assessment

Business model available under IFRS 9 are:

- (i) Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
- (ii) Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.
- (iii) Other - Financial assets held with trading intent or that do not meet the criteria of either "Hold to collect" or "Hold to collect and sell".

The Bank's business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset (Hold to collect) or both the contractual cash flows and from sale of asset (Hold to collect and sell). Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. These securities are classified in the 'other business model and measured at FVTPL.

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Measurement categories of financial assets and financial liabilities (Continued)

4.3.2.1 Loans & advances and financings receivables

The Bank holds a portfolio of loans & advances and financing receivables for which interest rates are revised at periodic intervals. These rates are revised based on the market rates. Accordingly, the Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate that is consideration for time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

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

The Bank has two classes of loans & advances and financing receivables;

Corporate banking (including SME)

Corporate customers includes loans & advances and financing given to corporate and institutional customers by way of working capital loans, term loans, overdrafts, leases, syndication arrangements, fund transfer facilities, etc.

Retail banking

Retail banking offers a broad range of products and services to meet the personal banking needs of individual customers. It includes personal banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards, overdraft facilities, Islamic financing and fund transfer facilities.

4.3.2.2 Investments

Investments which are recognised in the statement of financial position includes:

- (i) Debt securities measured at FVOCI;
- (ii) Equity investment securities mandatorily measured at FVTPL and these are at fair value with changes recognised immediately in profit or loss;
- (iii) Equity investment securities designated at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'other comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The Bank has designed certain equity investments under FVOCI on the basis that these investments are not held for trading / intends to hold in long term for better dividend yields. The Bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

4.3.2.3 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with Central Bank of Oman, due from banks, due to banks and highly liquid financial assets with original maturities of upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.3.2.4 Due from banks

These are stated at amortised cost using effective interest rate method, less any amounts written off and allowance for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Measurement categories of financial assets and financial liabilities (continued)

4.3.2.5 Financial guarantee contracts, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letter of credit and loan commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss that is incurred because of specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in note 4.3.5. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

4.3.2.6 Financial liabilities

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

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in the statement of comprehensive income.

4.3.2.6 Borrowed funds

Borrowed funds are recognised initially at their issue proceeds less transaction cost, if any. Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowing using the effective interest rate method.

4.3.2.7 Deposits and subordinated liabilities

Deposits and subordinated liabilities are measured at amortised cost using the effective interest method.

4.3.3 Derecognition

Financial assets

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

- (a) The rights to receive cash flows from the asset have expired;
- (b) The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- (c) the Bank has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Bank's involvement in the asset. In that case, the Bank also recognises an associated liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

Financial liabilities

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

4.3.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted by IFRS or for gains and losses arising from a group of similar transactions.

4.3.5 Impairment

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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:

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

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

i) Measurement of ECL

ECL are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit impaired at the reporting date: Difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts; the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Overview of ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment requirements under IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.5 Impairment (continued)

ii) Overview of ECL principles(continued)

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

Stage 1 - Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 - When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 - Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Both 12 month expected credit loss and lifetime expected credit losses 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 instruments credit risk has increased significantly since initial recognition, by considering the change in risk of default occurring over the remaining life of the financial instrument.

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 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 not 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.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

iii) ECL calculation

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

- ~ probability of default (PD);
- ~ loss given default (LGD);
- ~ exposure at default (EAD)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.5 Impairment (continued)

iii) ECL calculation (continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD - The probability of default is an estimate of the likelihood of default over a given time horizon.

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.

LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

iv) Presentation of ECL allowance in the statement of financial position

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

- financial assets at amortised cost: as a deduction from gross carrying amount of assets;
- loan commitments and financial guarantee contracts: carrying as provision and shown within other liabilities.
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

v) Debt instruments measured at fair value through OCI

The ECL's for debt instruments measured at FVOCI do not reduce the carrying amount of these financial statements in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance is recognised in the other comprehensive income with a corresponding charge to the statement of income. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of assets.

vi) Collateral valuation

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. To mitigate credit risk, the Bank will use collateral values, wherever possible. The Bank accepts various types of collateral such as cash margins, fixed deposits, real estate, shares listed in GCC etc., Collateral unless it is repossessed, is not recorded in the statement of financial position. Since the fair value of collateral affects the calculation of ECLs, management monitors and reassess the collateral values at regular intervals and requests for additional collateral, if required. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non financial collateral such as real estate is valued by certified third party valuers.

vii) Write off

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. If, in a subsequent year, written off loans & advances and financings receivable is recovered, the recovery is credited to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.6 Restructured financial assets

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

- ~ If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- ~ If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

4.3.7 Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost / FVOCI are credit impaired. A financial asset is "credit impaired" when one or more below mentioned events has occurred.

- ~ significant financial difficulty of the borrower;
- ~ a breach of contract such as default or past due event;
- ~ the restructuring of a loan by the Bank;
- ~ it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

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

In making an assessment of whether an investment in a debt instrument is credit impaired, the Bank considers the following events:

- ~ The markets' assessment of creditworthiness of those instrument yields.
- ~ Rating agencies assessment
- ~ The country's ability to access the capital markets for new debt issuance.

4.3.8 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.

4.3.9 Modifications of financial assets and liabilities

Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows and the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income. If the cash flows are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.10 Fair value measurement

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

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Please refer to note 34 for fair value hierarchy valuation techniques.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value of the non financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

At each reporting date, the bank analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Bank also compares each of the changes in fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

4.3.11 Derivative financial instruments and hedging activities

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.11 Derivative financial instruments and hedging activities (Continued)

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the statement of comprehensive income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the statement of comprehensive income.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the consolidated statement of income for the year.

4.4 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method. These securities are not derecognised as the related risks and rewards are not transferred to the counterparties.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) at predetermined price are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

4.5 Capitalisation of interest

Interest cost on borrowings that are directly associated with the acquisition and construction of the qualifying property, equipment and software are capitalised as part of the cost of these assets

4.6 Property, equipment and software

Items of property, equipment and software are measured at cost less accumulated depreciation / amortisation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation / amortisation is provided on a straight-line basis over the estimated useful lives of property, equipment and software, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Building	25
Vehicles	5
Furniture	10
Computer and other equipment	5 - 10
Leasehold improvements	5

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Collateral pending sale

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

4.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

4.9 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 asset/liability 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 by the reporting date.

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 utilised. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.10 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4.11 Leases

Policy applicable from 1 January 2019

A. Definition of lease

At inception of contract, the Bank assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the right to direct the use of an identified asset;
- the contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

This policy is applied to contracts entered into or renewed on or after 1 January 2019. At inception or on renewal of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Leases (continued)

Policy applicable from 1 January 2019 (continued)

B. As a lessee

The Bank recognises a Right of Use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred for obtaining the lease contract.

The ROU asset is subsequently depreciated using the straight line method from the commencement date until the useful life of the asset or end of lease term, whichever occurs earlier. The estimated useful lives of ROU assets are determined on the same basis of property and equipment. In addition, ROU assets are periodically tested for impairment and adjusted for losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability.

Lease payments included in the measurement of lease liability comprise the following:

- ~ fixed payments, including in-substance fixed payments;
- ~ variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset and is shown under other operating expenses in the statement of comprehensive income.

The Bank has disclosed ROU assets under 'property, equipment and software' and lease liabilities in 'other liabilities' in the statement of financial position.

Short term leases and leases of low value assets

The Bank has elected not to recognise ROU assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

Policy applicable before 1 January 2019

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

4.12 Acceptances

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Employee terminal benefits

4.13. Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labor Law 2003, as amended and in accordance with IAS 19 employee benefits.

Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income when incurred.

4.13.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

4.14 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 transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.15 Earnings per share

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

4.16 Directors' remuneration

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

4.17 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.

Dividend for the year that is approved after the reporting date is considered to be an event after the reporting date and disclosed in the financial statements.

4.18 Perpetual subordinated bond

Perpetual subordinated bonds - Additional Tier 1 capital instruments of the Bank are recognised under equity in the statement of financial position and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32 - Financial Instruments: Presentation. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or on any interest payment date thereafter.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

5.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 36.1.7, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- (a) determining criteria for significant increase in credit risk;
- (b) choosing appropriate models and assumptions for measurement of ECL;
- (c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- (d) establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates is provided in note 4.3.5

5.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various FVOCI financial assets that are not traded in active markets.

5.3 Classification of Tier 1 perpetual bond instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
22,821	39,109	Cash	15,057	8,786
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
374,272	241,324	Clearing account and placement with Central Bank of Oman	92,910	144,095
398,457	281,797		108,492	153,406

The capital and ATM deposits with the Central Bank of Oman (CBO) are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank.

7 DUE FROM BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
43,000	50,764	Placements	19,544	16,555
19,411	79,831	Nostro account balances	30,735	7,473
(3)	(8)	Less: Impairment loss allowance	(3)	
62,408	130,587		50,276	24,027

8 LOANS & ADVANCES AND FINANCING, NET

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
Conventional Banking				
2,748,059	3,027,847	Corporate lending	1,165,721	1,058,003
1,417,161	1,535,210	Retail lending	591,056	545,607
4,165,220	4,563,057	Loans & advances, gross	1,756,777	1,603,610
Islamic Banking				
457,135	526,112	Corporate financing	202,553	175,997
325,943	356,325	Retail financing	137,185	125,488
783,078	882,437	Financing, gross	339,738	301,485
4,948,298	5,445,494	Loans & advances and financing, gross	2,096,515	1,905,095
(89,397)	(107,868)	Loan and financing impairment (including reserve interest and profit)* - Refer note 36.1.7	(41,529)	(34,418)
4,858,901	5,337,626		2,054,986	1,870,677

*Reserve interest forms part of specific provision for the purpose of IFRS.

The table below analyses the concentration of gross loans & advances and financing by economic sector:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,743,104	1,891,535	Personal loans	728,241	671,095
1,159,187	1,193,075	Construction	459,334	446,287
455,436	461,945	Wholesale and retail trade	177,849	175,343
326,636	411,075	Services	158,264	125,755
300,940	384,530	Financial institutions	148,044	115,862
126,704	302,966	Electricity, gas and water	116,642	48,781
275,060	280,948	Mining and quarrying	108,165	105,898
249,694	261,587	Manufacturing	100,711	95,132
228,857	167,322	Transport and communication	64,419	88,110
38,828	46,958	Other	18,078	14,949
43,852	43,553	Non-resident lending	16,768	16,883
4,948,298	5,445,494		2,096,515	1,905,095

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 LOANS & ADVANCES AND FINANCING, NET (continued)

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

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

Disclosure requirements for the year ended 31 December 2019, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

Asset classification as per CBO norms	Asset classification as per IFRS 9	Provision required		Provision held as per IFRS 9	Difference between CBO provision required and provision held**	Net amount as per CBO norms*	Net amount as per IFRS 9	Interest recognised in SOCI as per IFRS 9	Reserve interest as per CBO norms
		Gross amount	as per CBO norms						
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Standard	Stage 1	1,680,824	24,586	5,992	18,594	1,656,238	1,674,832	-	-
	Stage 2	247,486	-	5,357	(5,357)	247,486	242,129	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Subtotal	1,928,310	24,586	11,349	13,237	1,903,724	1,916,961	-	-
Special Mention	Stage 1	3,322	-	123	(123)	3,322	3,199	-	-
	Stage 2	128,445	-	9,242	(9,242)	128,445	119,203	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Subtotal	131,767	-	9,365	(9,365)	131,767	122,402	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,967	728	1,274	(546)	2,185	1,693	-	54
	Subtotal	2,967	728	1,274	(546)	2,185	1,693	-	54
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,594	2,357	2,462	(105)	2,991	3,132	-	246
	Subtotal	5,594	2,357	2,462	(105)	2,991	3,132	-	246
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	27,877	23,099	17,078	6,021	2,201	10,799	-	2,577
	Subtotal	27,877	23,099	17,078	6,021	2,201	10,799	-	2,577
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	632,782	-	270	(270)	632,782	632,512	-	-
	Stage 2	71,044	-	868	(868)	71,044	70,176	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Subtotal	703,826	-	1,138	(1,138)	703,826	702,688	-	-
Total	Stage 1	2,316,928	24,586	6,385	18,201	2,292,342	2,310,543	-	-
	Stage 2	446,975	-	15,467	(15,467)	446,975	431,508	-	-
	Stage 3	36,438	26,184	20,814	5,370	7,377	15,624	-	2,877
	Total	2,800,341	50,770	42,666	8,104	2,746,694	2,757,675	-	2,877
Total (US \$'000)		7,273,613	131,871	110,821	21,049	7,134,270	7,162,792	-	7,473

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, loan commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 LOANS & ADVANCES AND FINANCING, NET (continued)

8.2 Restructured loans

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying amount as per CBO norms*	Net carrying amount as per IFRS 9	Interest recognised in SOCI as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	-	-	-	-	-	-	-	-
Classified as performing	Stage 2	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
	Stage 3	-	-	-	-	-	-	-	-
	Subtotal	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	11,453	8,419	4,970	3,449	2,371	6,483	-	663
Sub total		11,453	8,419	4,970	3,449	2,371	6,483	-	663
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	51,665	1,893	2,967	(1,074)	49,772	48,698	-	-
	Stage 3	11,453	8,419	4,970	3,449	2,371	6,483	-	663
Total	Total	63,118	10,312	7,937	2,375	52,143	55,181	-	663
	Total (US \$'000)	163,943	26,784	20,616	6,169	135,436	143,327	-	1,722

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

8.3 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	-	5,871	-
Provisions required as per CBO norms/ held as per IFRS 9	50,770	42,666	8,104
Gross NPL ratio (percentage)	1.74%	1.74%	-
Net NPL ratio (percentage)	0.35%	0.75%	-0.40%

Impairment reserve:

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

Special reserve:

During the year, impairment provision on specific basis includes provision on re-structured loans as per CBO guidelines. Similarly based on the requirements of the CBO's letter BSD/2017/BKUP/Bankd&FLC/ 467 dated 20 June 2017, the Bank is required to create a provision on certain loans appropriated to a special reserve account. Accordingly, the Bank set aside an amount of RO 1.893 million (2018: RO 1.927 million) equivalent to US\$ 4.917 million (2018: US\$ 5.005 million) as a non distributable special reserve in its statement of changes in equity for the current year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

9 INVESTMENT SECURITIES

2018 US\$ '000	2019 US\$ '000		2019 RO '000	2018 RO '000
1,226	1,221	Equity investments:		
14,935	12,826	Measured at FVTPL	470	472
16,161	14,047	Designated at FVOCI	4,938	5,750
			5,408	6,222
539,872	656,467	Debt investments:		
556,033	670,514	Designated at FVOCI	252,740	207,851
		Total investment securities	258,148	214,073

The table below summarises the concentration of investments by various sectors.

2018 US\$ '000	2019 US\$ '000		2019 RO '000	2018 RO '000
		Equity investments:		
		A. Measured at FVTPL		
		Quoted investments - Oman		
81	135	Banking and investment sector	52	31
195	249	Service sector	96	75
-	73	Manufacturing	28	-
		Quoted investments - Foreign		
283	260	Manufacturing	100	109
203	208	Construction	80	78
454	296	Service sector	114	179
1,226	1,221	Total	470	472
		B. Designated at FVOCI		
		Quoted investments - Oman		
1,969	1,758	Manufacturing	677	758
2,795	2,436	Banking and investment sector	938	1,076
6,169	4,870	Service sector	1,875	2,375
		Quoted investments - Foreign		
1,291	574	Manufacturing	221	497
1,410	1,345	Banking and investment sector	518	543
909	1,504	Service sector	579	350
392	339	Construction	130	151
14,935	12,826	Total	4,938	5,750
		Debt investments:		
		A. Designated at FVOCI		
		Quoted investments - Oman		
317,846	354,600	Government development bonds	136,521	122,371
33,361	45,686	Government bonds	17,589	12,844
28,886	79,842	Government sukuks	30,739	11,121
18,247	22,166	Services	8,534	7,025
49	49	Banking and investment	19	19
		Quoted investments - Foreign		
1,982	2,125	Government bonds	818	763
-	4,230	Services	1,629	-
123,501	129,961	US treasury bills	50,035	47,548
16,000	17,808	Banking and investment	6,856	6,160
539,872	656,467	Total debt investments	252,740	207,851
556,033	670,514	Total investments	258,148	214,073

In 2019, the Bank received dividends of RO 0.346 million which is equivalent to US\$ 0.899 million (2018: RO 0.291 million equivalent US\$ 0.755 million) which was recognised as other operating income. (Refer note 25).

The Bank has designated certain equity investments at FVOCI as these are investments that are not held for trading and intended to be held for long term for better dividend yields. Certain investments were sold during the year on account of lesser yields. The cumulative gain recognised in other comprehensive income amounts to RO 0.064 million (2018: RO 0.026 million) equivalent to US\$ 0.166 million. (2018: US\$ 0.068 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

10 PROPERTY, EQUIPMENT AND SOFTWARE

	Freehold land	Building	Leasehold improvements	Computer and other equipment *	Vehicles	Furniture	ROU assets**	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:									
At 1 January 2019	7,091	5,884	2,297	9,767	145	838	-	1,681	27,703
Additions **	-	-	610	1,096	-	74	3,083	1,115	5,978
Transferred	-	-	-	931	-	-	-	(931)	-
Disposals / scrapped	-	-	(26)	(37)	-	(8)	-	-	(71)
At 31 December 2019	7,091	5,884	2,881	11,757	145	904	3,083	1,865	33,610
Accumulated depreciation and amortization:									
At 1 January 2019	-	1,196	1,997	6,270	139	611	-	-	10,213
Depreciation and amortisation	-	235	184	988	5	104	757	-	2,274
Disposals / scrapped	-	-	(26)	(37)	-	(8)	-	-	(71)
At 31 December 2019	-	1,431	2,155	7,222	144	707	757	-	12,416
Net book value as at 31 December 2019									
RO '000	7,091	4,453	726	4,535	1	197	2,326	1,865	21,194
US\$ '000	18,418	11,566	1,886	11,779	3	511	6,042	4,844	55,049

	Free- hold land	Building	Leasehold improve- ments	Computer and other equipment	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:									
At 1 January 2018	7,091	5,884	2,192	9,037	145	801	-	584	25,734
Additions	-	-	105	876	-	37	-	1,152	2,170
Transferred	-	-	-	55	-	-	-	(55)	-
Disposals / scrapped	-	-	-	(201)	-	-	-	-	(201)
At 31 December 2018	7,091	5,884	2,297	9,767	145	838	-	1,681	27,703
Accumulated depreciation and amortization:									
At 1 January 2018	-	961	1,783	5,618	133	536	-	-	9,031
Depreciation and amorti- sation	-	235	214	853	6	75	-	-	1,383
Disposals / scrapped	-	-	-	(201)	-	-	-	-	(201)
At 31 December 2018	-	1,196	1,997	6,270	139	611	-	-	10,213
Net book value as at 31 December 2018									
RO '000	7,091	4,688	300	3,497	6	227	-	1,681	17,490
US\$ '000	18,418	12,177	779	9,083	16	590	-	4,366	45,429

*- Cost of computer and other equipment above includes acquired software of RO 7.412 million equivalent to US\$ 19.252 million (2018: RO 6.103 million equivalent to US\$ 15.852 million). Accumulated amortization of the same amounts to RO 4.074 million equivalent to US\$ 10.582 million (2018: RO 3.567 million equivalent to US\$ 9.265 million).

** - Additions of ROU assets includes the impact as on 1 January 2019 to the extent of RO 1.689 equivalent to US\$ 4.387 million. Refer note 3.2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

11 TAXATION

a) Recognised in the statement of comprehensive income

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
13,163	13,881	Current tax	5,344	5,068
(158)	(338)	Deferred tax	(130)	(61)
13,005	13,543		5,214	5,007

b) Tax liability

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Current tax		
13,163	13,881	- Current year	5,344	5,068
453	4,516	- Prior years	1,739	178
13,626	18,397		7,083	5,246

Tax liability is included under note 16 - other liabilities.

c) Deferred tax liability

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
(810)	(652)	At 1 January	(251)	(312)
158	338	Reversed during the year	130	61
(652)	(314)	At 31 December	(121)	(251)

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2019 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2018: 15%) on taxable profits.

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
87,775	94,102	Accounting profit for the year	36,229	33,793
13,166	14,115	Tax charge @ 15% on accounting profit	5,434	5,069
		Add / (less) tax effects of:		
(72)	(450)	Income not taxable	(173)	(28)
8	(39)	Non deductible (income) / expenses	(15)	3
(97)	(83)	Others	(32)	(37)
13,005	13,543	Tax expense	5,214	5,007

The Bank's tax assessments have been completed by the Tax Authorities upto the year 2014.

12 OTHER ASSETS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
14,221	48,184	Acceptances	18,551	5,475
3,379	3,559	Prepayments	1,370	1,301
4,190	5,231	Interest and profit receivable on investments	2,014	1,613
2,078	2,548	Derivatives - positive mark-to-market (note 34)	981	800
4,060	6,562	Others	2,526	1,563
(29)	(29)	Less: Impairment loss allowance	(11)	(11)
27,899	66,055		25,431	10,741

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

13 DUE TO BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
209,221	326,725	Inter-bank deposits	125,789	80,550
1,587	6,294	Vostro account balances	2,423	611
170,431	180,500	Borrowings under repurchase agreements	69,493	65,616
381,239	513,519		197,705	146,777

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of US treasury bills, OmGrid bonds, Government of Oman bonds and ICICI bonds. Market value of collateralized treasury bills/ bonds as of 31 December 2019 amounted to RO 80.518 million equivalent to US\$ 209.137 million (31 December 2018: RO 71.383 million equivalent to US\$ 185.410 million). The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. Collateralisation of these borrowings gives the lender the right to set off. As at 31 Decemebr 2019, the fair value of collateralized assets are higher than the borrowings under repurchase agreements.

14 CUSTOMERS' DEPOSITS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Conventional Banking		
2,329,143	2,604,927	Time deposits	1,002,897	896,720
1,196,647	974,681	Demand deposits	375,252	460,709
278,706	328,218	Savings deposits	126,364	107,302
3,804,496	3,907,826		1,504,513	1,464,731
		Islamic Banking		
226,099	281,036	Time deposits	108,199	87,048
153,717	108,395	Demand deposits	41,732	59,181
131,649	148,785	Savings deposits	57,282	50,685
511,465	538,216		207,213	196,914
4,315,961	4,446,042		1,711,726	1,661,645

15 BORROWED FUNDS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
135,000	330,000	Financial institutions	127,050	51,975

Borrowed funds includes unsecured US Dollar (USD) borrowings from foreign financial institutions. Applicable financial covenants for these borrowings include the requirement for a minimum tangible networth of the Bank, a minimum capital adequacy ratio and other covenants to be maintained by the Bank which has been complied during the current and prior year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

16 OTHER LIABILITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
14,221	48,184	Acceptances	18,551	5,475
66,506	87,987	Interest and profit payable	33,875	25,605
10,873	14,000	Accrued expenses	5,390	4,186
4,353	5,104	Staff related liabilities	1,965	1,676
188	5,182	Derivatives - negative mark-to-market (note 34)	1,995	72
13,626	18,397	Tax liability (note 11(b))	7,083	5,246
6,031	15,000	Others	5,775	2,322
3,065	2,847	Provision for off balance sheet items	1,096	1,180
118,863	196,701		75,730	45,762

Staff related liabilities includes employee end of service benefits liabilities, the movement during the year is as follows:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
756	899	At 1 January	346	291
249	270	Provided during the year (Note 29)	104	96
(106)	(86)	Payments made during the year	(33)	(41)
899	1,083	At 31 December	417	346

As per the directives of the CMA the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the Investors' Trust Fund" established by the CMA. During the year unpaid cash dividend amounting to RO 0.025 million equivalent to US\$ 0.064 million was transferred to the Investors' Trust Fund" (2018: RO 0.024 million equivalent to US\$ 0.064 million).

17 SUBORDINATED LIABILITIES

In accordance with CBO's regulations, subordinated liabilities are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
64,935	44,156	Subordinated loans	17,000	25,000

For each of the last 5 years of the tenor of the subordinated loans, the Bank is required to transfer 20% of the liability to subordinated debt reserve. All subordinated liabilities are repayable at par on maturity. On repayment of subordinated loans, the related subordinated debt reserve balance is released to retained earnings. During the year, an amount of RO 8 million equivalent to US\$ 20.779 million was repaid on maturity basis. The maturity profile and interest rate of these liabilities are disclosed in notes 36.2.2 and 36.3.2 respectively.

18 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (31 December 2018: 2,500,000,000 shares of 100 baizas each) out of which 1,571,102,349 (31 December 2018: 1,496,287,951 shares) are issued and fully paid up. In the Bank's annual general meeting held on 28 March 2019 the shareholders approved to issue bonus shares of 5% of the capital (5 shares per 100 shares) which resulted an increase by 74,814,398 shares (31 December 2018: 71,251,807 shares).

Ahli United Bank B.S.C (AUB) is the only shareholder which owns 10% or more of the Bank's shares and having significant influence. On 31 December 2019 shareholding of AUB was 549,885,812 shares equivalent to 35% (31 December 2018: 523,700,774 shares equivalent to 35%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

19 LEGAL RESERVE

As required by the Commercial Companies Law of 1974, as amended, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 3.102 million equivalent to US\$ 8.056 million (31 December 2018: RO 2.879 million equivalent to US\$ 7.478 million) was transferred to legal reserve.

20 DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended cash dividend of 10 baizas per share and stock dividend of 5 shares per 100 shares which is subject to approval of the shareholders at the ensuing Annual General Meeting and the regulatory authorities (31 December 2018: cash dividend of 10 baizas per share and stock dividend of 5 shares per 100 shares). The cash dividend and stock dividend proposed for 2018 was approved by the shareholders in Annual General Meeting and was paid in 2019.

21 TIER 1 PERPETUAL SUBORDINATED BONDS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
270,130	322,078	Tier 1 perpetual subordinated bonds	124,000	104,000

In 2017, the Bank has issued perpetual subordinated bonds - Additional Tier 1 (AT1) capital instruments (the "Tier 1 Securities") amounting to RO 50 million (USD 129.870 million). They are redeemable by the Bank at its sole discretion on 11 October 2022 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In 2018, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 54 million (USD 140.260 million). They are redeemable by the Bank at its sole discretion on 17 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In June 2019, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 20 million (USD 51.948 million). They are redeemable by the Bank at its sole discretion on 13 June 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

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

The Bank at its sole discretion may elect not to distribute interest on these Tier 1 perpetual subordinated bonds and this is not considered as an event of default. If the Bank does not pay interest on the Tier 1 perpetual subordinated bonds on the relevant interest payment date, the Bank shall not have any obligation to make any subsequent payment in respect of any unpaid interest payment amount. If interest is not paid as a consequence of a non payment event or a non payment election, then from the date of such Non-Payment Event or Non-Payment Election (the "Dividend Stopper Date"), the Bank will not, so long as any of the Bonds are outstanding declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, the ordinary shares of the Bank, ranking junior to or pari passu with the Tier 1 capital securities unless and until it has paid one interest payment in full on the Tier 1 capital securities. The Tier 1 capital securities also allow the bank to write down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel III and CBO regulations (BM 1114).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

22 NET ASSETS VALUE PER SHARE

Net assets value per share is calculated by dividing the net assets with the issued and paid up shares at end of the year.

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
662,347	688,818	Net assets	265,195	255,004
1,496,288	1,571,102	Issued and paid up shares (in 000's) at 31 December	1,571,102	1,496,288
44	44	Net asset value per share (US cents /baizas)	169	170

23 CONTINGENT LIABILITIES AND COMMITMENTS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
411,894	400,218	Financial guarantees	154,084	158,579
275,608	182,987	Letters of credit	70,450	106,109
120,748	168,618	Loan commitments	64,918	46,488
3,634	2,689	Capital commitments	1,035	1,399
		<i>Lease commitments</i>		
72	-	- not later than one year	-	28
1,610	-	- more than one year and upto five years	-	620
813,566	754,512		290,487	313,223

Legal cases

As at 31 December 2019, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore does not consider it necessary to make any additional provisions in this regard.

24 INTEREST INCOME / INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
215,709	249,597	Loans and advances	96,095	83,048
20,571	23,330	Investments	8,982	7,920
1,037	1,109	Due from banks	427	399
237,317	274,036		105,504	91,367
41,631	47,891	Islamic financing	18,438	16,028
1,455	1,636	Islamic investment	630	560
43,086	49,527		19,068	16,588
280,403	323,563	Total	124,572	107,955

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

25 INTEREST EXPENSE / UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
74,857	102,579	Time deposits	39,493	28,820
28,522	25,852	Demand and saving deposits	9,953	10,981
7,738	11,351	Borrowings	4,370	2,979
11,600	18,060	Inter-bank deposits	6,953	4,466
122,717	157,842		60,769	47,246
16,995	13,551	Islamic customer deposits	5,217	6,543
5,485	4,018	Islamic investment	1,547	2,112
22,480	17,569		6,764	8,655
145,197	175,411	Total	67,533	55,901

26 OTHER OPERATING INCOME

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
(322)	29	Gain / (Loss) on sale of FVTPL investments	11	(124)
5,847	6,153	Foreign exchange gain, net	2,369	2,251
755	899	Dividend income	346	291
3	(52)	Unrealised (loss) / gain on FVTPL investments	(20)	1
6,283	7,029		2,706	2,419

27 DISAGGREGATION OF FEE AND COMMISSION INCOME, NET

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products/ service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

	2019			2018		
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Disaggregated income						
Service charges	592	500	1,092	481	435	916
Fees income	1,239	6,387	7,626	1,036	4,772	5,808
Commission income	23	1,524	1,547	21	1,375	1,396
Total fee and commission income	1,854	8,411	10,265	1,538	6,582	8,120
Fee expense	(248)	(13)	(261)	(424)	(16)	(440)
Net fee and commission income	1,606	8,398	10,004	1,114	6,566	7,680

	2019			2018		
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Disaggregated income						
Service charges	1,538	1,299	2,837	1,249	1,130	2,379
Fees income	3,217	16,590	19,807	2,692	12,395	15,087
Commission	60	3,958	4,018	55	3,570	3,625
Total fee and commission income	4,815	21,847	26,662	3,996	17,095	21,091
Fee expense	(644)	(34)	(678)	(1,102)	(41)	(1,143)
Net fee and commission income	4,171	21,813	25,984	2,894	17,054	19,948

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

28 NET IMPAIRMENT ON FINANCIAL ASSETS

2018 US\$ '000	2019 US\$ '000		2019 R0 '000	2018 R0 '000
		Net impairment charge		
(3)	5	Due from banks	2	
17,397	18,470	Loans & advances and financing	7,111	6,698
13	8	Investment securities	3	5
(371)	-	Other assets	-	(143)
(1,260)	(218)	Loan commitments and financial guarantees	(84)	(485)
10	1,234	Loans & advances and financing written off	475	4
-	(2,310)	Recovery of loans written off earlier	(889)	-
15,786	17,189		6,618	6,078
(2,519)	(1,940)	Less: Interest reserved during the period	(747)	(970)
13,267	15,249		5,871	5,108

29 STAFF EXPENSES

2018 US\$ '000	2019 US\$ '000		2019 R0 '000	2018 R0 '000
34,096	37,818	Salaries and allowances	14,560	13,127
1,987	3,351	Other staff costs	1,290	765
2,445	2,755	Contribution to social insurance schemes	1,061	941
249	270	Employees end of service benefits	104	96
38,777	44,194		17,015	14,929

30 OTHER OPERATING EXPENSES

2018 US\$ '000	2019 US\$ '000		2019 R0 '000	2018 R0 '000
14,265	19,384	Operating and administration costs	7,463	5,492
3,242	1,810	Occupancy costs	697	1,248
519	519	Board related expenses	200	200
18,026	21,713		8,360	6,940

31 BASIC AND DILUTED EARNINGS PER SHARE

2018 US\$ '000	2019 US\$ '000		2019 R0 '000	2018 R0 '000
74,770	80,559	Profit for the year	31,015	28,786
1,571,102	1,571,102	Weighted average number of outstanding shares during the year (in 000's)	1,571,102	1,571,102
5	5	Earnings per share (cents / baizas)	20	18

Basic and diluted earnings per share are same as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share for the current and prior year has been calculated using the weighted average shares outstanding for the current year. The weighted average shares outstanding includes 146,066,205 bonus shares issued for nil consideration.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at commercial terms as approved by the board.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2018 US\$ '000	2019 US\$ '000		2019 RO '000	2018 RO '000
		Directors and senior management		
1,587	2,338	Loans & advances and financing, gross	900	611
816	1,301	- secured	501	314
771	1,036	- unsecured	399	297
3	5	- Expected credit loss allowance	2	1
1,494	2,029	Customers' deposits	781	575
42	-	Prepaid expenses	-	16
		Major shareholders and others		
3,182	3,782	Due from banks	1,456	1,225
1,099	1,164	Investments securities	448	423
		Other assets		
379	130	- Fair value of forward contracts	50	146
127	-	- Fair value of swaps	-	49
100,719	13,465	Due to banks	5,184	38,777
8	88	Customers' deposits	34	3
		Other liabilities		
16	-	- Accrued expenses	-	6
-	4,569	- Fair value of swaps	1,759	-
888	904	Contingent liabilities and commitments	348	342

Loans & advances and financing provided to directors and senior management are not credit impaired at the balance sheet date and ECL allowance was calculated based on expected losses.

The related maturity profile and interest rate risk is given in note 36.2.2 and 36.3.2 respectively.

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2018 US\$ '000	2019 US\$ '000		2019 RO '000	2018 RO '000
		Directors and senior management		
52	81	Interest income	31	20
34	31	Interest expense	12	13
416	421	Board remuneration proposed	162	160
104	99	Board sitting fees	38	40
94	94	Shariah Supervisory Board expenses	36	36
122	83	Other operating expenses	32	47
		Major shareholders and others		
3	-	Interest income	-	1
4,622	2,677	Interest expense	1,031	1,779
379	130	Gain on foreign exchange of forward contracts	50	146
221	4,769	Loss on fair value of interest rate swaps	1,836	85
714	195	Other operating expenses	75	275

The Bank has rented a branch premises from a director. In accordance with the agreement, an amount of RO 0.032 million equivalent to US\$ 0.083 million was included in the other operating expenses (31 December 2018: RO 0.047 million equivalent to US\$ 0.122 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RELATED PARTY TRANSACTIONS (continued)

As at 31 December 2019, guarantees were issued to beneficiaries on behalf of related party amounting to RO 3.042 million equivalent to US\$ 7,902 million (31 December 2018: RO 10,816 million equivalent to US\$ 28,094 million). The Bank has earned RO 0.006 million equivalent to US\$ 0.017 million (2018: RO 0.013 million equivalent to US\$ 0.033 million) fee on issuing guarantees.

Compensation of the key management personnel is as follows;

2018 US\$ '000	2019 US\$ '000		2019 RO '000	2018 RO '000
2,166	2,777	Salaries and allowances	1,069	834
62	101	End of service benefits	39	24
2,228	2,878		1,108	858

33 FINANCIAL INSTRUMENTS CLASSIFICATION

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

Particulars	Note	2019					Total RO '000
		Amortised cost RO '000	FVOCI-debt instruments RO '000	FVOCI-equity instruments RO '000	FVTPL RO '000		
Financial assets							
Cash and balances with Central Bank of Oman	6	108,492	-	-	-	-	108,492
Due from banks	7	50,276	-	-	-	-	50,276
Loans and advances & financing, net	8	2,054,986	-	-	-	-	2,054,986
Investment securities	9	-	252,740	4,938	470	-	258,148
Other assets - acceptances & interest and profit receivable	12	20,565	-	-	-	-	20,565
Financial liabilities							
Due to banks	13	197,705	-	-	-	-	197,705
Customers' deposits	14	1,711,726	-	-	-	-	1,711,726
Borrowed funds	15	127,050	-	-	-	-	127,050
Subordinated liabilities	17	17,000	-	-	-	-	17,000
Other liabilities - acceptances & interest and profit payable	16	52,426	-	-	-	-	52,426
Particulars	Note	2019					Total US\$ '000
		Amortised cost US\$ '000	FVOCI-debt instruments US\$ '000	FVOCI-equity instruments US\$ '000	FVTPL US\$ '000		
Financial assets							
Cash and balances with Central Bank of Oman	6	281,797	-	-	-	-	281,797
Due from banks	7	130,587	-	-	-	-	130,587
Loans and advances & financing, net	8	5,337,626	-	-	-	-	5,337,626
Investment securities	9	-	656,467	12,826	1,221	-	670,514
Other assets - acceptances & interest and profit receivable	12	53,415	-	-	-	-	53,415
Financial liabilities							
Due to banks	13	513,519	-	-	-	-	513,519
Customers' deposits	14	4,446,042	-	-	-	-	4,446,042
Borrowed funds	15	330,000	-	-	-	-	330,000
Subordinated liabilities	17	44,156	-	-	-	-	44,156
Other liabilities - acceptances & interest and profit payable	16	136,171	-	-	-	-	136,171

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

33 FINANCIAL INSTRUMENTS CLASSIFICATION (continued)

Particulars	Note	2018				Total RO '000
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	
		RO '000	RO '000	RO '000	RO '000	
Financial assets						
Cash and balances with Central Bank of Oman	6	153,406	-	-	-	153,406
Due from banks	7	24,027	-	-	-	24,027
Loans and advances & financing, net	8	1,870,677	-	-	-	1,870,677
Investment securities	9		207,851	5,750	472	214,073
Other assets - acceptances & interest and profit receivable	12	7,088	-	-	-	7,088
Financial liabilities						
Due to banks	13	146,777	-	-	-	146,777
Customers' deposits	14	1,661,645	-	-	-	1,661,645
Borrowed funds	15	51,975	-	-	-	51,975
Subordinated liabilities	17	25,000	-	-	-	25,000
Other liabilities - acceptances & interest and profit payable	16	31,080	-	-	-	31,080

Particulars	Note	2018				Total US\$ '000
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Financial assets						
Cash and balances with Central Bank of Oman	6	398,457	-	-	-	398,457
Due from banks	7	62,408	-	-	-	62,408
Loans and advances & financing, net	8	4,858,901	-	-	-	4,858,901
Investment securities	9	-	539,872	14,935	1,226	556,033
Other assets - acceptances & interest and profit receivable	12	18,411	-	-	-	18,411
Financial liabilities						
Due to banks	13	381,239	-	-	-	381,239
Customer deposits	14	4,315,961	-	-	-	4,315,961
Borrowed funds	15	135,000	-	-	-	135,000
Subordinated liabilities	17	64,935	-	-	-	64,935
Other liabilities - acceptances & interest and profit payable	16	80,727	-	-	-	80,727

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

34 ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial assets and financial liabilities.

Loans and advances & financing

The fair value of loans & advances and financings receivables is estimated at the present value of future cash flows, discounted at the market value of interest at the reporting date. These financial assets fall under level 3 category of fair value hierarchy levels. Carrying value of loans and advances & financing are considered to approximate their fair value.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

Current account balances due to and due from banks

The carrying values of current account balances due to and due from banks is considered to be a reasonable estimate of fair value due to their short term in nature.

Other financial instruments

The fair value of all on balance sheet financial instruments are considered to approximate their book values.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included under other assets and other liabilities.

Level 1 - Quoted prices (unadjusted) in active markets.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

34 ESTIMATION OF FAIR VALUES (continued)

The following table shows an analysis of financial instruments other than derivative instruments recorded at fair value by level of the fair value hierarchy.

	31 December 2019			31 December 2018		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:						
Investments at FVTPL	470	-	470	472	-	472
Investments at FVOCI	40,383	217,295	257,678	32,537	181,064	213,601
Derivative financial instruments						
Interest rate swaps	-	137	137	-	132	132
Forward foreign exchange contracts	844	-	844	668	-	668
	<u>41,697</u>	<u>217,432</u>	<u>259,129</u>	<u>33,677</u>	<u>181,196</u>	<u>214,873</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	1,873	1,873	-	55	55
Forward foreign exchange contracts	122	-	122	17	-	17
	<u>122</u>	<u>1,873</u>	<u>1,995</u>	<u>17</u>	<u>55</u>	<u>72</u>
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments at FVTPL	1,221	-	1,221	1,226	-	1,226
Investments at FVOCI	104,891	564,402	669,293	84,511	470,296	554,807
Derivative financial instruments						
Interest rate swaps	-	356	356	-	343	343
Forward foreign exchange contracts	2,192	-	2,192	1,735	-	1,735
	<u>108,304</u>	<u>564,758</u>	<u>673,062</u>	<u>87,472</u>	<u>470,639</u>	<u>558,111</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	4,865	4,865	-	144	144
Forward foreign exchange contracts	317	-	317	44	-	44
	<u>317</u>	<u>4,865</u>	<u>5,182</u>	<u>44</u>	<u>144</u>	<u>188</u>

There are no transfers between levels of fair value measurement hierarchy during the years 2019 and 2018.

35 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Forward contracts are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted over the counter.

Derivatives held for hedging purposes

Fixed interest rates on principal amount of loans and investments are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges since inception.

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes which are not closed out prior to contractual maturity. The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

35 DERIVATIVES (Continued)

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to RO 29,722 million (2018: NIL) equivalent to US\$ 77,200 million (2018: NIL). These hedged items comprise of debt instruments which are held as FVOCI.

Cash flow hedge

The Bank has uses interest rate swaps to hedge the cash flow volatility risk on its borrowed funds. The carrying amount of the hedged items is included in the line item "Borrowed funds" on the statement of financial position with the notional amount totalling to RO 57,750 million (2018: RO 27,429 million) equivalent to US\$ 150,000 million (2018: US\$ 71,244 million).

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

	Nominal cash flows by term to maturity					
	Assets	Liabilities	Notional cash flows	Within 3 months	3 to 12 months	Over 1 year
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
At 31 December 2019						
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	137	1,691	(1,554)	173	(226)	(1,501)
-Cash flow hedge	-	182	(182)	(152)	(47)	17
Derivatives:						
Forward purchase contracts	-	122	169,662	131,695	30,103	7,864
Forward sales contracts	844	-	168,940	131,389	29,851	7,700
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	356	4,392	(4,036)	450	(586)	(3,900)
-Cash flow hedge	-	473	(473)	(396)	(122)	45
Derivatives:						
Forward purchase contracts	-	317	440,681	342,065	78,190	20,426
Forward sales contracts	2,192	-	438,805	341,270	77,535	20,000
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
At 31 December 2018						
Derivatives for hedging:						
Interest rate swaps - cash flow hedge	132	55	77	(80)	(11)	168
Derivatives:						
Forward purchase contracts	-	17	117,009	37,274	33,390	46,345
Forward sales contracts	668	-	116,358	37,075	33,083	46,200
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps - cash flow hedge						
-Fair value hedge	343	143	200	(208)	(28)	436
Derivatives:						
Forward purchase contracts	-	44	303,919	96,814	86,728	120,377
Forward sales contracts	1,735	-	302,229	96,298	85,931	120,000

Fair values are included under other assets where positive and other liabilities where negative.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

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

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has approved the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate limits and controls and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

Executive Risk Committee of the Board under the oversight of the Board of Directors is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Executive Risk Committee of the Board is assisted in these functions by the Risk Management Department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

36.1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans & advances and financing to customers, due from banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

36.1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Executive Risk Committee. A separate Risk Management Department, reporting to the chairman of the Executive Risk Committee, is responsible for the following:

- formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk. The Board's Executive Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans & advances and financing), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Board. Business units have their counter parts in risk management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit Department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.1 Management of credit risk (continued)

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the loans & advances and financing extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the borrowers account with the Bank. To cover unforeseen risks, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans & advances and financing are:

- ~ mortgages over properties;
- ~ charges over business assets such as premises, inventory and accounts receivable; and
- ~ charges over financial instruments such as debt securities and equity securities.

Longer-term finance and lending to corporate borrowers are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank seeks additional collateral from the borrower as soon as impairment indicators are noticed for the relevant individual loans & advances and financing. Collateral held as security for financial assets other than loans & advances and financing, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured other than certain assets where hedging strategy is considered.

All loans & advances and financing of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans & advances and financing are classified into 6 broad classification categories: High standard, Standard, Special Mention, Substandard, Doubtful, and Loss - as stipulated by Central Bank of Oman regulations and guidelines. Further, as mandated by IFRS 9, the loans & advances and financing, due from banks and investment debt securities are classified into stage 1, stage 2 and stage 3 based on criteria established by the Bank in line with the requirements of CBO circular BM 1149.

36.1.2 CREDIT RISK MEASUREMENT

(a) Loans and advances (including Loan commitments and guarantees)

Corporate and SME credit

Risk department is responsible for independent assessment and control of risks related to all corporate and Small and Medium enterprise exposures. The credit risk associated with corporate loans is assessed based on analysis of customer and the industry in which it operates. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit reviews. The department reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews are also subject to same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, grades etc, and deviations, if any are highlighted. The Bank has implemented a customised Moody's Risk Analyst model for risk rating of corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers and public exposures. The Bank undertakes sector review of its exposure to real estate, construction, healthcare etc. A comprehensive review of the corporate credit portfolio is conducted on regular basis and provided to the executive management and Risk committee. The salient areas covered in the review include:

- ~ Exposures downgraded / negatively migrated.
- ~ Portfolio concentration / performance.
- ~ Position of restructured exposures.
- ~ Position of past due exposures.
- ~ Syndicated exposures.
- ~ Exposure to countries / financial institutions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1.2 Credit risk measurement (continued)

Retail credit

Retail credit department manages the credit risk in retail portfolio. Credit facilities are offered to retail customers primarily based on product programmes approved by Risk committee. The retail credit book is classified into performing and non performing loans at monthly intervals. The risk department shall prepare a list of classified accounts based on the risk rating policy of the Bank. A review of retail credit portfolio is conducted on half yearly basis and provided to the board sub committees. Salient areas covered in the review include:

- Portfolio quality
- NPA trends
- Identifying the delinquency factors.
- Recommendations for improving portfolio quality.

Loan review mechanism

Loan Review Mechanism (LRM) is an effective tool for constantly evaluating the quality of loan portfolio and to assist in improving the credit administration quality. As mandated by CBO, the Bank has put in place a proper LRM, addressing the high value accounts taking into consideration qualitative criteria such as restricted accounts, risk ratings, high risk sectors like real estate, etc. The bank has an independent loan review division whose objective is to improve the quality of bank assets and to identify any potential deterioration in the book / asset quality. Moreover, the division evaluates the effectiveness and efficiency of credit approval process, review of credit assessment, evaluate portfolio quality etc.

(b) Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite will also be set in terms of how much of exposure the Bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'.
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

36.1.3 EXPOSURE TO CREDIT RISK

The following table contains an analysis of gross carrying amount financial assets / off balance sheet items by credit risk grading wise measured at amortised cost.

	2019			
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,680,824	247,486	-	1,928,310
Special mention loans (Risk rating 7)	3,322	128,445	-	131,767
Non performing loans (Risk rating 8-10)	-	-	36,438	36,438
Gross carrying amount (RO'000)	1,684,146	375,931	36,438	2,096,515
Gross carrying amount (US\$'000)	4,374,405	976,444	94,644	5,445,494
Loss allowance (RO'000)	6,116	14,599	20,814	41,529
Loss allowance (US\$'000)	15,886	37,919	54,063	107,868
Total loans and advances & financing, net (RO'000)	1,678,030	361,332	15,624	2,054,986
Total loans and advances & financing, net (US\$'000)	4,358,519	938,525	40,582	5,337,626

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to Credit Risk (continued)

	2019			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Corporate Loans and advances & financing				
Performing loans (Risk rating 1-6)	982,711	242,494	-	1,225,205
Special mention loans (Risk rating 7)	3,322	122,630	-	125,952
Non performing loans (Risk rating 8-10)	-	-	17,117	17,117
Gross carrying amount (RO'000)	986,033	365,124	17,117	1,368,274
Gross carrying amount (US\$'000)	2,561,126	948,374	44,460	3,553,960
Loss allowance (RO'000)	4,416	12,049	8,994	25,459
Loss allowance (US\$'000)	11,470	31,296	23,362	66,128
Retail Loans and advances & financing				
Performing loans (Risk rating 1-6)	698,113	4,992	-	703,105
Special mention loans (Risk rating 7)	-	5,815	-	5,815
Non performing loans (Risk rating 8-10)	-	-	19,321	19,321
Gross carrying amount (RO'000)	698,113	10,807	19,321	728,241
Gross carrying amount (US\$'000)	1,813,281	28,070	50,184	1,891,535
Loss allowance (RO'000)	1,700	2,550	11,820	16,070
Loss allowance (US\$'000)	4,416	6,623	30,701	41,740
Credit related contingent items				
Performing grades (Risk rating 1-6)	224,962	56,770	-	281,732
Special mention grades (Risk rating 7)	290	7,430	-	7,720
Gross carrying amount (RO'000)	225,252	64,200	-	289,452
Gross carrying amount (US\$'000)	585,070	166,753	-	751,823
Loss allowance (RO'000)	238	858	-	1,096
Loss allowance (US\$'000)	618	2,229	-	2,847
Due from banks (including balances with CBO)				
Performing banks (rated)	143,189	-	-	143,189
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	143,189	-	-	143,189
Gross carrying amount (US\$'000)	371,919	-	-	371,919
Loss allowance (RO'000)	3	-	-	3
Loss allowance (US\$'000)	8	-	-	8
Investment securities				
Performing grades (Risk rating 1-6)	252,634	-	-	252,634
Gross carrying amount (RO'000)	252,634	-	-	252,634
Gross carrying amount (US\$'000)	656,192	-	-	656,192
Loss allowance (RO'000)	27	-	-	27
Loss allowance (US\$'000)	70	-	-	70
Other assets				
Performing grades (Risk rating 1-6)	11,708	-	-	11,708
Special mention grades (Risk rating 7)	-	6,843	-	6,843
Gross carrying amount (RO'000)	11,708	6,843	-	18,551
Gross carrying amount (US\$'000)	30,411	17,773	-	48,184
Loss allowance (RO'000)	2	9	-	11
Loss allowance (US\$'000)	4	25	-	29

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 EXPOSURE TO CREDIT RISK (Continued)

	2018			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,698,906	56,543	-	1,755,449
Special mention loans (Risk rating 7)	7,225	109,606	-	116,831
Non performing loans (Risk rating 8-10)	-	-	32,815	32,815
Gross carrying amount (RO'000)	1,706,131	166,149	32,815	1,905,095
Gross carrying amount (US\$'000)	4,431,508	431,556	85,234	4,948,298
Loss allowance (RO'000)	6,706	10,097	17,615	34,418
Loss allowance (US\$'000)	17,418	26,226	45,753	89,397
Total loans and advances & financing, net (RO'000)	1,699,425	156,052	15,200	1,870,677
Total loans and advances & financing, net (US\$'000)	4,414,090	405,330	39,481	4,858,901
Corporate Loans and advances & financing				
Performing loans (Risk rating 1-6)	1,054,072	51,220	-	1,105,292
Special mention loans (Risk rating 7)	6,803	105,278	-	112,081
Non performing loans (Risk rating 8-10)	-	-	16,627	16,627
Gross carrying amount (RO'000)	1,060,875	156,498	16,627	1,234,000
Gross carrying amount (US\$'000)	2,755,519	406,488	43,187	3,205,194
Loss allowance (RO'000)	4,856	8,927	7,996	21,779
Loss allowance (US\$'000)	12,613	23,187	20,769	56,569
Retail Loans and advances & financing				
Performing loans (Risk rating 1-6)	645,256	4,902	-	650,158
Special mention loans (Risk rating 7)	-	4,749	-	4,749
Non performing loans (Risk rating 8-10)	-	-	16,188	16,188
Gross carrying amount (RO'000)	645,256	9,651	16,188	671,095
Gross carrying amount (US\$'000)	1,675,990	25,068	42,046	1,743,104
Loss allowance (RO'000)	1,850	1,170	9,619	12,639
Loss allowance (US\$'000)	4,805	3,039	24,984	32,828
Credit related contingent items				
Performing grades (Risk rating 1-6)	297,744	7,420	-	305,164
Special mention grades (Risk rating 7)	2,197	2,844	-	5,041
Non performing grades (Risk rating 8-10)	-	-	971	971
Gross carrying amount (RO'000)	299,941	10,264	971	311,176
Gross carrying amount (US\$'000)	779,068	26,660	2,522	808,250
Loss allowance (RO'000)	833	142	205	1,180
Loss allowance (US\$'000)	2,164	369	532	3,065

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 EXPOSURE TO CREDIT RISK (Continued)

	2018			Total RO '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	
Due from banks (including balances with CBO)				
Performing banks (rated)	168,123	-	-	168,123
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	168,123	-	-	168,123
Gross carrying amount (US\$'000)	436,683	-	-	436,683
Loss allowance (RO'000)	1	-	-	1
Loss allowance (US\$'000)	3	-	-	3
Investment securities				
Performing grades (Risk rating 1-6)	207,851	-	-	207,851
Gross carrying amount (RO'000)	207,851	-	-	207,851
Gross carrying amount (US\$'000)	539,872	-	-	539,872
Loss allowance (RO'000)	24	-	-	24
Loss allowance (US\$'000)	62	-	-	62
Other assets				
Performing grades (Risk rating 1-6)	5,004	471	-	5,475
Gross carrying amount (RO'000)	5,004	471	-	5,475
Gross carrying amount (US\$'000)	12,997	1,224	-	14,221
Loss allowance (RO'000)	7	4	-	11
Loss allowance (US\$'000)	19	10	-	29

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 EXPOSURE TO CREDIT RISK (continued)

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups / Industries. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored and reviewed periodically by the Executive & Credit committee.

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

Net maximum exposure 2018	Gross maximum exposure 2018	Net maximum exposure 2019	Gross maximum exposure 2019		Gross maximum exposure 2019	Net maximum exposure 2019	Gross maximum exposure 2018	Net maximum exposure 2018
US\$ '000	US\$ '000	US\$ '000	US\$ '000		RO '000	RO '000	RO '000	RO '000
375,636	375,636	242,688	242,688	Balances with Central Bank of Oman	93,435	93,435	144,620	144,620
62,411	62,411	130,595	130,595	Due from banks	50,279	50,279	24,028	24,028
1,924,018	4,948,298	2,171,161	5,445,494	Loans & advances and financing	2,096,515	835,897	1,905,095	740,747
598,234	3,205,194	1,112,434	3,553,959	-Corporate	1,368,274	428,287	1,234,000	230,320
1,325,784	1,743,104	1,058,727	1,891,535	-Retail	728,241	407,610	671,095	510,427
556,033	556,033	670,514	670,514	Investment securities	258,148	258,148	214,073	214,073
14,221	14,221	48,184	48,184	Other assets	18,551	18,551	5,475	5,475
343	343	356	356	Derivative financial instruments	137	137	132	132
2,932,662	5,956,942	3,263,498	6,537,831	Total on balance sheet exposure	2,517,065	1,256,447	2,293,423	1,129,075
126,064	126,064	171,307	171,307	Loan commitments	65,953	65,953	48,535	48,535
435,442	687,502	252,365	583,205	Financial guarantees and letters of credit	224,534	97,161	264,688	167,645
561,506	813,566	423,672	754,512	Total off balance sheet exposure	290,487	163,114	313,223	216,180
3,494,168	6,770,508	3,687,170	7,292,343	Grand total	2,807,552	1,419,561	2,606,646	1,345,255

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

36.1.4 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters. The principal collateral types for loans and advances & financing are as follows:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since last year. There are no repossessed assets held by the Bank as at the balance sheet date.

The fair value of collateral that the bank holds relating to loans and advances & financing that are credit impaired at the reporting date as at 31 December 2019 was RO 8.993 million equivalent to US\$ 23.358 million (2018: RO 7.283 million equivalent to US\$ 18.917 million). Loans and advances & financing with collateral amounting RO 826.904 million equivalent to US\$ 2147.800 million (2018: RO 733.464 million equivalent to US\$ 1,905.101 million) where the Bank has not recognized any loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.4 COLLATERAL AND OTHER CREDIT ENHANCEMENTS (continued)

36.1.5 Modification of loans

Rescheduling of loans arrangements refers to situations where there has been an extension of repayment tenor/ reduction of instalments/ reduction in pricing following repayment difficulties faced by the borrower. If an account has been restructured, it will be revised to standard risk rating grades after complying with CBO guidelines.

The gross carrying amount subject to modification of loans amounts to RO 63.118 million (2018: 22.914 million) equivalent to US\$ 163.943 million (2017: US\$ 59.517 million) with ECL allowance measured at an amount equal to lifetime ECL is RO 7.937 million (2018: RO 3.212 million) equivalent to US\$ 20.616 million (2018: US \$ 8.343 million).

36.1.6 Loans written off / recovery based on enforcement activity

The Bank has made certain technical write off of loans & advances that are still subject to enforcement activity. The contractual amount outstanding that were technically written off as at year end 31 December 2019 was RO 5.894 million (2018: RO 6.702 million) equivalent to US\$ 15.310 million (2018: US\$ 17.408 million). The Bank still seeks to recover amounts it is legally owned in full, but has been technically written off due to no reasonable expectation of full recovery.

36.1.7 Expected credit loss (ECL) measurement

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. The Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, 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 (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank has established a policy to perform an assessment on a monthly basis 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.

"Measuring ECL-Explanation of inputs, assumptions and estimation techniques"

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit -impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12months (12MPD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD) . For example, for revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support .LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made it the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made it the default occurs over the remaining expected lifetime of the loan.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

The ECL is determined by projected the PD, LGD and EAD for each future month and for each individual exposure of collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month), this effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.
- Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified 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 lifetime ECLs. 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 lifetime ECLs.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Generating the term structure of probability of default (PD)

Risk ratings are the primary input into determination of PD term structure for credit exposures. Default and performing information is collected for each credit exposure and analysed by borrower and respective risk rating. Statistical models are utilized to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

ECL exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of gross carrying amount/ loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

Movement in gross carrying amount	2019			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Opening balance as at 1 January 2019					
Due from banks	168,123	-	-	168,123	436,683
Loans and advances & financing	1,706,131	166,149	32,815	1,905,095	4,948,298
-Corporate Banking					
-Retail Banking	1,060,875	156,498	16,627	1,234,000	3,205,194
	645,256	9,651	16,188	671,095	1,743,104
Investment securities	207,851	-	-	207,851	539,872
Other assets	5,004	471	-	5,475	14,221
Off balance sheet	299,941	10,264	971	311,176	808,250
Loan commitments	42,938	3,550	-	46,488	120,748
Financial guarantees / Letters of credit	257,003	6,714	971	264,688	687,502
Net transfer between stages					
Due from banks	-	-	-	-	-
Loans and advances & financing	(206,192)	199,762	6,430	-	-
-Corporate Banking					
-Retail Banking	(202,840)	198,992	3,848	-	-
	(3,352)	770	2,582	-	-
Investment securities	-	-	-	-	-
Other assets	(1,442)	1,442	-	-	-
Off balance sheet	(43,629)	43,629	-	-	-
Loan commitments	(550)	550	-	-	-
Financial guarantees / Letters of credit	(43,079)	43,079	-	-	-
Assets originated or purchased and derecognised(net)					
Due from banks	(24,934)	-	-	(24,934)	(64,764)
Loans and advances & financing	184,207	10,020	(2,807)	191,420	497,195
-Corporate Banking					
-Retail Banking	127,998	9,634	(3,357)	134,275	348,766
	56,209	386	550	57,145	148,429
Investment securities	44,783	-	-	44,783	116,317
Other assets	8,145	4,931	-	13,076	33,964
Off balance sheet	(31,060)	10,307	(971)	(21,724)	(56,426)
Loan commitments	12,685	5,750	-	18,435	47,883
Financial guarantees / Letters of credit	(43,745)	4,557	(971)	(40,159)	(104,309)
Closing balance as at 31 December 2019					
Due from banks	143,189	-	-	143,189	371,919
Loans and advances & financing	1,684,146	375,931	36,438	2,096,515	5,445,494
-Corporate Banking	986,033	365,124	17,117	1,368,274	3,553,959
-Retail Banking	698,113	10,807	19,321	728,241	1,891,535
Investment securities	252,634	-	-	252,634	656,192
Other assets	11,708	6,843	-	18,551	48,184
Off balance sheet	225,252	64,200	-	289,452	751,823
Loan commitments	55,073	9,850	-	64,923	168,631
Financial guarantees / Letters of credit	170,179	54,350	-	224,529	583,192

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Movement in gross carrying amount	Stage 1	Stage 2	2018 Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Opening balance as at 1 January 2018					
Due from banks	125,636	-	-	125,636	326,327
Loans and advances & financing	1,516,466	122,772	19,319	1,658,557	4,307,940
-Corporate Banking	903,134	110,518	7,526	1,021,178	2,652,410
-Retail Banking	613,332	12,254	11,793	637,379	1,655,530
Investment securities	216,741	-	-	216,741	562,964
Other assets	6,900	1,667	-	8,567	22,252
Off balance sheet	282,117	24,063	-	306,180	795,273
Loan commitments	24,891	-	-	24,891	64,652
Financial guarantees / Letters of credit	257,226	24,063	-	281,289	730,621
Net transfer between stages					
Due from banks	-	-	-	-	-
Loans and advances & financing	(31,695)	20,647	11,048	-	-
-Corporate Banking	(30,226)	23,318	6,908	-	-
-Retail Banking	(1,469)	(2,671)	4,141	-	-
Investment securities	-	-	-	-	-
Other assets	1,283	(1,283)	-	-	-
Off balance sheet	5,879	(5,879)	-	-	-
Loan commitments	-	-	-	-	-
Financial guarantees / Letters of credit	5,879	(5,879)	-	-	-
Assets originated or purchased and derecognised(net)					
Due from banks	42,487	-	-	42,487	110,356
Loans and advances & financing	221,360	22,730	2,448	246,538	640,357
-Corporate Banking	191,145	22,662	2,193	216,000	561,038
-Retail Banking	30,215	68	255	30,538	79,319
Investment securities	(8,890)	-	-	(8,890)	(23,091)
Other assets	(3,178)	86	-	(3,092)	(8,030)
Off balance sheet	11,945	(7,920)	971	4,996	12,977
Loan commitments	18,048	3,550	-	21,598	56,099
Financial guarantees / Letters of credit	(6,103)	(11,470)	971	(16,602)	(43,122)
Closing balance as at 31 December 2018					
Due from banks	168,123	-	-	168,123	436,683
Loans and advances & financing	1,706,131	166,149	32,815	1,905,095	4,948,298
-Corporate Banking	1,060,875	156,498	16,627	1,234,000	3,205,194
-Retail Banking	645,256	9,651	16,188	671,095	1,743,104
Investment securities	207,851	-	-	207,851	539,872
Other assets	5,005	470	-	5,475	14,221
Off balance sheet	299,941	10,264	971	311,176	808,250
Loan commitments	42,938	3,550	-	46,488	120,748
Financial guarantees / Letters of credit	257,003	6,714	971	264,688	687,502

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Movement in impairment allowance and provision

	2019			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Opening balance as at 1 January 2019					
Due from banks	1	-	-	1	3
Loans and advances & financing	6,706	10,097	17,615	34,418	89,397
-Corporate Banking	4,856	8,927	7,996	21,779	56,569
-Retail Banking	1,850	1,170	9,619	12,639	32,828
Investment securities	24	-	-	24	62
Other assets	7	4	-	11	29
Off balance sheet	833	142	205	1,180	3,065
Loan commitments	58	60	-	118	306
Financial guarantees / Letters of credit	775	82	205	1,062	2,759
Net transfer between stages					
Due from banks	-	-	-	-	-
Loans and advances & financing	2,279	(1,600)	(679)	-	-
-Corporate Banking	904	(1,022)	118	-	-
-Retail Banking	1,375	(578)	(797)	-	-
Investment securities	-	-	-	-	-
Other assets	(3)	3	-	-	-
Off balance sheet	(344)	344	-	-	-
Loan commitments	23	(23)	-	-	-
Financial guarantees / Letters of credit	(367)	367	-	-	-
Charge for the year (net)					
Due from banks	2	-	-	2	5
Loans and advances & financing	(2,869)	6,102	3,878	7,111	18,470
-Corporate Banking	(1,345)	4,144	881	3,680	9,558
-Retail Banking	(1,524)	1,958	2,997	3,431	8,912
Investment securities	3	-	-	3	8
Other assets	(2)	2	-	-	-
Off balance sheet	(252)	373	(205)	(84)	(218)
Loan commitments	15	-	-	15	39
Financial guarantees / Letters of credit	(267)	373	(205)	(99)	(257)
Closing balance as at 31 December 2019					
Due from banks	3	-	-	3	8
Loans and advances & financing	6,116	14,599	20,814	41,529	107,868
-Corporate Banking	4,415	12,049	8,995	25,459	66,128
-Retail Banking	1,701	2,550	11,819	16,070	41,740
Investment securities	27	-	-	27	70
Other assets	2	9	-	11	29
Off balance sheet	238	858	-	1,096	2,847
Loan commitments	98	35	-	133	346
Financial guarantees / Letters of credit	140	823	-	963	2,501

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Movement in impairment allowance and provision	2018			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Opening balance as at 1 January 2018					
Due from banks	2	-	-	2	5
Loans and advances & financing	6,162	11,895	9,663	27,720	72,000
-Corporate Banking	3,167	9,032	2,789	14,988	38,930
-Retail Banking	2,995	2,863	6,874	12,732	33,070
Investment securities	19	-	-	19	49
Other assets	25	129	-	154	400
Loan commitments and financial guarantees	451	1,214	-	1,665	4,325
Loan commitments	65	-	-	65	168
Financial guarantees / Letters of credit	386	1,214	-	1,600	4,156
Net transfer between stages					
Due from banks	-	-	-	-	-
Loans and advances & financing	8,558	(8,192)	(366)	-	-
-Corporate Banking	5,952	(5,879)	(73)	-	-
-Retail Banking	2,606	(2,313)	(293)	-	-
Investment securities	-	-	-	-	-
Other assets	110	(110)	-	-	-
Loan commitments and financial guarantees	169	(169)	-	-	-
Loan commitments	-	-	-	-	-
Financial guarantees / Letters of credit	169	(169)	-	-	-
Charge for the year (net)					
Due from banks	(1)	-	-	(1)	(3)
Loans and advances & financing	(8,014)	6,394	8,318	6,698	17,397
-Corporate Banking	(4,262)	5,774	5,279	6,791	17,639
-Retail Banking	(3,752)	620	3,039	(93)	(242)
Investment securities	5	-	-	5	13
Other assets	(128)	(15)	-	(143)	(371)
Loan commitments and financial guarantees	213	(903)	205	(485)	(1,260)
Loan commitments	(7)	60	-	53	138
Financial guarantees / Letters of credit	220	(963)	205	(538)	(1,398)
Closing balance as at 31 December 2018					
Due from banks	1	-	-	1	3
Loans and advances & financing	6,706	10,097	17,615	34,418	89,397
-Corporate Banking	4,856	8,927	7,996	21,779	56,569
-Retail Banking	1,850	1,170	9,619	12,639	32,828
Investment securities	24	-	-	24	62
Other assets	7	4	-	11	29
Loan commitments and financial guarantees	833	142	205	1,180	3,065
Loan commitments	58	60	-	118	307
Financial guarantees / Letters of credit	775	82	205	1,062	2,758

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Bank assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default:

- a) Inadequate or unreliable financial and other information such as unviability of financial statements.
- b) Non-cooperation by the borrowers in matters pertaining to documentation
- c) Borrower is the subject of litigation by third parties that may have a significant impact on this financial position.
- d) Frequent changes in senior management
- e) Intra-group transfer of funds without underlying transactions.
- f) Deferment/delay in the date for commencement of commercial operations by more than one year.
- g) A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous years.
- h) Erosion in net worth by more than 20% as compared to the previous year end coupled with an increase in leverage.

Further, the following quantitative guidelines are used to determine the staging of accounts:

1. An account will migrate to stage 2 if any of the changes in rating below are met;
 - For risk ratings 1 - 4: \geq 3 notch downgrade
 - For risk rating 5: 2 notch downgrade
 - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention as per bank's IFRS 9 staging guidelines

Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding without acceptable justification.

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

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

The definition of default is largely aligned to CBO regulatory requirements. An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets the default criteria in line with requirements of CBO relevant to upgrading of customer from stage 3. Any upgrade is appropriately approved and validated by the internal audit department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement(continued)

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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

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

Economic variable assumptions

The economic scenarios includes the following ranges of key drivers for a period of 4 years:

Key drivers

GDP growth as a percentage	2%-4%
Oil revenue as a % on GDP	27%-30%

Sensitivity analysis- ECL

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

2019			2019	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	56,758	ECL on non impaired financial assets under IFRS 9	21,852	
(24,541)	32,218	Good scenario - 100% weighted	12,404	(9,448)
7,069	63,827	Base scenario - 100% weighted	24,574	2,722
16,528	73,286	Bad scenario - 100% weighted	28,215	6,363
2018			2018	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	46,270	ECL on non impaired financial assets under IFRS 9	17,814	
(21,453)	24,818	Good scenario - 100% weighted	9,555	(8,259)
5,697	51,967	Base scenario - 100% weighted	20,007	2,193
13,857	60,127	Bad scenario - 100% weighted	23,149	5,335

For computation of ECL, the Bank considers three scenarios ie., Good, base and bad with weightage of 25%, 60% and 15% respectively.

The Bank carries out assessment on a portfolio basis using internal ratings for corporate and SME portfolio which are estimated on an individual basis with their respective credit risk parameters applied for ECL calculations of the same credit risk ratings and homogeneous segments of the loan portfolio. For retail portfolio similar assessment is based, however the internal ratings are replace by Days Past Due buckets. The Bank performs an assessment on a portfolio basis for the following types of loans:

- Retail loans
- Corporate/ SMEs loans

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as Corporate/SME or retail), product type, credit risk rating both at initial recognition and current, term to maturity, collateral, etc. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.8 Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other asset as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as it is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

36.1.9 Concentration risk

Concentration of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

	2019			2018		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by type						
Corporate	1,368,274	-	21,389	1,234,000	-	18,508
Personal	728,241	-	-	671,095	-	-
Sovereign	-	-	236,541	-	-	195,362
Banks	-	50,279	218	-	24,028	203
Concentration by location						
Oman	2,079,747	19,250	198,697	1,888,212	-	157,696
Other GCC countries	10,100	24,013	1,740	9,818	19,821	1,907
United Kingdom	2,303	443	-	-	455	-
United States of America	-	5,350	50,035	-	2,754	47,548
Others	4,365	1,223	7,676	7,065	998	6,922
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Concentration by type						
Corporate	3,553,959	-	55,557	3,205,194	-	48,073
Personal	1,891,535	-	-	1,743,104	-	-
Sovereign	-	-	614,392	-	-	507,433
Banks	-	130,595	565	-	62,411	527
Concentration by location						
Oman	5,401,941	50,000	516,096	4,904,446	-	409,600
Other GCC countries	26,233	62,371	4,519	25,501	51,483	4,953
United Kingdom	5,982	1,151	-	-	1,182	-
United States of America	-	13,896	129,962	-	7,153	123,501
Others	11,338	3,177	19,937	18,351	2,593	17,979

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.9 Concentration risk (continued)

Concentration by location for loans & advances and financing is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 37.

36.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will face difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

36.2.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the CBO regulations.

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

As at 31 December 2019, the Bank's ten largest depositors accounted for 46% (31 December 2018: 55%) of its customer deposits with no single maturity representing more than 11 % of the customers deposit base.(31 December 2018: 12%)

36.2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Bank also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2019 was 87.5% (31 December 2018: 87.5%).

Details of the reported lending ratio for the year are as follows:

	2019	2018
	Lending ratio	Lending ratio
Year end	84.81%	83.38%
Maximum for the year	87.12%	87.44%
Minimum for the year	82.27%	82.64%
Average for the year	85.55%	85.67%

The Bank also monitors Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The Bank has also laid down internal limits and are in compliance with the regulatory requirement as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

The following table summarises the maturity profile of the Bank's assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

31 DECEMBER 2019	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
Assets	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	107,967	-	-	525	108,492
Due from banks	50,276	-	-	-	50,276
Loans & advances and financing, net	373,058	171,364	440,242	1,070,322	2,054,986
Investment securities	166,793	55,910	2,495	32,950	258,148
Property and equipment	-	-	-	21,194	21,194
Other assets	23,298	2,133	-	-	25,431
Total assets	721,392	229,407	442,737	1,124,991	2,518,527
Liabilities and equity					
Due to banks	168,080	24,315	5,310	-	197,705
Customers' deposits	347,083	595,477	514,163	255,003	1,711,726
Borrowed funds	-	-	127,050	-	127,050
Taxation	121	-	-	-	121
Other liabilities	39,131	18,231	13,726	4,642	75,730
Subordinated liabilities	-	5,000	12,000	-	17,000
Tier 1 perpetual subordinated bonds	-	-	124,000	-	124,000
Shareholders' funds	-	-	-	265,195	265,195
Total liabilities and equity	554,415	643,023	796,249	524,840	2,518,527
Net liquidity gap	166,977	(413,616)	(353,512)	600,151	-
Off balance sheet items					
Irrecoverable commitments to extend credit	38,560	26,358	-	-	64,918
Financial guarantees and letters of credit	170,360	9,361	44,814	-	224,534
Derivative products	131,708	30,103	89,758	27,143	278,712
Total off balance sheet assets	340,628	65,822	134,572	27,143	568,164
Assets	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	280,433	-	-	1,364	281,797
Due from banks	130,587	-	-	-	130,587
Loans & advances and financing, net	968,982	445,101	1,143,486	2,780,057	5,337,626
Investment securities	433,229	145,221	6,481	85,583	670,514
Property and equipment	-	-	-	55,049	55,049
Other assets	60,515	5,540	-	-	66,055
Total assets	1,873,746	595,862	1,149,967	2,922,053	6,541,628
Liabilities and equity					
Due to banks	436,572	63,156	13,791	-	513,519
Customers' deposits	901,514	1,546,694	1,335,487	662,347	4,446,042
Borrowed funds	-	-	330,000	-	330,000
Taxation	314	-	-	-	314
Other liabilities	101,639	47,352	35,650	12,060	196,701
Subordinated liabilities	-	12,987	31,169	-	44,156
Tier 1 perpetual subordinated bonds	-	-	322,078	-	322,078
Shareholders' funds	-	-	-	688,818	688,818
Total liabilities and equity	1,440,039	1,670,189	2,068,175	1,363,225	6,541,628
Net liquidity gap	433,707	(1,074,327)	(918,208)	1,558,828	-
Off balance sheet items					
Irrecoverable commitments to extend credit	100,157	68,461	-	-	168,618
Financial guarantees and letters of credit	442,494	24,314	116,400	-	583,205
Derivative products	342,099	78,188	233,138	70,500	723,925
Total off balance sheet assets	884,750	170,963	349,538	70,500	1,475,748

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
<i>31 December 2018</i>					
<i>Assets</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	152,881	-	-	525	153,406
Due from banks	24,027	-	-	-	24,027
Loans & advances and financing, net	400,303	138,035	355,069	977,270	1,870,677
Investment securities	142,606	44,661	777	26,029	214,073
Property and equipment	-	-	-	17,490	17,490
Other assets	9,103	1,638	-	-	10,741
Total assets	728,920	184,334	355,846	1,021,314	2,290,414
<i>Liabilities and equity</i>					
Due to banks	108,040	19,250	19,487	-	146,777
Customers' deposits	384,696	517,629	498,300	261,020	1,661,645
Borrowed funds	11,550	26,950	13,475	-	51,975
Taxation	251	-	-	-	251
Other liabilities	18,516	13,042	10,604	3,600	45,762
Subordinated liabilities	-	8,000	17,000	-	25,000
Tier 1 perpetual subordinated bonds	-	-	104,000	-	104,000
Shareholders' funds	-	-	-	255,004	255,004
Total liabilities and equity	523,053	584,871	662,866	519,624	2,290,414
Net liquidity gap	205,867	(400,537)	(307,020)	501,690	-
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	46,488	-	-	-	46,488
Financial guarantees and letters of credit	173,368	7,080	84,240	-	264,688
Derivative products	66,402	33,391	80,966	27,143	207,902
Total off balance sheet assets	286,258	40,471	165,206	27,143	519,078
<i>Assets</i>					
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	397,094	-	-	1,363	398,457
Due from banks	62,408	-	-	-	62,408
Loans & advances and financing, net	1,039,748	358,532	922,257	2,538,364	4,858,901
Investment securities	370,406	116,003	2,018	67,606	556,033
Property and equipment	-	-	-	45,429	45,429
Other assets	23,644	4,255	-	-	27,899
Total assets	1,893,300	478,790	924,275	2,652,762	5,949,127
<i>Liabilities and equity</i>					
Due to banks	280,623	50,000	50,616	-	381,239
Customers' deposits	999,210	1,344,491	1,294,286	677,974	4,315,961
Borrowed funds	30,000	70,000	35,000	-	135,000
Taxation	652	-	-	-	652
Other liabilities	48,094	33,875	27,543	9,351	118,863
Subordinated liabilities	-	20,779	44,156	-	64,935
Tier 1 perpetual subordinated bonds	-	-	270,130	-	270,130
Shareholders' funds	-	-	-	662,347	662,347
Total liabilities and equity	1,358,579	1,519,145	1,721,731	1,349,672	5,949,127
Net liquidity gap	534,721	(1,040,355)	(797,456)	1,303,090	-
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	120,748	-	-	-	120,748
Financial guarantees and letters of credit	450,306	18,390	218,806	-	687,502
Derivative products	172,473	86,730	210,301	70,501	540,005
Total off balance sheet assets	743,527	105,120	429,107	70,501	1,348,255

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities (including interest) based on expected undiscounted payment obligations.

	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
31 DECEMBER 2019	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	168,655	24,731	5,746	-	199,132
Customers' deposits	348,451	607,216	562,815	295,219	1,813,701
Borrowed funds	-	-	139,865	-	139,865
Subordinated liabilities	-	5,142	13,633	-	18,775
Total liabilities	517,106	637,089	722,059	295,219	2,171,473
Credit related commitments	38,560	26,358			64,918
Due to banks	438,065	64,236	14,925	-	517,226
Customers' deposits	905,068	1,577,184	1,461,857	766,803	4,710,912
Borrowed funds	-	-	363,286	-	363,286
Subordinated liabilities	-	13,356	35,410	-	48,766
Total liabilities	1,343,133	1,654,776	1,875,478	766,803	5,640,190
Credit related commitments	100,157	68,462			168,619
	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
<i>31 December 2018</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	108,410	19,579	21,087	-	149,076
Customers' deposits	386,213	527,833	545,451	302,184	1,761,681
Borrowed funds	11,599	27,516	14,834	-	53,949
Subordinated liabilities	-	8,177	18,803	-	26,980
Total liabilities	506,222	583,105	600,175	302,184	1,991,686
Credit related commitments	19,964	26,524			46,488
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	281,584	50,855	54,772	-	387,211
Customers' deposits	1,003,150	1,370,995	1,416,756	784,895	4,575,796
Borrowed funds	30,126	71,471	38,530	-	140,127
Subordinated liabilities	-	21,238	48,838	-	70,076
Total liabilities	1,314,860	1,514,559	1,558,896	784,895	5,173,210
Credit related commitments	51,855	68,893			120,748

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk. There are no commodity price risk exposures to the Bank.

36.3.1 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank through Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management procedures and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested with ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Executive Risk Committee of the Board). The market risk policies are periodically reviewed to keep it up to date with the market developments.

36.3.2 Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 200 bps.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

	Effective annual interest rate	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
31 DECEMBER 2019							
Assets							
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	107,992	108,492
Due from banks	0.70%	50,276	-	-	-	-	50,276
Loans & advances and financing, net	5.72%	890,997	372,514	322,633	468,842	-	2,054,986
Investment securities	4.07%	50,035	21,134	61,631	119,939	5,409	258,148
Property and equipment		-	-	-	-	21,194	21,194
Other assets		-	-	-	-	25,431	25,431
Total assets		991,808	393,648	384,264	588,781	160,026	2,518,527
Liabilities and equity							
Due to banks	3.80%	168,080	24,315	5,310	-	-	197,705
Customers' deposits	3.33%	263,767	600,931	514,153	400	332,475	1,711,726
Borrowed funds	3.71%	-	-	127,050	-	-	127,050
Taxation		121	-	-	-	-	121
Other liabilities		-	2	-	-	75,728	75,730
Subordinated liabilities	4.20%	-	-	-	-	17,000	17,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	124,000	-	-	124,000
Shareholders' funds		-	-	-	-	265,195	265,195
Total liabilities and equity		431,968	625,248	770,513	400	690,398	2,518,527
Total interest rate sensitivity gap		559,840	(231,600)	(386,249)	588,381	(530,372)	-
Cumulative interest rate sensitivity gap		559,840	328,240	(58,009)	530,372	-	-
31 DECEMBER 2019							
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	1,298	-	-	-	280,499	281,797
Due from banks	0.70%	130,587	-	-	-	-	130,587
Loans & advances and financing, net	5.72%	2,314,278	967,569	838,008	1,217,771	-	5,337,626
Investment securities	4.07%	129,960	54,894	160,081	311,530	14,049	670,514
Property and equipment		-	-	-	-	55,049	55,049
Other assets		-	-	-	-	66,055	66,055
Total assets		2,576,123	1,022,463	998,089	1,529,301	415,652	6,541,628
Liabilities and equity							
Due to banks	3.80%	436,571	63,156	13,792	-	-	513,519
Customers' deposits	3.33%	685,109	1,560,860	1,335,462	1,039	863,572	4,446,042
Borrowed funds	3.71%	-	-	330,000	-	-	330,000
Taxation		314	-	-	-	-	314
Other liabilities		-	5	-	-	196,696	196,701
Subordinated liabilities	4.20%	-	-	-	-	44,156	44,156
Tier 1 perpetual subordinated bonds	7.50%	-	-	322,078	-	-	322,078
Shareholders' funds		-	-	-	-	688,818	688,818
Total liabilities and equity		1,121,994	1,624,021	2,001,332	1,039	1,793,242	6,541,628
Total interest rate sensitivity gap		1,454,129	(601,558)	(1,003,243)	1,528,262	(1,377,590)	-
Cumulative interest rate sensitivity gap		1,454,129	852,571	(150,672)	1,377,590	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

	Effective annual interest rate	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
<i>31 December 2018</i>							
<i>Assets</i>							
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	152,906	153,406
Due from banks	0.56%	24,027	-	-	-	-	24,027
Loans & advances and financing, net	5.59%	982,732	166,441	283,871	437,633	-	1,870,677
Investment securities	3.68%	47,572	9,385	75,429	75,489	6,198	214,073
Property and equipment	-	-	-	-	-	17,490	17,490
Other assets	-	-	-	-	-	10,741	10,741
<i>Total assets</i>		<u>1,054,831</u>	<u>175,826</u>	<u>359,300</u>	<u>513,122</u>	<u>187,335</u>	<u>2,290,414</u>
<i>Liabilities and equity</i>							
Due to banks	2.74%	108,039	19,250	19,488	-	-	146,777
Customers' deposits	3.15%	269,497	435,564	578,111	489	377,984	1,661,645
Borrowed funds	3.36%	11,550	26,950	13,475	-	-	51,975
Taxation	-	-	-	-	-	251	251
Other liabilities	-	3	43	14	-	45,702	45,762
Subordinated liabilities	4.54%	-	-	-	-	25,000	25,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	104,000	-	-	104,000
Shareholders' funds	-	-	-	-	-	255,004	255,004
<i>Total liabilities and equity</i>		<u>389,089</u>	<u>481,807</u>	<u>715,088</u>	<u>489</u>	<u>703,941</u>	<u>2,290,414</u>
<i>Total interest rate sensitivity gap</i>		<u>665,742</u>	<u>(305,981)</u>	<u>(355,788)</u>	<u>512,633</u>	<u>(516,606)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>665,742</u>	<u>359,761</u>	<u>3,973</u>	<u>516,606</u>	<u>-</u>	<u>-</u>
<i>31 December 2018</i>							
<i>Assets</i>							
Cash and balances with Central Bank of Oman	1.50%	1,299	-	-	-	397,158	398,457
Due from banks	0.56%	62,408	-	-	-	-	62,408
Loans & advances and financing, net	5.59%	2,552,551	432,314	737,327	1,136,709	-	4,858,901
Investment securities	3.68%	123,564	24,377	195,919	196,074	16,099	556,033
Property and equipment	-	-	-	-	-	45,429	45,429
Other assets	-	-	-	-	-	27,899	27,899
<i>Total assets</i>		<u>2,739,822</u>	<u>456,691</u>	<u>933,246</u>	<u>1,332,783</u>	<u>486,585</u>	<u>5,949,127</u>
<i>Liabilities and equity</i>							
Due to banks	2.74%	280,621	50,000	50,618	-	-	381,239
Customers' deposits	3.15%	699,992	1,131,335	1,501,587	1,270	981,777	4,315,961
Borrowed funds	3.36%	30,000	70,000	35,000	-	-	135,000
Taxation	-	-	-	-	-	652	652
Other liabilities	-	8	112	36	-	118,707	118,863
Subordinated liabilities	4.54%	-	-	-	-	64,935	64,935
Tier 1 perpetual subordinated bonds	7.50%	-	-	270,130	-	-	270,130
Shareholders' funds	-	-	-	-	-	662,347	662,347
<i>Total liabilities and equity</i>		<u>1,010,621</u>	<u>1,251,447</u>	<u>1,857,371</u>	<u>1,270</u>	<u>1,828,418</u>	<u>5,949,127</u>
<i>Total interest rate sensitivity gap</i>		<u>1,729,201</u>	<u>(794,756)</u>	<u>(924,125)</u>	<u>1,331,513</u>	<u>(1,341,833)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>1,729,201</u>	<u>934,445</u>	<u>10,320</u>	<u>1,341,833</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

Exposure and sensitivity analysis

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying upto 200 bps interest rate sensitivity. Earning impact of a 200 basis points parallel shift in interest rate is provided below:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
17,117	19,446	Impact of +200 bps interest rate increase	7,487	6,590
(17,117)	(19,446)	Impact of -200 bps interest rate decrease	(7,487)	(6,590)

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Credit Investment Committee and Executive Risk Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio of investments is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

36.3.3 Exposure to equity price risk

The Bank's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Bank's local equity portfolio has a correlation to the performance of MSM 30 Index and international equity portfolio for other GCC countries has a correlation with their respective stock market index. The table below shows the changes in fair value +/- 5% in the MSM 30 Index and other GCC countries stock index;

2018	2019	Security as per country	2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
491	408	MSM - Oman +5% impact	157	189
(491)	(408)	MSM - Oman -5% impact	(157)	(189)
210	187	Other GCC countries +5% impact	72	81
(210)	(187)	Other GCC countries -5% impact	(72)	(81)

36.3.4 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Bank also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2019.

The Bank had the following net exposures denominated in foreign currencies:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
159,948	192,813	US Dollar	74,233	61,580
278	118	Euro	46	107
3,265	346	UAE Dirham	133	1,257
226	424	GBP Sterling	163	87
2,151	4,052	Others	1,560	828

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency rates as at 31 December 2019 on net assets is considered negligible.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.4 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix reporting lines
- Ownership, reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill up gradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is complemented by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Compliance Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

36.5 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratio in order to support its business and to maximise shareholders value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

36 FINANCIAL RISK MANAGEMENT (continued)

36.4 OPERATIONAL RISK (continued)

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. The minimum capital adequacy ratio requirement for the year is 13.50% including capital conservation buffer of 2.50% (31 December 2018: 12.875% including capital conservation buffer of 1.875%). The capital adequacy ratio working is as follows:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
586,312	607,327	Common Equity Tier 1 (CET1)	233,821	225,730
270,130	322,078	Additional Tier 1	124,000	104,000
856,442	929,405	Tier 1	357,821	329,730
60,236	51,462	Tier 2	19,813	23,191
916,678	980,867	Total regulatory capital	377,634	352,921
		Risk weighted assets		
4,807,319	5,342,338	Credit risk	2,056,800	1,850,818
165,745	178,605	Market risk	68,763	63,812
265,444	278,312	Operational risk	107,150	102,196
5,238,508	5,799,255	Total risk weighted assets	2,232,713	2,016,826
		Capital adequacy ratio		
11.19%	10.47%	CET1 capital expressed as a percentage of total risk-weighted assets	10.47%	11.19%
16.35%	16.03%	Total tier I capital expressed as a percentage of total risk-weighted assets	16.03%	16.35%
1.15%	0.89%	Tier II capital expressed as a percentage of total risk-weighted assets	0.89%	1.15%
17.50%	16.91%	Total regulatory capital expressed as a percentage of total risk-weighted assets	16.91%	17.50%

37 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, unrestricted investment account, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
- Wholesale banking, treasury and investments include deposits including current accounts, term deposit, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

37 SEGMENT INFORMATION (continued)

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax. Geographical distribution of major assets are provided in note 36.1.9 and all liabilities are originated in Oman.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which is approximates the cost of the funds.

Segment information is as follows:

	2019			2018		
	Retail banking	Wholesale banking, Treasury & Investment	Total	Retail banking	Wholesale banking, Treasury & Investment	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Net interest income	16,872	27,863	44,735	13,066	31,055	44,121
Net income from Islamic financing and investments	3,199	9,105	12,304	2,446	5,487	7,933
Net interest income and income from islamic financing and investments	20,071	36,968	57,039	15,512	36,542	52,054
Fee and commission income, net & Other operating income	1,838	10,872	12,710	1,114	8,985	10,099
Net operating income	21,909	47,840	69,749	16,626	45,527	62,153
Net impairment on financial assets	(2,204)	(3,667)	(5,871)	(179)	(4,929)	(5,108)
Operating expenses	(15,823)	(11,826)	(27,649)	(12,981)	(10,271)	(23,252)
Profit before taxation	3,882	32,347	36,229	3,466	30,327	33,793
Tax expense	(559)	(4,655)	(5,214)	(520)	(4,487)	(5,007)
Segment profit for the year	3,323	27,692	31,015	2,946	25,840	28,786
Segment assets	722,495	1,796,032	2,518,527	660,409	1,630,005	2,290,414
Segment liabilities	297,486	1,831,846	2,129,332	257,785	1,673,625	1,931,410
Additions to segments	779	5,199	5,978	370	1,800	2,170
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	43,823	72,371	116,194	33,938	80,662	114,600
Net income from islamic financing and investments	8,309	23,649	31,958	6,353	14,253	20,606
Net interest income and income from islamic financing and investments	52,132	96,020	148,152	40,291	94,915	135,206
Fee and commission income, net & Other operating income	4,774	28,239	33,013	2,894	23,337	26,231
Net operating income	56,906	124,259	181,165	43,185	118,252	161,437
Net impairment on financial assets	(5,725)	(9,524)	(15,249)	(465)	(12,802)	(13,267)
Operating expenses	(41,099)	(30,715)	(71,814)	(33,717)	(26,678)	(60,395)
Profit before taxation	10,082	84,020	94,102	9,003	78,772	87,775
Tax expense	(1,452)	(12,091)	(13,543)	(1,351)	(11,654)	(13,005)
Segment profit for the year	8,630	71,929	80,559	7,652	67,118	74,770
Segment assets	1,876,610	4,665,018	6,541,628	1,715,348	4,233,779	5,949,127
Segment liabilities	772,691	4,758,041	5,530,732	669,571	4,347,079	5,016,650
Additions to segments	2,023	13,504	15,527	961	4,675	5,636

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

38 COMPARATIVE FIGURES

Corresponding figures have been rearranged and reclassified in order to conform with the presentation for the current year for the purpose of comparison and for better presentation. Such reclassifications are not considered material and do not affect previously reported net income or owner's equity.

Report of the independent auditors - pages 80-84.



Ahli Islamic

Financial Statements

For the year ended 31 December 2019



In the name of Allah, The Beneficent, The Merciful

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report

All praise to Allah, and peace be upon His messenger, his family, his companions and all followers of his guidance.

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2019 to 31.12.2019) ended 2019 to ensure that they comply with rules and principles of Islamic Shari'a and with the *Fatawa* issued by the Board.

The Bank's management is responsible for ensuring execution and implementation of resolutions of the Shari'a Supervisory Board and to inform the Shari'a Supervisory Board with regard to the operations and the developments, which require issuance of resolutions from the Shari'a Supervisory Board. The Shari'a Supervisory Board is responsible in monitoring implementation of the decisions from Shari'a perspective and to give its opinion based on the Shari'a audit reports of the Bank.

In opinion of the Board:

- a) The contracts, transactions and dealings entered into by the Bank during the year ended 2019 are in compliance with Shari'a rules and principles.
- b) The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
- c) All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
- d) The calculation of *Zakah* is in compliance with Shari'a rules and principles.

We beg Allah the Almighty to grant us all the success.

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



Dr. Mohammed Taher Al-Ibrahim



Dr. Mustain Ali Abdul Hameed



Dr. Abdul Raouf Abdullah Al-Tobi

(Members)

Resolutions issued by SSB during Year 2019

SSB Meeting	Resolution No.	Detail of the Resolution
SSB 25 Meeting on May 14, 2019	2 (SSB -25 - 2019)	Review and Sharia Opinion on Shari'a Audit Reports of 4th Quarter 2018: I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
	3 (SSB - 25- 2019)	Implementation Status of SSB Opinion in Sharia Audit Reports I. Shari'a Audit Report of Corporate Banking for 2nd Quarter 2018 II. Shari'a Audit Report of Retail Banking for 3rd Quarter 2018 III. Shari'a Audit Report of SME for 3rd Quarter 2018
	4 (SSB - 25- 2019)	Review and Approval of Mortgage Contract
	5 (SSB - 25- 2019)	Review and Approval of following Procedures: I. Account Services Procedure Manual II. Payment Services Procedure Manual III. Cash Services Procedure Manual IV. Retail Credit Procedure Manual
	6 (SSB - 25- 2019)	Review of Proposal for Advisory and Annual Review Fee of Corporate Transactions
	SSB meeting on 11.7.2019 SSB-25-2019	2 (SSB-26-2019)
3 (SSB-26-2019)		Review and Approval of Ahli Islamic Credit and Debit Card Proposal
4 (SSB-26-2019)		Review and Sharia Opinion on Shari'a Audit Reports of 1st Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
5 (SSB-26-2019)		Payment of Fee to Muwakkil for Committed Line under Wakala bil Istithmar
6 (SSB-26-2019)		Conventional Insurance of Corporate Ijara Assets
7 (SSB-26-2019)		Sharia Review Process of Retail Transactions at Pre-execution

Resolutions issued by SSB during Year 2019 (continued)

SSB Meeting	Resolution No.	Detail of the Resolution
SSB meeting on 10.10.2019	2 (SSB-27-2019)	Review of Modification in Prize Draw Account Procedure
27-SSB-2019	3 (SSB-27-2019)	Transaction Information Sheet of National Development Group Company (NDGC)
	4 (SSB-27-2019)	Review and Opinion on Shari'a Audit Reports of 2nd Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
	5 (SSB-27-2019)	Implementation Status of Sharia Reports for 1st Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit of Treasury
	6 (SSB-27-2019)	Sharia Review of IT System and its Checklists I. Sharia Review Checklist - DM cum Forward Ijara II. Sharia System Review Checklist - DM cum Ijarah III. Sharia System Review Checklist - Goods & Auto Murabaha IV. Sharia System Review Checklist - Ijara MBT V. Sharia System Review Checklist - Services Ijara VI. Sharia System Review Checklist- Current Account/Investment Accounts
	7 (SSB-27-2019)	Retail Query about Transfer of a Customer Share to his Wife
	8 (SSB-27-2019)	Qitaf Account Special Terms and Conditions
	9 (SSB-27-2019)	Special Scheme for Home Finance to Reward Loyal Customers
	10 (SSB-27-2019)	Sharia Compliance Inspection of Corporate Assets
	12 (SSB-27-2019)	MENA Fund List of Companies
	2 (SSB-28-2019)	Sharia Audit Plan 2020
	3 (SSB-28-2019)	Sharia Training Plan 2020
	4 (SSB-28-2019)	Ahli Islamic Financing Facility Letter
SSB meeting on 10.12.2019	5 (SSB-28-2019)	Review and Opinion on Shari'a Audit Reports of 3rd Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
28-SSB-2019	6 (SSB-28-2019)	Status of Sharia Reports I. Shari'a Audit Report of Corporate Banking for 2nd Quarter 2019 II. Shari'a Audit Report of Retail Banking for 2nd Quarter 2019
	8 (SSB-28-2019)	Review and Approval of Oman Sovereign Sukuk SAOG Investment Proposal
	9 (SSB-28-2019)	Review and Approval of Wallet Terms & Conditions
	10 (SSB-28-2019)	Review and Approval of Marketing Activities of Ahli Islamic
	11 (SSB-28-2019)	Review and Approval of Wakala Call Account Agreement

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Qitaf Savings Account

All praise to Allah and May peace and blessings be upon His messenger, his family, his companions and all followers of his guidance.

On Tuesday the 1-Rabi al-awwal-1441 that corresponds to October 29, 2019, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Qitaf Savings Account, which details are as follows:

Sharia Structure of the Product:

Ahli Islamic Qitaf Savings Account is an investment account that is based on the Shari'a rules of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the deposited capital into Mudaraba pool from all the Mudaraba based accounts and invests them into Sharia compliant financings and investment avenues. The profit on the Mudaraba pool is distributed amongst the investors as per the profit sharing ratio taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment account holders and the Bank does not ask for any compensation.

Additionally, Ahli Islamic offers different cash prizes to account holders as Hiba from the Bank's shareholder fund that is based on the draws made on weekly/ monthly/ quarterly or any other periods that Ahli Islamic may decide. The winners are picked randomly by prize draw system and the results of the prize draws are final and conclusive.

Legal Documents:

1. Account Opening Application and its Terms and Conditions
2. Special Terms and Conditions for Qitaf Savings Account

The SSB Opinion:

Having reviewed the Qitaf Account Deposit product's paper, the terms and conditions, profit distribution and prize draw mechanism, the Shari'a Supervisory Board of the Bank confirms that Qitaf Savings Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Sharia Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed

(Chairman)



Dr. Mohammed Taher Al-Ibrahim



Dr. Mustain Ali Abdul Hameed



Dr. Abdul Raouf Abdullah Al-Tobi

(Members)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Auqaf Account

All praise to Allah and May peace and blessings be upon His messenger, his family, his companions and all followers of his guidance.

On Tuesday November 26, 2019, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Auqaf Account, which details are as follows:

Sharia Structure of the Product:

Ahli Islamic Auqaf Account is an investment account that is based on the Shari'a rules of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract.

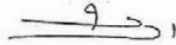
Ahli Islamic brings the deposited capital into Mudaraba pool from all the Mudaraba based accounts and invests them into Sharia compliant financings and investment avenues. The profit is distributed amongst the investors in the Mudaraba pool as per the agreed profit sharing ratio taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment account holders and the Bank does not ask for any compensation.

The SSB Opinion:

Having reviewed the Auqaf Account Deposit product's paper the Shari'a Supervisory Board of the Bank confirms that Auqaf Account is according to the dictates of Shari'a.

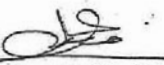
And all praise is due to Allah.

Sharia Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed

(Chairman)



Dr. Mohammed Taher Al-Ibrahim

Dr. Mustain Ali Abdul Hameed

Dr. Abdul Raouf Abdullah Al-Tobi



(Members)

In the Name of Allah, the Merciful, the Compassionate

**Fatwa of Shari'a Supervisory Board on
Services Ijara Product**

All praise to Allah and May peace and blessings be upon His messenger, his family, his companions and all followers of his guidance.

On Thursday the 20-Jumada Al-Awwal 1441 that corresponds to January 16, 2020, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Services Ijara Product, which details are as follows:

Sharia Structure of the Product:

Ahli Islamic Services Ijara Product is a financing facility that is based on the Shari'a principles of Ijara whereby on request of the customer Ahli Islamic purchases certain services from service provider and leases the services to the customer. Under this product, the Bank offers different kind of services such as education, memberships, travel, medical, construction, and etc.

Modus Operandi:

1. The customer approaches the Bank and submits Finance Application alongwith quotation issued by the Service Provider in name of the Bank.
2. The Customer signs an undertaking to lease the services after the Bank purchases them from the Services Provider.
3. After internal approval, the Bank purchases the services from the Services Provider to offer them to the customer.
4. The Bank executes with the customer Services Ijara Agreement and leases the services to the customer against agreed rentals and period.

Legal Documents:

1. Finance Application
2. Quotation Addressed to Ahli Islamic
3. Undertaking to Lease Services
4. Offer and Acceptance Notice to Purchase and Sell the Services
5. Services Ijara Agreement

The SSB Opinion:

Having reviewed the Services Ijara Product's paper, the above listed legal documents and application of the Services Ijara product, the Shari'a Supervisory Board of the Bank confirms that Services Ijara Product is according to the dictates of Shari'a.

And all praise is due to Allah.

Sharia Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed

(Chairman)



Dr. Mohammed Taher Al-Ibrahim



Dr. Mustain Ali Abdul Hameed



Dr. Abdul Raouf Abdullah Al-Tobi

(Members)



Independent auditor's report to the shareholders of Ahli Bank SAOG

Report on the carve-out financial statements

We have audited the accompanying carve-out statement of financial position of Ahli Islamic (formerly known as Al Hilal Islamic Banking Services) [the 'Islamic window'] of Ahli Bank SAOG (the 'Bank') as of 31 December 2019, and the related carve-out statement of comprehensive income, carve-out statement of changes in owners' equity, carve-out statement of cash flows and statement of sources and uses of charity fund for the year then ended. These carve-out financial statements and the Islamic window's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these carve-out financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Islamic window as of 31 December 2019, the carve-out results of its operations, cash flows and changes in owners' equity for the year then ended in accordance with the Shari'ah rules and principles as determined by the Shari'ah Board of the Islamic window of the Bank and the Financial Accounting Standards issued by AAOIFI.

Other legal and regulatory requirements

As required by clause number 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

- a) received all required information and explanations to prepare the report; and
- b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Emphasis of matter

We draw attention to the fact that, as described in note 2.1, the Islamic window is not a separate legal entity. These carve-out financial statements, therefore, represent Ahli Islamic and not as a stand-alone legal entity. Our opinion is not qualified in respect of this matter.

Muscat, Sultanate of Oman

9 March 2020

PricewaterhouseCoopers LLC Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

2018	2019		Note	2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
ASSETS					
100,062	81,818	Cash and balances with Central Bank of Oman	6	31,500	38,524
4,345	1,213	Due from banks	7	467	1,673
122,010	122,714	Murabaha receivables	8	47,245	46,974
333,205	398,629	Musharaka receivables	9	153,472	128,284
37,249	89,169	Investment securities	10	34,330	14,341
318,530	346,299	Ijarah assets - Ijarah Muntahia Bittamleek	11	133,325	122,634
1,382	1,434	Credit Card Receivables	12	552	532
603	886	Service Ijarah	13	341	232
2,623	3,910	Property and equipment	15	1,505	1,010
3,513	6,796	Other assets	16	2,617	1,353
923,522	1,052,868	TOTAL ASSETS		405,354	355,557
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
290,688	370,486	Due to banks	17	142,637	111,915
352,416	347,333	Wakala deposits	18	133,723	135,680
26,826	42,075	Customers' current accounts		16,199	10,328
14,089	26,476	Other liabilities	19	10,193	5,425
684,019	786,370	TOTAL LIABILITIES		302,752	263,348
132,223	148,808	Equity of investment account holders	20	57,291	50,906
816,242	935,178	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		360,043	314,254
64,935	64,935	Share capital	21	25,000	25,000
(1,200)	(55)	Investment fair value reserve		(21)	(462)
5,075	3,831	Impairment reserve		1,475	1,954
839	839	Special Reserve		323	323
37,631	48,140	Retained earnings		18,534	14,488
107,280	117,690	TOTAL OWNERS' EQUITY		45,311	41,303
923,522	1,052,868	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		405,354	355,557
30,909	47,732	Contingent liabilities and commitments	22	18,377	11,900

The financial statements and notes 1 to 34 were approved by the Board of Directors on 23 January 2020 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

The notes and other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 160.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

2018	2019		Note	2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
41,623	47,888	Income from financing activities	23	18,437	16,025
1,462	1,636	Income from investing activities	24	630	563
231	208	Other operating income	25	80	89
2,896	(2,003)	Net impairment on financial assets		(771)	1,115
46,981	47,729			18,376	17,792
(5,649)	(5,153)	Return to investment account holders		(1,984)	(2,175)
2,242	2,086	Islamic Windows' share as Mudarib		803	863
(3,407)	(3,067)	Return to investment account holders before zakah		(1,181)	(1,312)
		Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)		17,195	16,480
42,805	44,662				
1,377	2,257	Other operating income from banking services	26	869	530
(7,130)	(17,997)	Profit paid on due to banks		(6,929)	(2,745)
(13,579)	(10,483)	Profit paid on wakala deposits		(4,036)	(5,228)
23,473	18,439	Net operating income		7,099	9,037
(3,784)	(4,431)	Staff expenses	27	(1,706)	(1,457)
(551)	(844)	Depreciation	15	(325)	(212)
(1,972)	(2,263)	Other operating expenses	28	(871)	(759)
(6,307)	(7,538)	Total expenses		(2,902)	(2,428)
17,166	10,901	Profit before taxation		4,197	6,609
(2,457)	(1,636)	Taxation		(630)	(946)
14,709	9,265	Profit for the year		3,567	5,663
		Other Comprehensive Income / (Expense)			
		Items that will not be reclassified to profit or loss			
(67)	36	Equity investment at FVOCI - net changes in fair value		14	(26)
		Items that will be reclassified to profit or loss			
-	-	Net amount transferred to profit or loss		-	-
(1,044)	1,109	Debt investment at FVOCI - net changes in fair value		427	(402)
(1,111)	1,145	Other Comprehensive income / (expense) for the year		441	(428)
13,598	10,410	Total Comprehensive Income for the year		4,008	5,235

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 160.

STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital RO '000	Investment fair value reserve RO '000	Impairment reserve RO '000	Special Reserve RO '000	Retained earnings RO '000	Total RO '000
Balance at 1 January 2019		25,000	(462)	1,954	323	14,488	41,303
Profit for the year		-	-	-	-	3,567	3,567
Transfer from impairment reserve		-	-	(479)	-	479	-
Other comprehensive income		-	441	-	-	-	441
At 31 December 2019		25,000	(21)	1,475	323	18,534	45,311
At 31 December 2019 (US\$ '000)		64,935	(55)	3,831	839	48,140	117,690

	Share capital RO '000	Investment fair value reserve RO '000	Impairment reserve RO '000	Special Reserve RO '000	Retained earnings RO '000	Total
At 1 January 2018	25,000	9	-	-	10,847	35,856
Changes on initial application of IFRS 9	-	(43)	212	-	43	212
At 1 January 2018	25,000	(34)	212	-	10,890	36,068
Profit for the year	-	-	-	-	5,663	5,663
Transfer to impairment reserve	-	-	1,742	-	(1,742)	-
Transfer to special reserve	-	-	-	323	(323)	-
Other comprehensive expense	-	(428)	-	-	-	(428)
At 31 December 2018	25,000	(462)	1,954	323	14,488	41,303
At 31 December 2018 (US\$ '000)	64,935	(1,200)	5,075	839	37,631	107,280

The notes 1 to 34 & other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 160.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

2018	2019		2019	2018
US\$ '000	US\$ '000	Note	RO '000	RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
17,166	10,901	Profit for the year	4,197	6,609
-		Adjustments for:		
551	844	Depreciation - property and equipment	325	212
17,914	19,044	Depreciation - Ijarah Muntahia Bittamleek	7,332	6,897
(2,896)	2,003	Financing impairment, net of recoveries	771	(1,115)
32,735	32,792	Operating profit before change in operating assets and liabilities	12,625	12,603
(125)	540	Increase in Murabaha receivables	208	(48)
(171,945)	(65,886)	Increase in Musharaka receivables	(25,366)	(66,199)
(221)	(283)	Increase in Service ijarah receivables	(109)	(85)
(270)	(52)	Increase in Credit card receivables	(20)	(104)
(782)	(3,283)	Increase in other assets	(1,264)	(301)
-	219,110	Increase in due to banks	84,357	-
(80,343)	(5,083)	Decrease in Wakala deposits	(1,957)	(30,932)
(3,745)	15,249	Increase in customers' current accounts	5,871	(1,442)
2,561	14,842	Increase in other liabilities	5,714	986
16,582	16,584	Increase in equity of investment account holders	6,385	6,384
(205,553)	223,450	Cash from operations	86,028	(79,138)
(2,236)	(2,457)	Tax paid	(946)	(861)
(207,789)	220,993	Net cash used from / (used in) operating activities	85,082	(79,999)
CASH FLOWS FROM INVESTING ACTIVITIES				
21,566	(50,148)	Investment in Ijarah assets - Ijarah Muntahia Bittamleek	(19,307)	8,303
(275)	(50,774)	Purchase of investments	(19,548)	(106)
(501)	(2,134)	Purchase of property and equipment	(822)	(193)
20,790	(103,056)	Net cash (used in) / from investing activities	(39,677)	8,004
(187,000)	117,937	NET CHANGE IN CASH AND CASH EQUIVALENTS	45,405	(71,995)
100,719	(86,281)	Cash and cash equivalents at 1 January	(33,218)	38,777
(86,281)	31,656	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)	12,187	(33,218)
2018	2019		2019	2018
US\$ 000	US\$ 000		RO '000	RO '000
100,062	81,818	Cash and current balances with Central Bank of Oman	31,500	38,524
4,345	1,213	Due from banks	467	1,673
(190,688)	(51,375)	Due to banks	(19,780)	(73,415)
(86,281)	31,656	Cash and cash equivalents	12,187	(33,218)

The notes 1 to 34 & other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 160.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2019

2018 US\$ '000	2019 US\$ '000	Note	2019 RO '000	2018 RO '000
Sources of charity fund				
3	3	Fund at the beginning of the year	1	1
13	10	Penalties to customer for late payment	4	5
-	3	Contribution from credit card income	1	-
16	16		6	6
Uses of charity fund				
Distributed to charity organizations				
-	3	Dar Al Atta Association	1	-
-	3	Al Noor Association for the Blind	1	-
-	3	Oman Diabetics Association	1	-
-	3	Oman Charitable Organization	1	-
13	-	Social Development Department (Al Seeb)	-	5
13	12	Total uses of charity fund during the year	4	5
3	4	Undistributed charity fund at the end of the year	2	1

The notes 1 to 34 & other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 160.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Islamic Banking Services (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of Ahli Bank SAOG (The Bank). During the board of directors meeting held on 6 December 2018 it was approved to change the name of the Islamic Window from "Al Hilal Islamic Banking Services" to "Ahli Islamic" (herein referred to as Islamic Window). Accordingly Islamic Window name was changed effectively from 1 May 2019. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of 9 branches as at year end (31 December 2018: eight branches).

The registered address of the Islamic Window is PO Box 545, PC 116, Mina Al Fahal, Sultanate of Oman.

The Islamic Window employed 77 employees as at 31 December 2019 (31 December 2018: 67 employees)

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Islamic window is not a separate legal entity, the separate financial statements of the Islamic Window has been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by the CBO. These financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

These financial statements pertain to the Islamic Window operations only and do not include financial results of the Bank. Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as equity type instruments at Fair value through other comprehensive income which have been measured at fair value.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US\$, and are shown for the convenience of the user of financial statements only. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 BASIS OF PREPARATION (Continued)

2.5 Standards, amendments and interpretations effective in 2019 and relevant for the Islamic Window operations

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

The adoption of those standards and interpretations has resulted in changes to the Islamic Window's accounting policies and has not affected the amounts reported for prior periods. Refer Note 3 for further details in regard to changes to the Islamic Window's accounting policy.

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

2.6.1 Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Islamic Window. These standards are not expected to have material impact on the Islamic Window in current or future reporting periods and on foreseeable future transactions.

2.7 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2019:

FAS 30 : Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. The standard will be effective from financial periods beginning on or after 1 January 2020 with early adoption permitted. CBO earlier issued its circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued. The Islamic Window had adopted the IFRS 9, which are similar to FAS 30, with effect from 1 January 2018 and as permitted by IFRS 9, the Islamic Window elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period. Since the Islamic Window already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 will not have any material financial impacts.

FAS 31 : Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) 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. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. Since Islamic Window does not offer Wakala Bi Al-Istithmar to its customers therefore adoption of this standard will not have any impact on financial statements.

FAS 32 : Ijara

AAOIFI has issued FAS 32 Ijara in 2020. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. The Islamic Window is currently evaluating the impact of this standard.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 BASIS OF PREPARATION (Continued)

2.7 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2019: (Continued)

FAS 33 : Investment in Sukuk, shares and similar instruments

AAOIFI has issued FAS 33 Investment in Sukuk, shares and similar instruments in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 34 : Financial Reporting for Sukuk -holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 35 : Risk Reserve

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). The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk. 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 Islamic Window is currently evaluating the impact of this standard.

3 CHANGE IN ACCOUNTING POLICIES

3.1 IFRS 16 : Lease

IFRS 16 "Leases" replaced the existing guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now required lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. It included an optional exemption for certain short term leases and leases of low value assets. however, this exemption can only be applied by lessees. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases therefore there is no impact of this standard on Ijarah and other Islamic mode of financings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 CHANGE IN ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 : Leases (Continued)

3.1.1 A. Definition of lease

The Islamic Window has applied IFRS 16 with a date of initial application from 1 January 2019 which has resulted in a change in accounting policy, as set out below:

At inception of contract, the Islamic Window assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Islamic Window assesses whether:

- The contract involves the right to direct the use of an identified asset;
- The contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

This policy is applied to contracts entered into or renewed on or after 1 January 2019. At inception or on renewal of a contract that contains a lease component, the Islamic Window allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

The Islamic Window recognises a Right of Use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred for obtaining the lease contract.

The ROU asset is subsequently depreciated using the straight line method from the commencement date until the useful life of the asset or end of lease term, whichever occurs earlier. The estimated useful lives of ROU assets are determined on the same basis of property and equipment. In addition, ROU assets are periodically tested for impairment and adjusted for losses, if any.

3.1.1 B. As a lessee

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Islamic Window's incremental borrowing rate. Generally, the Islamic Window uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability. Lease payments included in the measurement of lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset in the statement of comprehensive income.

The Islamic Window has disclosed ROU assets under 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short term leases and leases of low value assets

The Islamic Window has elected not to recognise ROU assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The Islamic Window recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

C. Transition

The Islamic Window applied IFRS 16 using the modified retrospective approach, under which ROU assets are measured at an amount equal to the lease liability. Accordingly, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On transition to IFRS 16, the Islamic Window elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Islamic Window applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Under IFRS 16, the Islamic Window recognises ROU assets and lease liabilities for most leases - i.e., these leases are on balance sheet. The Islamic Window decided to apply recognition exemptions for short term leases/ leases of low value assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 CHANGE IN ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 : Leases (Continued)

The Islamic Window used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to all leases.
- Applied the exemption not to recognise ROU assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Islamic window incremental borrowing rate as at 1 January 2019. ROU assets are measured at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments using the modified retrospective approach. Accordingly on transition to IFRS 16, the Islamic Window recognised RO 0.343 million of ROU assets (equivalent US\$ 0.891 million) and RO 0.315 million of lease liabilities (equivalent US\$ 0.818 million) as at 1 January 2019 and no adjustment was carried out in the opening retained earnings on that date.

When measuring lease liabilities, the Islamic Window discounted lease payments using its incremental borrowing rate and the measurement of lease liability as at 1 January 2019 is as below:

Particulars	Amount (RO'000)
Operating lease commitment at 31 December 2018 as disclosed in the financial statements	62
Discounted using the incremental borrowing rate at 1 January 2019	57
Extension and termination options reasonably certain to be exercised	258
Lease liabilities recognised at 1 January 2019	315
ROU assets and lease liabilities as at 31 December 2019:	
ROU Assets	
Balance as at 1 January 2019	343
Additions during the year	343
Depreciation charge for the period	318
Balance as at 31 December 2019	(129)
Lease liabilities	532
The table below summarises the maturity profile of the Bank's lease liabilities based on expected undiscounted payment obligations.	
Less than one year	202
One to three years	309
More than three years	3
Total	514
Amounts recognised in the statement of comprehensive income	
Interest on lease liabilities	41
Expenses relating to short term leases	161
Depreciation	335
Total	537

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 CHANGE IN ACCOUNTING POLICIES (Continued)

3.2 FAS 28 : Murabaha and Other Deferred Payment Sales

The Islamic Window has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019. This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

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

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as investments classified as at Fair value through other comprehensive income, which are included in 'investments fair value reserve' in statement of changes in owners' equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from and due to banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Islamic Window in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.3 Due from banks

Due from banks comprise wakala placements and nostro accounts. These are stated at cost, less expected credit loss allowance, if any.

4.4 Murabaha receivable

Murabaha receivables are sales on deferred profits. The Islamic Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in installments by the customer over the agreed period. Murabaha receivables are stated net of deferred profits and expected credit loss allowance, if any.

4.5 Musharaka

In Musharaka based financing, the Islamic Window enters into Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilization of the Islamic Window's Musharaka share by the customer.

4.6 Investments

Investments comprise investments in debt type and equity type financial instruments.

Investments in these instruments are classified into following categories;

- At amortised cost
- At fair value through profit or loss
- At Fair value through other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Investments (Continued)

4.6.1 Instruments at amortised cost

Investments which have fixed or determinable payments and where the Islamic Window has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less expected credit loss allowance. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognized in the statement of comprehensive income, when the instruments are de-recognised or impaired.

4.6.2 Instruments at fair value through profit or loss

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are subsequently re-measured at fair value. All related realized and unrealized gains or losses are included in the statement of comprehensive income.

4.6.3 Instruments at Fair value through other comprehensive income

This includes debt type instruments that are not fair valued through profit or loss or not held at amortised cost. Subsequent to acquisition, investments designated at Fair value through other comprehensive income are re-measured at fair value less expected credit loss allowance, with unrealized gains or losses recognized in owners' equity until the investment is derecognized at which time the cumulative gain or loss previously recorded in owners' equity is recognised in the statement of comprehensive income.

On initial recognition, the Islamic Window makes an irrevocable election to designate certain equity instruments to be classified as investments at Fair value through other comprehensive income. Subsequent to acquisition, these equity instruments are re-measured at fair value with unrealized gains or losses recognized in owners' equity. At time of derecognition of these equity instruments the unrealised gains or losses remains in owners' equity and not recycled to statement of comprehensive income.

4.7 Ijarah assets - Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Islamic Window assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the statement of comprehensive income.

4.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment.

The estimated useful lives for the current period are as follows:

	Years
Building	25
Furniture & fixtures	10
Computer and other equipment	5-10
Leasehold improvements	5

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Property and equipment (Continued)

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

4.9 Due to banks

It comprises of wakala placements from banks and vostro account balances. Wakala payables are stated at cost less amounts repaid.

4.10 Wakala deposits

The Islamic Window accepts deposits from customers under Wakala arrangement under which a return may be payable to customers as agreed in the agreement. There is no restriction on the Islamic Window for the use of funds received under wakala agreement.

4.11 Customers' current accounts

Customers' current accounts are treated on the basis of "Qard". No profit or loss is passed on to current account holders, however the funds of current accounts are treated as equity for the purpose of profit calculation for investment account holders and any profit earned / loss incurred on those funds are allocated to the equity of the Islamic Window.

4.12 Equity of investment account holders

Equity of investment account holders are funds held by the Islamic Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Islamic Window to invest the account holders' funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve) and deducting the Islamic Window's share of income as a Mudarib. The allocation of income is determined by the management of the Islamic Window within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Islamic Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Islamic Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

4.13 Revenue recognition

4.13.1 Due from banks

Income on amounts due from banks is recognised on a time proportion basis over the period of the contract based on the principal amounts outstanding and the profit agreed with the clients.

4.13.2 Murabaha

Income on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profit irrespective of whether or not cash is received, net of suspended profit.

4.13.3 Musharaka

Income on Musharaka is recognised on accrual basis, net of suspended profit.

4.13.4 Ijarah

Rentals accrued from ijarah financings net of depreciation charged are taken to the statement of comprehensive income, net of suspended profit.

4.13.5 Income from investments

Income from investments is recognised when earned.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Revenue recognition (Continued)

4.13.6 Dividend

Dividend income is recognised when right to receive payment is established.

4.13.7 Fee and commissions

Fee and commission income recognised when earned.

Commission on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Islamic Window has fulfilled all its obligations in connection with the related transaction.

4.13.8 Islamic Window share as a Mudarib

The Islamic Windows' share as Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreement.

4.13.9 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

4.14 Provisions

Provisions are recognised when the Islamic Window has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

4.15 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window.

4.16 Impairment

The Islamic Window assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or Fair value through other comprehensive income which mainly include financings, investments (other than equity investments), interbank placements, financing commitments and financial guarantees. The Islamic Window recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Islamic Window approach leveraged the existing regulatory capital models and processes for financing portfolios that use the existing Internal Rating based and behavioral credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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

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

Measurement of ECL

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

Stage 1 - Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Impairment (Continued)

For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 - When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 - Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For financial assets in Stage 1 and Stage 2, the Islamic Window calculates profit income by applying the Effective Profit Rate to the gross carrying amount (i.e., without deduction for ECLs).

Profit income for financial assets in Stage 3 is calculated by applying the EIR to the amortized cost (i.e., the gross carrying amount less the credit loss allowance).

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

- (i) Probability of default (PD);
- (ii) Loss given default (LGD);
- (iii) Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD - The probability of default is an estimate of the likelihood of default over a given time horizon.

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.

LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the financee, then ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

Write off

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

4.18 De-recognition of financial assets and liabilities

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

- The right to receive cash flows from the asset has expired;
- The Islamic Window retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Islamic Window 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.

4.19 Employee terminal benefits

4.19.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Islamic Window's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income when incurred.

4.19.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

4.20 Earnings prohibited by Sharia

The Islamic Window is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes.

4.21 Zakah

Zakah is calculated in accordance with FAS 9 Zakah using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually. Payment of Zakah on the investment accounts and other accounts is the responsibility of investments account holders.

4.22 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Islamic Window has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.23 Sharia Supervisory Board

The Islamic Window's business activities are subject to the supervision of a Sharia Supervisory Board consisting of members appointed by the general assembly of shareholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Joint and self financed

Assets that are jointly owned by the Islamic Window and the investment account holders are presented as "jointly financed" in the financial statements. All other assets are "self financed".

4.25 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The Islamic Window's significant accounting estimates are in the followings:

5.1 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

5.2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 32.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Detailed information about the judgements and estimates is provided in note 4.16.

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
4,655	11,668	Cash	4,492	1,792
95,407	70,150	Clearing account & placement with Central Bank of Oman	27,008	36,732
100,062	81,818		31,500	38,524

7 DUE FROM BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
4,345	1,213	Nostro account balances	467	1,673

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 MURABAHA RECEIVABLES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
38,995	39,558	Vehicles	15,230	15,013
86,945	85,109	Personal financing	32,767	33,474
15,530	16,870	Corporate	6,495	5,979
141,470	141,537	Gross receivables	54,492	54,466
(18,683)	18,210	Deferred profits	7,011	(7,193)
122,787	123,327		47,481	47,273
		Less: Impairment loss allowance		
(304)	(288)	Stage 1 & 2	(111)	(117)
(473)	(325)	Stage 3	(125)	(182)
122,010	122,714		47,245	46,974

Murabaha receivables are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

8.1 DEFERRED PROFIT

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
(20,416)	(18,683)	Deferred profit at the beginning of the year	(7,193)	(7,860)
(43,479)	(55,749)	Murabaha sales during the year	(21,463)	(16,740)
38,485	49,262	Murabaha cost of sales	18,966	14,816
(4,994)	(6,487)	Deferred profit on sales	(2,497)	(1,924)
6,815	6,974	Murabaha income recognised during the period	2,685	2,624
(88)	(16)	Deferred profit waived / written off during the year	(6)	(34)
(18,683)	(18,210)	Deferred profit at the end of the year	(7,011)	(7,193)

9 MUSHARAKA RECEIVABLES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
335,743	401,629	Musharaka receivables	154,627	129,261
		Less: Impairment loss allowance		
(2,538)	(3,000)	Stage 1 & 2	(1,155)	(977)
333,205	398,629		153,472	128,284

Musharaka receivables are jointly financed by the Islamic window and investment account holders under Wakala deposits

10 INVESTMENT SECURITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Debt type instrument at fair value through other comprehensive income		
36,566	88,449	Sukuks	34,053	14,078
		Equity type instrument at fair value through other comprehensive income		
683	720	Open end mutual fund & equity	277	263
37,249	89,169		34,330	14,341

Investment securities are jointly financed by the Islamic window and investment account holders under Wakala deposits.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

11 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
474,143	470,808	Cost	181,261.0	182,545
(154,431)	(121,636)	Accumulated depreciation	(46,830)	(59,456)
319,712	349,172	Book value	134,431	123,089
		Less: Impairment loss allowance		
(722)	(1,961)	Stage 1 & 2	(755)	(278)
(460)	(912)	Stage 3	(351)	(177)
318,530	346,299	Net book value	133,325	122,634

Ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

12 CREDIT CARD RECEIVABLE

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,392	1,437	Islamic Credit Card	553	536
		Less: Impairment loss allowance		
(10)	(3)	Stage 1,2 & 3	(1)	(4)
1,382	1,434	Net book value	552	532

13 SERVICE IJARAH

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
603	886	Service Ijarah	341	232
603	886	Net book value	341	232

Service ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

14. FINANCING ACTIVITIES

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

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

Disclosure requirements for the year ended 31 December 2019, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

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	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
					between CBO provision required and provision held				
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	295,384	3,697	391	3,306	291,687	294,994	-	-
	Stage 2	3,571	-	38	(38)	3,571	3,533	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		298,955	3,697	429	3,268	295,258	298,527	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	37,458	-	1,593	(1,593)	37,458	35,865	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,458	-	1,593	(1,593)	37,458	35,865	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	358	90	164	(75)	266	194	-	3
Subtotal		358	90	164	(75)	266	194	-	3
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	253	112	117	(5)	132	136	-	9
Subtotal		253	112	117	(5)	132	136	-	9
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	409	362	235	127	19	174	-	28
Subtotal		409	362	235	127	19	174	-	28
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	73,748	-	27	(27)	73,748	73,721	-	-
	Stage 2	60	-	-	-	60	60	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		73,808	-	27	(27)	73,808	73,781	-	-
	Stage 1	369,132	3,697	418	3,279	365,435	368,714	-	-
	Stage 2	41,089	-	1,631	(1,631)	41,089	39,458	-	-
	Stage 3	1,020	563	516	47	417	504	-	40
Total	Total	411,241	4,260	2,565	1,695	406,941	408,676	-	40

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, financing commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

14. FINANCING ACTIVITIES (Continued)

14.2 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Carrying Amount as per CBO norms* RO '000	Net Carrying Amount as per IFRS 9 RO '000	Profit recognised in P&L as per IFRS 9 RO '000	Suspended profit as per CBO norms RO '000
Classified as performing	Stage 1				-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
Subtotal		23,504	376	849	(473)	23,128	22,655	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
Total	Total	23,504	376	849	(473)	23,128	22,655	-	-

*Net of provisions and suspended profit as per CBO norms

14.3 Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	-	(771)	771
Provisions required as per CBO norms/ held as per IFRS 9	4,260	2,565	1,695
Gross NPL ratio (percentage)	0.30%	0.30%	-
Net NPL ratio (percentage)	0.12%	0.15%	-0.03%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

15 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
Cost:							
At 1 January 2019	477	467	1,424	86	-	36	2,490
Additions	-	123	23	15	661	-	822
Transferred from the Bank	-	-	34	-	-	(34)	-
Disposals / scrapped	-	(26)	(1)	(1)	-	-	(28)
At 31 December 2019	477	564	1,480	100	661	2	3,284
Accumulated depreciation:							
At 1 January 2019	97	421	886	76	-	-	1,480
Depreciation	19	28	136	13	129	-	325
Disposals / scrapped	-	(26)	-	-	-	-	(26)
At 31 December 2019	116	423	1,022	89	129	-	1,779
Net book value as at							
At 31 December 2019	361	141	458	11	532	2	1,505
At 31 December 2019 (US\$ '000)	938	366	1,190	29	1,382	5	3,910

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:						
At 1 January 2018	477	448	1,284	86	2	2,297
Additions	-	19	140	-	34	193
Transferred from the Bank	-	-	-	-	-	-
Disposals / scrapped	-	-	-	-	-	-
At 31 December 2018	477	467	1,424	86	36	2,490
Accumulated depreciation:						
At 1 January 2018	78	373	752	65	-	1,268
Depreciation	19	48	134	11	-	212
Disposals / scrapped	-	-	-	-	-	-
At 31 December 2018	97	421	886	76	-	1,480
Net book value as at						
At 31 December 2018	380	46	538	10	36	1,010
At 31 December 2018 (US\$ '000)	987	119	1,397	26	94	2,623

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

16 OTHER ASSETS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
2,805	5,881	Profit receivable on financing	2,264	1,080
283	395	Profit receivable on sukuku	152	109
327	421	Prepayments	162	126
98	99	Others	39	38
3,513	6,796		2,617	1,353

17 DUE TO BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
290,460	370,291	Wakala acceptances	142,562	111,827
228	195	Vostro account balances	75	88
290,688	370,486		142,637	111,915

18 WAKALA DEPOSITS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
170,366	176,317	Financial institutions	67,882	65,591
182,050	171,016	Others	65,841	70,089
352,416	347,333		133,723	135,680

19 OTHER LIABILITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
6,912	18,966	Profit payable	7,302	2,661
4,003	5,340	Accrued expenses and payable	2,056	1,541
3	3	Charity payable	1	1
-	1,266	Lease liability	487	-
3,223	839	Others	323	1,241
(49)	62	Impairment loss allowance	24	(19)
14,089	26,476		10,193	5,425

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
132,223	148,808	Saving and Call accounts	57,291	50,906
132,223	148,808		57,291	50,906

The average profit rate for the investment accountholders during the year was 2.44 % (2018 : 2.60%). Profit sharing ratio of mudarib as at 31 December 2019 was 40% (2018: 40%)

During the period there is no appropriation to profit equalisation reserve and investment risk reserve and no provision has been charged to income attributable to investment account holders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

21 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 25 million (equivalent to US\$ 64.935 million).

22 CONTINGENT LIABILITIES AND COMMITMENTS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,782	27,057	Guarantees	10,417	686
29,127	20,675	Financing Commitment	7,960	11,214
30,909	47,732		18,377	11,900

23 INCOME FROM FINANCING ACTIVITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
15,242	21,932	Musharaka	8,444	5,868
19,566	18,982	Rental income on ijarah assets	7,308	7,533
6,815	6,974	Murabaha	2,685	2,624
41,623	47,888		18,437	16,025

24 INCOME FROM INVESTING ACTIVITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,418	1,587	Income from investments	611	546
44	49	Income from wakala placements	19	17
1,462	1,636		630	563

25 OTHER OPERATING INCOME

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
231	208	Fee and commission, net	80	89
231	208		80	89

26 OTHER OPERATING INCOME FROM BANKING SERVICES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,164	2,106	Fee & commission, net	811	448
117	29	Foreign exchange gain, net	11	45
96	121	Service charge & other	47	37
1,377	2,257		869	530

27 STAFF EXPENSES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,875	2,273	Salaries and wages	875	722
1,909	2,158	Allowances	831	735
3,784	4,431		1,706	1,457

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

28 OTHER OPERATING EXPENSES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,192	1,558	Operating and administration costs	600	459
587	255	Occupancy costs	98	226
99	356	Advertisement costs	137	38
94	94	Shariah Supervisory Board related expenses	36	36
1,972	2,263		871	759

29 ZAKAH

Zakah is directly borne by the owners and unrestricted investment accountholders. The Islamic Window does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Islamic Window enters into transactions with major shareholders, directors, senior management, Sharia Supervisory Board and their related concerns. These transactions are conducted on an arm's length basis and are approved by the Islamic Window's management and Board of Directors.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
36	7	Financing assets	3	14
278	619	Customers' deposits	238	107
41	-	Prepaid rent	-	16
		Major shareholders and others		
694	61	Nostro account balances	23	267
351	386	Investment securities	149	135
100,000	100,000	Due to banks - Wakala acceptances	3,850	38,500

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
3	533	Profit earned	205	1
94	94	Shariah Supervisory Board related expenses	36	36
129	82	Other operating expenses	32	50
		Major shareholders and others		
8,761	17,364	Profit paid on due to banks	6,685	3,373
8	-	Profit received on due from banks	-	3

The Islamic Window has rented a branch premises from one of the Directors. In accordance with the agreement, an amount of RO 0.032 million equivalent to US\$ 0.083 million was included in the other operating expenses (31 December 2018: RO 0.047 million equivalent to US\$ 0.123 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of investments classified as fair value through other comprehensive income as at 31 December 2019 is RO 34,330 million equivalent to US\$ 89.17 million (31 December 2018: RO 14,341 million equivalent to US\$ 37.25 million) with cost amounts to RO 34,354 million equivalent to US\$ 89.231 million (31 December 2018: RO 14,806 million equivalent to US\$ 38.457 million).

Other than investments the Islamic Window considers that the fair value of other financial instruments is not significantly different to their carrying value.

Valuation of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	2019	2019	2019	2018	2018	2018
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	-	-
Investment - debt type instruments at fair value through other comprehensive income	3,314	30,739	34,053	2,954	11,121	14,075
Investment - equity type instrument at fair value through other comprehensive income	-	277	277	-	266	266
	3,314	31,016	34,330	2,954	11,387	14,341
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	-	-
Investment - debt type instruments at fair value through other comprehensive income	8,608	79,841	88,449	7,673	28,886	36,558
Investment - equity type instrument at fair value through other comprehensive income	-	720	720	-	691	691
	8,608	80,561	89,169	7,673	29,577	37,249

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2019 (31 December 2018: Nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT

Risk management is an integral part of the Islamic Window's decision making process. The Board of Directors and executive risk committee guide and assist the overall management of the Islamic Window's statement of financial position risks. The Islamic Window manages exposures by setting limits approved by the Board of Directors. The Islamic Window has exposure to the following risk from its use of financial instruments:

- Credit risk
- Market risk
- Operational risk

32.1 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Islamic Window controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

32.1.1 TYPE OF CREDIT RISK

Financing contracts mainly comprise Murabaha receivables, Musharaka and Ijarah assets.

32.1.1.1 MURABAHA RECEIVABLE

The Islamic Window finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabaha (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha and other times by a total collateral package securing the facilities given to the client.

32.1.1.2 MUSHARAKA

An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The 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.

32.1.1.3 JARAH - IJARAH MUNTAHIA BITTAMLEEK

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

32.1.1.4 SERVICE IJARAH

This is lease of services against agreed rentals. The Islamic Banking Window purchases services from third party, service provider by making full payment and then lease it to the customer through Service Ijara Contract.

32.1.1.5 CREDIT CARD RECIEVABLES

The Islamic Banking Window takes a fee for the credit card services and there are no charges taken on the amount utilized since, it is based on the Qard principle.

32.1.2 Credit risk measurement

- (a) Financings (including Loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Islamic Window measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.2 Credit risk measurement (continued)

(b) Credit risk grading

The Islamic Window uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite will also be set in terms of how much of exposure bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'.
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

32.1.3 Exposure to credit risk

The credit exposure of the Bank as on the reporting date is as follows:

	2019				2018
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total RO '000
Clearing account with Central Bank of Oman	27,008	-	-	27,008	36,732
Due from banks	467	-	-	467	1,673
Financing to customers - Gross	295,384	41,029	1,020	337,433	300,391
Investment securities	34,053	-	-	34,053	14,078
Financing Commitments and financial guarantees	18,317	60	-	18,377	11,900
Gross carrying amount	375,229	41,089	1,020	417,338	364,774
Impairment loss allowance	418	1,631	516	2,564	1,779
Carrying amount	374,812	39,458	504	414,774	362,995

	2019				2018
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Clearing account with Central Bank of Oman	70,151	-	-	70,151	95,408
Due from banks	1,213	-	-	1,213	4,345
Financing to customers - gross	767,232	106,570	2,648	876,450	780,236
Investment securities	88,449	-	-	88,449	36,566
Financing Commitments and financial guarantees	47,577	155	-	47,732	30,909
Gross carrying amount	974,622	106,725	2,648	1,083,995	947,464
Impairment loss allowance	1,085	4,237	1,339	6,661	4,621
Carrying amount	973,537	102,488	1,309	1,077,334	942,843

IMPAIRED FINANCING

The collateral held against impaired financing is RO 0.188 million equivalent to US\$ 0.488 million (31 December 2018 RO 0.241 million equivalent to US\$ 0.626 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.4 Expected credit loss measurement

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Islamic Window financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. From 1 January 2018, the Islamic Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at fair value through income statement 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 (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Islamic Window has established a policy to perform an assessment on a monthly basis 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 Islamic Window groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified below:

Stage 1

When financing are first recognised, the Islamic Window 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 Islamic Window records an allowance for lifetime ECLs. 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 Islamic Window records an allowance for lifetime ECLs.

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.16

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

ECL Exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.4 Expected credit loss measurement (Continued)

Movement in Impairment allowance and provision

	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Opening balance as at 1 January 2019				
Financings	372	1,004	381	1,757
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	18	-	-	18
Net transfer between stages				
Financings	109	(54)	(55)	-
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Charge for the Year (net)				
Financings	(90)	681	190	781
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	6	-	-	6
Closing balance as at 31 December 2019				
Financings	391	1,631	516	2,538
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	24	-	-	24

Note: Charge for the year includes suspended profit of RO 15 K

32.1.5 Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Islamic Window considers both quantitative and qualitative information and analysis, based on the Islamic Window's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Islamic Window assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Islamic Window considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

The following quantitative guidelines are used to determine the staging of accounts:

1. An account will migrate to stage 2 if any of the changes in rating below are met;
 - For risk ratings 1 - 4: \geq 3 notch downgrade
 - For risk rating 5: 2 notch downgrade
 - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention

In addition to the above, qualitative criteria as per the CBO circular BM 1149 dated 13 April 2017 are being considered for assessing the significant increase in credit risk to corporate customers with limits of OMR 500,000 or more.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.6 Definition of default

The Islamic Window considers a financial asset to be in default when:

- ~ The borrower is unlikely to pay its credit obligations to the Islamic Window in full, without recourse by the Islamic Window to actions such as realising security (if any is held); or
- ~ The borrower is past due more than 90 days on any material credit obligation of the Islamic Window.
- ~ In assessing whether the borrower is in default, the Islamic Window considers indicators that are:
 - ~ Qualitative - e.g. breaches of covenant
 - ~ Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic Window; and
 - ~ Based on data developed internally and obtained from external sources.

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

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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

Based on advice from Credit Risk Committee and after considering of external information, the Islamic Window formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome.

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

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Islamic Window will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The Islamic Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Islamic Window's reputation. The Islamic Window has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Islamic Window through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

The following table summarises the maturity profile of the Islamic Window assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Islamic Window's deposit retention history and the availability of liquid funds.

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2019	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	31,500	-	-	-	31,500
Due from banks	467	-	-	-	467
Financing assets	5,978	17,270	62,273	249,414	334,935
Investment securities	20,770	10,246	2,476	838	34,330
Property and equipment	-	-	-	1,505	1,505
Other assets	264	2,353	-	-	2,617
Total assets	58,979	29,869	64,749	251,757	405,354
Liabilities, equity of investment account holders and owners' equity					
Due to banks	30,630	31,007	81,000	-	142,637
Customers' deposits	69,572	45,543	57,166	34,932	207,213
Other liabilities	5,382	1,663	2,306	842	10,193
Shareholder's fund	-	-	-	45,311	45,311
Total liabilities, equity of investment account holders and owners' equity	105,584	78,213	140,472	81,085	405,354
Net liquidity gap	(46,605)	(48,344)	(75,723)	170,672	-
	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2019	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	81,818	-	-	-	81,818
Due from banks	1,213	-	-	-	1,213
Financing assets	15,527	44,857	161,748	647,830	869,962
Investment securities	53,948	26,613	6,431	2,177	89,169
Property and equipment	-	-	-	3,910	3,910
Other assets	686	6,110	-	-	6,796
Total assets	153,192	77,580	168,179	653,917	1,052,868
Liabilities, equity of investment account holders and owners' equity					
Due to banks	79,558	80,538	210,390	-	370,486
Customers' deposits	180,706	118,294	148,483	90,733	538,216
Other liabilities	13,980	4,319	5,990	2,187	26,476
Shareholder's fund	-	-	-	117,690	117,690
Total liabilities, equity of investment account holders and owners' equity	274,244	203,151	364,863	210,610	1,052,868
Net liquidity gap	(121,052)	(125,571)	(196,684)	443,307	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2018	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	38,524	-	-	-	38,524
Due from banks	1,673	-	-	-	1,673
Financing assets	8,896	12,400	50,943	226,417	298,656
Investment securities	7,678	3,707	764	2,192	14,341
Property and equipment	-	-	-	1,010	1,010
Other assets	240	1,113	-	-	1,353
Total assets	57,011	17,220	51,707	229,619	355,557
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	40,658	19,250	52,007	-	111,915
Customers' deposits	49,843	55,498	50,914	40,659	196,914
Other liabilities	1,977	1,958	980	510	5,425
Shareholder's fund	-	-	-	41,303	41,303
Total liabilities, equity of investment account holders and owners' equity	92,478	76,706	103,901	82,472	355,557
Net liquidity gap	(35,467)	(59,486)	(52,194)	147,147	-
	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2018	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	100,062	-	-	-	100,062
Due from banks	4,345	-	-	-	4,345
Financing assets	23,106	32,208	132,319	588,097	775,730
Investment securities	19,943	9,629	1,984	5,693	37,249
Property and equipment	-	-	-	2,623	2,623
Other assets	623	2,890	-	-	3,513
Total assets	148,079	44,727	134,303	596,413	923,522
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	105,605	50,000	135,083	-	290,688
Customers' deposits	129,462	144,151	132,244	105,608	511,465
Other liabilities	5,135	5,086	2,545	1,323	14,089
Shareholder's fund	-	-	-	107,280	107,280
Total liabilities, equity of investment account holders and owners' equity	240,202	199,237	269,872	214,211	923,522
Net liquidity gap	(92,123)	(154,510)	(135,569)	382,202	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

32.3.1 PROFIT RATE RISK

Profit rate risk is the risk that the Islamic Window will incur a financial loss as a result of mismatch in the profit rate on the Islamic Window's assets and investment account holders. The profit distribution to investment account holders is based on profit sharing agreements. Therefore, the Islamic Window is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Islamic Window's results do not allow the Islamic Window to distribute profits in line with the market rates.

Basel-II Accord has recommended for assessing the impact of profit rate risk by applying upto 200 basis points profit rate sensitivity. Earning impacts of 200 basis points parallel shift in profit rate is provided below;

	2019	2019	2018	2018
	RO '000	US\$ '000	RO '000	US\$ '000
Net profit earned	6,921	17,977	7,303	18,969
Impact of +200 bps profit rate increase	485	1,260	351	912
Impact of -200 bps profit rate decrease	(485)	(1,260)	(351)	(912)

32.3.2 FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors have set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Islamic Window had the following net exposures denominated in foreign currencies:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,132	5,891	US Dollar	2,268	436
283	16	Euro	6	109
127	125	UAE Dirham	48	49
221	275	GBP Sterling	106	85
719	-	Others	-	277

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non-parity foreign currency prices as at 31 December 2019 on net assets is considered negligible.

32.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Islamic Window cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32.5 CONCENTRATION RISK

Concentration of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Islamic Window's performance to developments affecting a particular industry or geographical location.

The Islamic Window seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Concentration by industry						
Sovereign	RO '000	-	-	-	-	33,214
Corporate	-	137,435	56,810	-	-	1,116
Personal	6,080	17,192	77,621	894	-	-
Banks	41,401	-	-	-	467	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	86,270
Corporate	15,792	356,974	147,558	-	-	2,899
Personal	107,535	44,655	201,614	2,322	-	-
Banks	-	-	-	-	1,213	-
<i>Concentration by industry</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	-	-	-	-	-	13,364
Corporate	5,757	124,179	44,944	-	-	977
Personal	41,516	5,082	78,145	768	-	-
Banks	-	-	-	-	1,673	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
	-	-	-	-	-	34,711
Corporate	14,953	322,543	116,738	-	-	2,538
Personal	107,834	13,200	202,974	1,995	-	-
Banks	-	-	-	-	4,345	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 RISK MANAGEMENT (continued)

32.5 CONCENTRATION RISK (continued)

	2019					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by location	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Oman	47,481	154,627	134,431	894	-	33,512
Other GCC countries	-	-	-	-	82	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	385	818
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	123,327	401,629	349,172	2,322	-	87,044
Other GCC countries	-	-	-	-	213	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	1,000	2,125

	2018					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by location	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Oman	47,273	129,261	122,526	768	-	13,580
Other GCC countries	-	-	563	-	369	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	1,304	761
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	122,787	335,743	318,250	1,995	-	35,272
Other GCC countries	-	-	1,462	-	958	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	3,387	1,977

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

33 CAPITAL MANAGEMENT

The primary objectives of the Islamic Window's capital management are to ensure that the Islamic Window complies with externally imposed capital requirements and that the Islamic Window maintains strong credit ratings and healthy capital ratio in order to support its business and to maximize shareholders value.

The Islamic Window manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Islamic Window may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, IBRF and CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
100,319	110,408	Common Equity Tier 1 (CET1)	42,892	38,623
-	-	Additional Tier 1	-	-
100,319	110,408	Tier 1	42,892	38,623
3,106	3,940	Tier 2	1,517	1,196
103,425	115,348	Total regulatory capital	44,409	39,819
		Risk weighted assets		
684,875	788,044	Credit risk	303,397	263,677
5,951	12,291	Market risk	4,732	2,291
38,104	38,486	Operational risk	14,817	14,670
728,930	838,821	Total risk weighted assets	322,946	280,638
		Capital adequacy ratio		
13.76%	13.28%	CET1 capital expressed as a percentage of total risk weighted assets	13.28%	13.76%
13.76%	13.28%	Total tier I capital expressed as a percentage of total risk weighted assets	13.28%	13.76%
0.43%	0.47%	Tier II capital expressed as a percentage of total risk weighted assets	0.47%	0.43%
14.19%	13.75%	Total regulatory capital expressed as a percentage of total risk weighted assets	13.75%	14.19%

34 SOCIAL RESPONSIBILITY

The Islamic Window discharges its social responsibilities through donations to charitable causes and organisations.



Ahli Islamic

BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2019





Report of factual findings to the Board of Directors of Ahli Bank SAOG (the “Bank”) in respect of Basel II - Pillar III Disclosures and Basel III disclosures of Ahli Islamic

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Ahli Islamic (formerly known as Al Hilal Islamic Banking Services) [the Islamic window] of the Bank set out on pages 201 to 241 as at and for the year ended 31 December 2019. The disclosures were prepared by the directors in accordance with the related requirements of IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Article 10.1.2 of title 5 ‘Capital Adequacy’ of IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank’s compliance with the disclosure requirements set out in IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the accompanying Islamic window’s disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic window or the Bank.

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

**Muscat, Sultanate of Oman
9 March 2020**

PricewaterhouseCoopers LLC Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

1. INTRODUCTION

Al Hilal Islamic Banking Services (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of Ahli Bank SAOG (the Bank). During the board of directors meeting held on 6 December 2018 it was approved to change the name of the Islamic window from "Al Hilal Islamic Banking Services" to "Ahli Islamic"(herein referred to as Islamic window). Accordingly Islamic window name was changed effectively from 1 May 2019. The Islamic window was operating through a network of nine branches as at year end (31 December 2018: eight branches).

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2019.

2. SCOPE

The scope of application of this report is the Islamic window operations of Ahlibank SAOG only. There are no restrictions on the transfer of funds from the Bank to Islamic window, however, under the Islamic Banking regulatory framework (IBRF), Islamic window cannot place funds with the Bank. The Islamic window does not hold controlling interest in any other entity.

3. CAPITAL STRUCTURE

Qualitative Disclosure

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The regulatory capital of the Islamic window is calculated as per the guidelines of CBO and is broadly classified in two categories, Tier I and Tier II capital. Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by deferred tax asset and cumulative unrealised losses on FVOCI investments. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic window does not have any such instruments outstanding as of the report date. Tier II capital is composed of undisclosed reserves, cumulative fair value gains on FVOCI investments and general financing loss provisions as per IFRS 9. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic window does not hold any funds from restricted investment account holders (RIA).

Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2019, based on the CBO guidelines is as follows:

Elements of Capital - RO '000	2019	2018
Tier I Capital		
Share capital	25,000	25,000
Retained earnings	18,534	14,488
Common Equity Tier I before deductions	43,534	39,488
Deductions:		
Cumulative unrealized losses and intangibles recognized directly in equity	(642)	(865)
Common Equity Tier 1	42,892	38,623
Additional Tier I Capital	-	-
Tier I capital after all deductions	42,892	38,623
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	122	-
Stage 1 & Stage 2 expected credit losses	1,395	1,196
Total Tier II Capital	1,517	1,196
Total Regulatory Capital	44,409	39,819

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3. CAPITAL STRUCTURE (continued)

CAPITAL ADEQUACY

Qualitative disclosures

The Islamic window's capital management framework sets out to define, measure, raise and deploy capital in a coordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Islamic window manages its capital in an integrated manner with the aim of maintaining strong capital ratios. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The capital management process of Islamic window is aligned with the strategic planning process of the Bank. Capital planning is carried out in conjunction with the strategic business and financial planning exercise. The Bank maintains a five year rolling strategic plan which is updated and reviewed by the Board of Directors on an annual basis. Capital requirements are assessed based on projected business plans and budget. The Islamic window uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the eligible capital.

The Pillar 1 regulatory capital adequacy is assessed for Credit, Operational and Market risks based on CBO prescribed calculation methodology under Basel II framework. For Credit risk, Standardized Approach is adopted based on external rating from CBO's recognized External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poor's, Fitch and Capital Intelligence. For Operational risk and Market risk, Basic Indicator Approach and Standardized Approach are used, respectively. As a matter of prudence, assets funded through URIA funds (jointly financed assets) are risk weighted as if they are 100% owned by the Islamic window.

The Islamic window's total capital adequacy ratios is 13.75% and Tier 1 capital adequacy ratios is 13.39% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2019.

In addition to Pillar I minimum capital requirements under the base case, the Bank also determines additional capital requirements for Pillar II risks (i.e. liquidity risk, Rate of Return Risk, concentration risk and other risks including strategic, reputational, legal risks, Shariah non-compliance risk, etc.), utilizing quantification methodologies and stress testing scenarios. The ICAAP is an integral part of capital adequacy assessment and is a bi-annual comprehensive exercise, whereby, the Bank re-evaluates its capital adequacy in regards to material risks, internal organization and business plans. The Bank has completed the ICAAP exercise for years 2019-2022 and has determined that it is adequate capitalized to undertake its planned business activities.

Capital adequacy disclosures - RO '000

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	409,366	408,272	296,580
2	Off-balance sheet items	5,208	5,208	5,208
3	Derivatives	2,174	2,174	1,609
4	Market risk	-	-	4,732
5	Operational Risk	-	-	14,817
	Total	416,748	415,654	322,946
6	Tier 1 capital			42,892
7	Tier 2 capital			1,517
8	Total Regulatory Capital			44,409
8.1	Capital requirement for credit risk			33,374
8.2	Capital requirement for market risk			520
8.3	Capital requirement for operational risk			1,630
9	Total required capital			35,524
10	CET 1 ratio			13.28%
11	Tier 1 ratio			13.28%
12	Total capital ratio			13.75%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3. CAPITAL STRUCTURE (continued)

Capital adequacy disclosures - RO '000 (continued)

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	359,610	358,326	262,370
2	Off-balance sheet items	344	344	344
3	Derivatives	1,925	1,925	963
4	Market risk	-	-	2,291
5	Operational Risk	-	-	14,670
	Total	-	-	280,638
6	Tier 1 capital			38,623
7	Tier 2 capital			1,196
8	Total Regulatory Capital			39,819
8.1	Capital requirement for credit risk			29,005
8.2	Capital requirement for market risk			252
8.3	Capital requirement for operational risk			1,614
9	Total required capital			30,871
10	CET 1 ratio			13.76%
11	Tier 1 ratio			13.76%
12	Total capital ratio			14.19%

I) Computation of Capital adequacy ratio - RO '000

S.No	Simple Approach	2019	2018
1	Tier I capital (after supervisory deductions)	42,298	38,623
2	Tier II capital (after supervisory deductions and up to eligible limits)	1,517	1,196
3	Risk weighted assets - banking book	303,397	263,377
4	Risk weighted assets - operational risk	14,817	14,670
5	Total Risk Weighted Assets - Banking Book + Operational Risk	318,214	278,347
6	Minimum required capital to support RWAs of banking book and operational risk	35,004	30,618
6.1	i) Minimum required Tier I capital for banking book and operational risk	28,639	25,051
6.2	ii) Tier II capital required for banking book and operational risk	6,364	5,567
7	Tier I capital available for supporting trading book	9,406	11,072
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets - trading book	4,732	2,291
10	Total capital required to support trading book	520	252
11	Minimum Tier I capital required for supporting trading book	148	72
12	Total Regulatory Capital	44,409	39,819
13	Total Risk Weighted Assets - Whole bank	322,946	280,638
14	BIS Capital Adequacy Ratio	13.75%	14.19%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

3. CAPITAL STRUCTURE (continued)

II) Capital adequacy ratio (RO '000)

	2019	2018
Total risk weighted assets	322,946	280,638
Total eligible capital	44,409	39,819
Capital adequacy ratio	13.75%	14.19%

III) Ratio of total capital to total assets (RO '000)

	2019	2018
Total capital	44,409	39,819
Total assets	405,354	355,557
Total capital to total assets	10.96%	11.19%

IV) Capital requirements according to different risk categories for each Shariah compliant financing contract (RO '000)

	2019	2018
Balances with Central bank of Oman	-	-
Sovereign	90	84
Due from Banks	173	143
Murabaha receivables	15,897	13,575
Musharaka receivables	10,555	9,180
Ijarah assets - Ijarah Muntahia Bittamleek	5,169	5,176
Service Ijarah	61	59
Credit card receivables	38	26
Other Assets & off balance sheet items	1,391	762
Total	33,374	29,005

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

4. RISK MANAGEMENT OF THE BANK

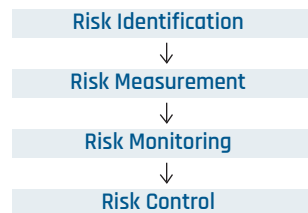
Risk Management Principles

Risk is an inherent part of the Bank's business activities. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival.

The Bank has an independent Risk Management Department (RMD) that monitors the core risk areas and reports to the Executive Risk Committee (a Board Committee). RMD assists in ensuring that risk exposures are managed within the Board approved risk appetite. Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank's risk management department reports directly to the Executive Risk Committee (a Board Committee). The Bank's Risk Management includes the following four elements:



Risk framework

The Board of Directors (BOD) ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Islamic Window is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis. Further, the Sharia risk related compliance are one of the KRIs that the Islamic window has been monitoring as part of other KRIs. The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

- ▶ Audit and Compliance Committee
- ▶ Executive & Credit Committee
- ▶ Executive Risk Committee
- ▶ Nomination and Remuneration Committee

Management Committees:

- ▶ Credit & Investment Committee
- ▶ Assets and Liabilities Committee
- ▶ Credit Risk Management Committee
- ▶ Operational Risk Committee
- ▶ IT Steering Committee
- ▶ New Product Committee
- ▶ Special Assets Committee

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

4. RISK MANAGEMENT OF THE BANK (continued)

The Bank's risk management is based on a 'Three Lines of Defense' model and is also supported by the fourth line of defense, to shield the Bank against risks that might threaten the achievement of its goals. This structure allows for a coordination of control responsibilities in an effective and efficient manner. To reach this objective, roles and responsibilities are clearly communicated to all the functions so that everyone understand his/ her role and how it relates to the activities of other functions. Roles and responsibilities are communicated to the employees through policies and procedures and also through job descriptions. The following line of defenses are explained below:

First line of Defense

The business operations side which is the first line of defense is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes. The departments included in this line of defense are:

- Corporate Banking
- SME & Retail Banking
- Islamic Banking
- Treasury
- Information Technology
- Operations

Second Line of Defense

The Risk, Compliance, Finance and Legal Departments falls under the second line of defense. Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting the Bank. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected.

The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the Bank, and supervise how they are applied. Compliance is an independent function that aims to prevent the Bank from being exposed to compliance risk or suffering harm through non-compliance with the prevailing laws, regulations or internal rules. It pays particular attention in this regard to compliance with the Integrity Policy.

Third Line of Defense

As the independent third-line of control, Internal Audit Department is responsible for the quality control of the existing business processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including Risk Policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the Bank to guarantee the continuity of operations.

Fourth Line of Defense

Finally, there are additional external levels of controls that compliment three existing internal layers of control such as assurances from external independent bodies. External auditors are the common bodies under this line of defense. External auditors may not have the existing familiarity of the Bank that an internal audit department has, they can bring a new and valuable perspective. Accordingly they are important in the Bank's overall governance and control structure even though they are outsiders of the Bank.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

4. RISK MANAGEMENT OF THE BANK (continued)

Policies and Procedures:

The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive and Credit Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

- | | |
|--|---|
| 1. Anti-Money Laundering Manual | 21. Operational Risk Policy & Procedure |
| 2. Personal Account Dealing Policy | 22. Fraud Risk Management Policy |
| 3. New Product Committee and Procedures | 23. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 24. Market Risk Policy |
| 5. Compliance Policy | 25. Risk Management-Approach & Framework |
| 6. Communications Policy | 26. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 27. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 28. Asset Management Policy |
| 9. Dividend Policy | 29. Brokerage Policy |
| 10. Expenses Policy | 30. FATCA Policy |
| 11. Capital Management Policy | 31. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 32. Profit Distribution Policy |
| 13. Board Remuneration Policy | 33. Charity Policy |
| 14. Financial Institutions Policy | 34. Zakah Policy |
| 15. Human Resources Policy | 35. Cost Sharing Policy |
| 16. Outsourcing Policy | 36. Segregation of Funds Policy |
| 17. Code of Business Conduct | 37. Social Media Policy |
| 18. Information Security Management Policy | 38. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 39. Third Party Risk Management Policy |
| 20. Credit and Investment Policy | |

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

5. CREDIT RISK

Credit risk arises from the potential financial loss resulting from customers / counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Islamic window evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Islamic window, and proactive management is critical to the Islamic window's long-term success.

The Islamic window has a comprehensive due diligence system for approving credit facilities, and well- defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the BOD, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of financing and investment assets through a financing review mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

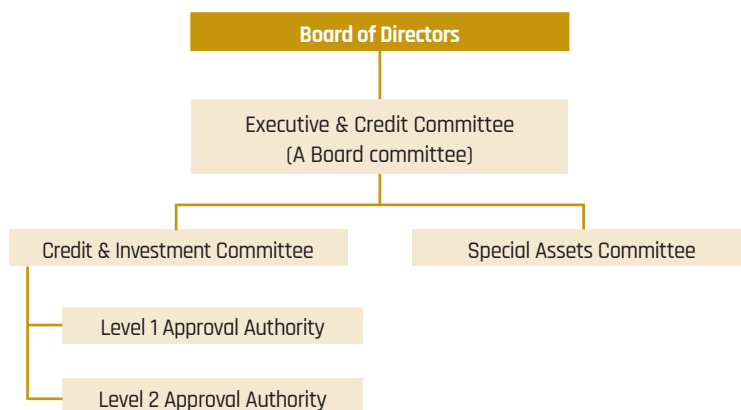
The Bank also has a robust system of borrowers' risk ratings that assesses the default risk of corporate borrowers and monitors ratings changes periodically. Ratings by the major credit rating agencies are also used whenever available.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the BOD. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full BOD based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks / FIs or Sovereigns, the legal nature of the borrowers and their credit risk rating.

Transaction risk is concerned with the credit risk of a single counter-party. Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities.

Concentration risk arises when the Bank disburses a significant amount of credit to a few borrowers or borrowers located in the same geographical location or those exposed to similar economical/political/other risks. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

Impairment policy

As a matter of policy, Islamic window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic window has implemented IFRS 9 "Financial Instrument" accounting norm, based on which impairment is assessed on a forward looking expected credit loss (ECL) basis, as required by CBO.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

All financing assets are classified into one of five risk classification categories, Standard, Special Mention (past due between 60 - 90 days), Substandard (past due between 90 - 180 days), Doubtful (past due between 180 - 365 days) and loss (past due for 365 days or more), as prescribed by CBO.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

The bank has established a policy to perform an assessment on a monthly basis 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 classified below:

Stage 1:

When financing are first recognized, the bank recognizes 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 lifetime ECLs. 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 lifetime ECLs. The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.
- in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

1) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Type of credit exposure	Average Gross Exposure			Total Gross Exposure		
	31-Dec-19	31-Dec-18	% of total financing	31-Dec-19	31-Dec-18	% of total financing
Balances with Central bank of Oman	31,870	36,198	8%	27,008	36,732	6%
Sovereign	21,747	7,622	6%	31,557	11,936	8%
Due from Banks	3,120	1,965	1%	2,641	3,598	1%
Murabaha receivables	47,377	47,665	12%	47,481	47,273	11%
Musharaka receivables	141,944	97,677	36%	154,627	129,261	37%
Ijarah assets - Ijarah Muntahia Bittamleek	128,760	133,984	33%	134,431	123,089	32%
Service Ijarah	287	228	0%	341	232	0%
Credit card receivables	545	517	0%	553	536	0%
Other Assets & off balance sheet items	13,665	4,039	4%	18,109	9,222	4%
Total	389,315	329,895	100%	416,748	361,879	100%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

Quantitative Disclosure (continued)

II) Credit exposure by risk weighted assets: (RO '000)

Type of credit exposure	Gross Balance	Net Balance	As of 31 December 2019;
			Risk Weighted Assets
Balances with Central bank of Oman	27,008	27,008	-
Sovereign	31,557	31,557	818
Due from Banks	2,641	2,641	1,703
Murabaha receivables	47,481	47,481	46,992
Musharaka receivables	154,627	154,627	144,517
Ijarah assets - Ijarah Muntahia Bittamleek	134,431	134,431	95,953
Service Ijarah	341	341	341
Credit card receivables	553	553	553
Other Assets & off balance sheet items	18,109	17,015	12,520
Total	416,748	415,654	303,397

Type of credit exposure	Gross Balance	Net Balance	As of 31 December 2018;
			Risk Weighted Assets
Balances with Central bank of Oman	36,732	36,732	0
Sovereign	11,936	11,936	764
Due from Banks	3,598	3,598	1,297
Murabaha receivables	47,273	46,974	47,052
Musharaka receivables	129,261	128,735	123,408
Ijarah assets - Ijarah Muntahia Bittamleek	123,089	122,634	83,455
Service Ijarah	232	232	232
Credit card receivables	536	532	536
Other Assets & off balance sheet items	9,222	9,222	6,933
Total	361,879	360,595	263,677

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

III) Credit exposure by business unit: (RO '000)

Credit exposure	Business Unit	As of 31 December 2019;		
		Gross Balance	Net Balance	Risk Weighted Assets
Balances with Central bank of Oman		27,008	27,008	-
Sovereign		31,557	31,557	818
Due from Banks		2,641	2,641	1,703
Murabaha receivables	SME	2,001	2,001	1,511
	Corporate	4,078	4,078	4,079
	Retail	41,402	41,402	41,402
	SME	2,150	2,150	1,613
Musharaka receivables	Corporate	135,285	135,285	135,285
	Retail	17,192	17,192	7,620
	SME	2,319	2,319	1,776
Ijarah assets - Ijarah Muntahia Bittamleek	Corporate	54,491	54,491	54,491
	Retail	77,621	77,621	39,685
Service Ijarah	Retail	341	341	341
Credit Card Receivable	Retail	553	553	553
Other Assets & off balance sheet items		18,109	17,015	12,520
Total		416,748	415,654	303,397

Credit exposure	Business Unit	As of 31 December 2018;		
		Gross Balance	Net Balance	Risk Weighted Assets
Balances with Central bank of Oman		36,732	36,732	-
Sovereign		11,936	11,936	764
Due from Banks		3,598	3,598	1,297
Murabaha receivables	SME	882	855	662
	Corporate	4,875	4,844	4,875
	Retail	41,516	41,275	41,515
	SME	5,069	4,826	3,802
Musharaka receivables	Corporate	119,110	118,833	117,828
	Retail	5,082	5,076	1,778
	SME	3,547	3,510	2,665
Ijarah assets - Ijarah Muntahia Bittamleek	Corporate	41,397	41,269	41,397
	Retail	78,145	77,855	39,393
Service Ijarah	Retail	232	232	232
Credit Card Receivable	Retail	536	532	536
Other Assets & off balance sheet items		9,222	9,222	6,933
Total		361,879	360,595	263,677

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

IV) Geographic distribution of exposures by major types of credit exposure: (RO '000)

Type of Credit Exposure	As of 31 December 2019;						
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	27,008	-	-	-	-	-	27,008
Sovereign	30,739	-	-	-	-	818	31,557
Due from Banks	2,256	-	-	-	-	385	2,641
Murabaha receivables	47,481	-	-	-	-	-	47,481
Musharaka receivables	154,627	-	-	-	-	-	154,627
Ijarah assets - Ijarah Muntahia Bittamleek	134,431	-	-	-	-	-	134,431
Service ijarah	341	-	-	-	-	-	341
Credit card receivables	553	-	-	-	-	-	553
Other Assets & off balance sheet items	18,109	-	-	-	-	-	18,109
Total	415,545	-	-	-	-	1,203	416,748

Type of Credit Exposure	As of 31 December 2018;						
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	36,732	-	-	-	-	-	36,732
Sovereign	11,172	-	-	-	-	764	11,936
Due from Banks	1,925	369	-	-	-	1,304	3,598
Murabaha receivables	47,273	-	-	-	-	-	47,273
Musharaka receivables	129,261	-	-	-	-	-	129,261
Ijarah assets - Ijarah Muntahia Bittamleek	122,526	563	-	-	-	-	123,089
Service ijarah	232	-	-	-	-	-	232
Credit card receivables	536	-	-	-	-	-	536
Other Assets & off balance sheet items	9,222	-	-	-	-	-	9,222
Total	358,879	932	-	-	-	2,068	361,879

V) Industry or counter party type distribution of financing exposures, broken down by major types of credit exposure: (RO '000)

Economic Sector	As of 31 December 2019;						Off Balance Sheet Exposure
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	
Wholesale & Retail Trade	994	13,071	6,995	-	-	21,059	3,651
Mining & Quarrying	334	23	7	-	-	364	-
Construction	184	63,635	43,694	-	-	107,514	3,642
Manufacturing	71	10,773	1,493	-	-	12,337	1,007
Transport & Communication	109	67	93	-	-	269	3
Electricity, Gas & Water	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-
Services	502	46,037	4,423	-	-	50,962	10,074
Personal Financings	41,402	17,193	77,621	341	553	137,110	-
Non- Resident Lending	-	-	-	-	-	-	-
Agriculture & Allied Activities	-	19	-	-	-	19	-
All Others	3,885	3,809	105	-	-	7,799	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

V) Industry or counter party type distribution of financing exposures, broken down by major types of credit exposure: (RO '000)(continued)

As of 31 December 2018;

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Wholesale & Retail Trade	759	9,439	6,241	-	-	16,439	4,053
Mining & Quarrying	-	-	-	-	-	-	-
Construction	398	105,076	19,550	-	-	125,024	7,450
Manufacturing	18	15	2,155	-	-	2,188	-
Transport & Communication	51	3,942	242	-	-	4,235	-
Electricity, Gas & Water	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-
Services	111	608	16,055	-	-	16,774	-
Personal Financings	41,516	5,082	78,145	232	536	125,511	397
Non- Resident Lending	-	-	563	-	-	563	-
All Others	4,420	5,099	138	-	-	9,657	-
Total	47,273	129,261	123,089	232	536	300,391	11,900

VI) Residual contractual maturity of the financing portfolio, broken down by major types of credit exposure: (RO '000)

As of 31 December 2019;

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Up to 1 month	1,893	720	460	-	277	3,350	1,078
1-3 Months	1,879	1,244	1,532	9	276	4,940	2,614
3-6 Months	4,481	2,202	2,115	13	-	8,811	1,618
6-9 Months	2,087	5,817	2,407	13	-	10,324	3,314
9-12 Months	2,475	2,074	2,195	13	-	6,757	1,527
1-3 Years	15,491	19,748	16,749	100	-	52,088	8,226
3-5 Years	11,093	20,671	17,068	75	-	48,907	-
Over 5 Years	8,082	102,151	91,905	118	-	202,256	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

* represents notional exposure as per financial statements

As of 31 December 2018;

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Up to 1 month	458	2,329	807	-	268	3,862	2,055
1-3 Months	1,406	4,414	1,709	8	268	7,805	3,773
3-6 Months	1,098	1,706	1,745	5	-	4,554	1,810
6-9 Months	4,417	1,916	2,391	8	-	8,732	2,164
9-12 Months	1,394	2,705	2,918	11	-	7,028	2,012
1-3 Years	15,625	14,100	17,035	58	-	46,818	81
3-5 Years	11,866	10,429	16,862	49	-	39,206	-
Over 5 Years	92,997	9,674	79,622	93	-	182,386	5
Total	129,261	47,273	123,089	232	536	300,391	11,900

* represents notional exposure as per financial statements

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

VII) Total Financing broken down by major industry or counterparty type: (RO '000)

Economic Sector	As of 31 December 2019;					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,800	105	330	54	14	-
Wholesale & Retail Trade	21,059	13	157	6	62	-
Mining & Quarrying	364	24	5	11	16	-
Construction	107,514	-	1,014	-	327	-
Manufacturing	12,337	-	263	-	258	-
Transport & Communication	269	-	18	-	11	-
Services	50,961	45	108	21	106	-
Personal Financing	137,110	833	126	424	(13)	-
Agriculture & Allied Activities	19	-	1	-	1	-
All Others	-	-	-	-	(1)	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

Economic Sector	As of 31 December 2018;					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	9,632	-	369	-	318	-
Wholesale & Retail Trade	16,439	-	102	-	(309)	-
Construction	125,024	18	676	11	(1,050)	-
Manufacturing	2,188	-	5	-	(157)	-
Transport & Communication	4,236	-	7	-	2	-
Services	16,774	-	23	-	4	-
Personal Financing	125,511	613	193	370	100	-
Non Resident Lending	563	-	-	-	(1)	-
All Others	24	-	1	-	1	-
Total	300,391	631	1,376	381	(1,092)	-

* Stage 3 ECL include suspended profit of RO 0.022 mn

VIII) Amount of impaired Financing broken down by significant geographical areas including, with the amounts of expected credit loss/ specific and general allowances related to each geographical area: (RO '000)

Countries	As of 31 December 2019;					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	337,433	1,020	2,022	516	781	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

VIII) Amount of impaired Financing broken down by significant geographical areas including, with the amounts of expected credit loss/specific and general allowances related to each geographical area: (RO '000) (continued)

Countries	As of 31 December 2018;					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	299,828	631	1,376	381	(1,091)	-
Other GCC Countries	563	-	-	-	(1)	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	300,391	631	1,376	381	(1,092)	-

* Stage 3 ECL include suspended profit of RO 0.022 mn

IX) Movement of gross financing during the year: (RO '000)

Details	As of 31 December 2019;			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	273,553	26,207	631	300,391
Migration / changes (+ / -)	(20,268)	19,656	612	-
New financings	77,033	25,997	42	103,072
Recovery of financings	(34,934)	(30,831)	(265)	(66,030)
Financing Written Off	-	-	-	-
Closing Balance	295,384	41,029	1,020	337,433

Details	As of 31 December 2018;			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	219,979	28,868	333	249,180
Migration / changes (+ / -)	9,777	(10,082)	305	-
New financings	76,041	11,531	-	87,572
Recovery of financings	(32,244)	(4,110)	(7)	(36,361)
Financing Written Off	-	-	-	-
Closing Balance	273,553	26,207	631	300,391

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

X) Past due and impaired financing: (RO '000)

	As of 31 December 2019;						Off Balance Sheet Exposure *
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	
Neither past due not impaired	66,087	40,175	103,230	336	524	210,352	18,374
Past due but not impaired	88,540	7,034	30,454	5	28	126,061	3
Past due and impaired	-	272	747	-	1	1,020	-
Total	154,627	47,481	134,431	341	553	337,433	18,377

	As of 31 December 2018;						Off Balance Sheet Exposure *
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	
Neither past due not impaired	96,221	40,114	101,288	232	519	238,373	11,900
Past due but not impaired	33,040	6,970	21,364	-	12	61,387	-
Past due and impaired	-	189	437	-	5	631	-
Total	129,261	47,273	123,089	232	536	300,391	11,900

Credit risk- Disclosures for portfolios subject to the standardized approach.

Qualitative disclosure

The Islamic window classifies its financial assets in one of the following categories:

- Financing receivables;
- Ijara assets - Ijarah Muntahia Bittamleek;
- Equity & debt - type instruments; and
- Credit Card receivable

Financing receivables are principally divided into following Islamic products:

- **Murabaha:** An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.
- **Financing Ijarah:** An agreement whereby the Islamic Window (lessor) leases an asset or services to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period.
- **Musharaka:** An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

5. CREDIT RISK (continued)

Credit Risk Mitigation (CRM)

Credit Risk Mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on- and off-balance sheet netting (and the extent to which the Islamic Window makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

The Islamic window normally accepts the following types of collateral:

- Cash margins and wakala deposits
- Real estate comprising income-producing and non-income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Funds subject to meeting approval criteria
- Assignment of receivables
- Inventories

The Islamic window also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable, based on adequate assessment of their creditworthiness. In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Islamic window also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the insurance policy is assigned in the Islamic window's favor. Real estate collateral is valued on regular intervals on need basis based on the assessment of risk and economic scenario prevailing.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The management also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. A strong credit administration process ensures effective compliance with terms of approval and documentation.

The Simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by Cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 1.094 mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic window has not considered any financial guarantee under credit risk mitigation as of 31 December 2019.

Particulars	RO 'Mn
Gross Exposure - banking book	416,748
Credit risk mitigation	(1,094)
Risk weight impact - for banking book	303,397
Risk weighted assets - banking book	303,397
Capital charge for credit risk	33,374

Qualitative Disclosures:

Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	As of 31 December 2019;
				IFRS 9 Classification
1 - 6	430	-	Standard	Stage 1 & 2
7	1,592	-	Special mention	
8 - 10	516	-	Non-performing	Stage 3
Total	2,538	-	-	

Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	As of 31 December 2018;
				IFRS 9 Classification
1 - 6	397	-	Standard	Stage 1 & 2
7	979	-	Special mention	
8 - 10	381	-	Non-performing	Stage 3
Total	1,757	-	-	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK:

Qualitative disclosure

Market Risk is the risk of loss resulting from fluctuations in profit rates, asset prices, foreign exchange rates or commodity prices. Substantially all of the Islamic window businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Islamic window. The objective of market risk management is to control risks within acceptable parameters, while optimizing the returns. The Bank has a Market Risk Policy that provides detailed guidelines for management of market risks. The Islamic window uses a combination of risk sensitivities, stress testing, etc. to manage market risks and establish limits. The Islamic window does not take any positions in commodities. All relevant risks and mitigation strategies are discussed below.

Rate of Return risk in banking book (RRRBB)

Rate of return risk arises from the possibility that changes in rates of return will adversely affect the economic value of equity or the net income. The Islamic window is exposed to this risk as a result of mismatches or gaps in the rate of return profile of balance sheet assets and funds provided by investment account holders and wakala depositors. While the return on profit sharing agreements is not guaranteed, in case the Islamic window does not distribute profit in line with market rates, it is exposed to Displaced Commercial risk.

The Islamic window's overall goal is to manage rate of return sensitivity so that movements in rates of return do not adversely affect the Islamic window's net income and market value of equity. The Islamic window manages this risk by matching the re-pricing profile of assets and liabilities through various risk management strategies, utilizing tools such as gap analysis and duration. ALCO reviews the risk profile and sensitivities on a monthly basis within the risk appetite approved by the Board of Directors. Profit bearing assets (net of provision) and liabilities according to repricing bucket are as follows:

Particular	Effective profit rate					As of 31 December 2019;	
		within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	31,500	31,500
Due from banks	-	467	-	-	-	-	467
Financing Assets	5.82%	8,311	25,764	98,997	201,310	553	334,935
Investments	3.06%	-	11,191	2,476	20,386	277	34,330
Property and equipment	-	-	-	-	-	1,505	1,505
Other assets	-	-	-	-	-	2,617	2,617
Total profit bearing assets		8,778	36,955	101,473	221,696	36,452	405,354
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	4.76%	30,630	31,007	81,000	-	-	142,637
Equity of investment accountholders and other liabilities	2.59%	109,616	30,196	40,957	-	36,637	217,406
Shareholders fund	-	-	-	-	-	45,311	45,311
Total	-	140,246	61,203	121,957	-	81,948	405,354
Net gap		(131,468)	(24,248)	(20,484)	221,696	(45,496)	-
Cumulative net gap		(131,468)	(155,716)	(176,200)	45,496	-	-

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK (continued)

Particular	As of 31 December 2018;						Total
	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman	-	-	-	-	-	38,524	38,524
Due from banks	-	1,673	-	-	-	-	1,673
Financing Assets	5.75%	11,190	21,352	86,027	179,555	532	298,656
Investments	3.11%	-	-	11,885	2,192	264	14,341
Property and equipment	-	-	-	-	-	1,010	1,010
Other assets	-	-	-	-	-	1,353	1,353
Total profit bearing assets		12,863	21,352	97,912	181,747	41,683	355,557
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS							
Due to banks	4.09%	40,658	19,250	52,007	-	-	111,915
Equity of investment accountholders and other liabilities	3.01%	40,694	42,759	71,986	-	46,900	202,339
Shareholders fund	-	-	-	-	-	41,303	41,303
Total	-	81,352	62,009	123,993	-	88,203	355,557
Net gap		(68,489)	(40,657)	(26,081)	181,747	(46,520)	-
Cumulative net gap		(68,489)	(109,146)	(135,227)	46,520	-	

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Islamic window may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions within regulatory and internal limits. All foreign exchange exposures are centrally managed by the Treasury and are daily marked to market. Internal Limits have been assigned with respect to overnight open exposures, stop loss limits and authorized currencies to monitor and control foreign exchange exposures.

The foreign exchange transactions carried out by the Bank are on behalf of customers and are on a back-to-back basis. No proprietary foreign exchange positions are assumed by the Islamic window.

The Net open position in all foreign currencies stands at OMR 2.428 mn (OMR 2.268 mn position is in effectively pegged currencies) as on 31 December 2019.

Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic window does not maintain any trading positions in its portfolio as of 31 December 2019.

The Islamic window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2019 is RO 0.277 mn with cost amounts to RO 0.335 mn. The Islamic window also has invested in sukuks carried at fair value through other comprehensive income. The fair value of investments as of 31 December 2019 is RO 34.330 mn with a cost amounts to RO 34.354 mn.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

6. MARKET RISK (continued)

The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors, as a percentage of the Capital Base of the Bank, which apply to the Islamic window as well. All investment proposals are routed through the ALCO to the relevant approval authority. The Islamic window's appetite for private subscriptions and unlisted / unquoted equity is low, and such proposals are adequately justified on a case by case basis, and has to be approved at least by the Executive Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's Capital Base.

The Bank tries to achieve reasonable diversification of its investment portfolio among the economic sectors, and does not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

- a) Trading and retailing
- b) Real Estate development, management and rental income
- c) Construction / contracting and building materials
- d) Travel / tourism, hotels, restaurants, entertainment, health services and education
- e) Warehousing / storage, logistics, supply management and transportation, utilities and Telecom
- f) Oil and Gas
- g) Banking and Financial Services
- h) Conglomerates or Holding Companies investing in any of the above business lines

Capital Charge:

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Islamic window has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month daily average of sum of net long or short positions held by the Bank.

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2019 is given below:

Type of risk (RO '000)	2019	2018
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	379	183
Percentage of NOP to regulatory capital	5.47%	2.56%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 4,731.74 million.

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity (millions)	
		2019	2018
Regional listed Sukuk	10%	+/- 3,157	+/- 1,331
Foreign listed Sukuk	10%	+/- 247	+/- 76
Listed equities	10%	+/- 27	+/- 26

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

7. LIQUIDITY RISK

Qualitative Disclosure

The Islamic window defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Islamic Window:

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its demand and time deposits with CBO in the form of clearing balances.
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Islamic window's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic window as well.

Liquidity and Funding Policy

The liquidity and funding policy of the Bank, which applies for its Islamic window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity and funding Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position and that of its Islamic Window. The key ones are:

- ▶ Placing limits on maturity mismatches
- ▶ Maintaining a stock of liquid assets
- ▶ Diversification of liabilities
- ▶ Access to wholesale markets
- ▶ Multi-currency liquidity management

The financing ratio, which is the ratio of the financing to deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Islamic window also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

The maturity profile of the assets and funding side at the year-end are based on contractual repayment arrangements. The details of the same are provided in note 32.2 of Islamic window financial statements.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2019 was 87.5%.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

7. LIQUIDITY RISK (continued)

Liquidity and Funding Policy (continued)

Details of the reported financing ratio for the year are as follows:

Ratios	2019	2018
Financing ratio	%	%
Year end	84.92	85.75
Maximum for the year	86.94	87.50
Minimum for the year	82.61	75.17
Average for the year	86.02	85.52
Other Ratios		
Financing to customers to total assets	82.63	84.48
Equity to total assets	11.18	11.62
Liquid assets to total assets	12.39	14.78
Liquid assets to short term liabilities	26.15	29.19
Prime assets to volatile liabilities	12.18	18.27
Liquidity Coverage Ratio	128.21	128.60
Net Stable Funding Ratio	108.73	100.76

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Islamic window with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. The degree of diversification of the Liquid Assets portfolio is reviewed by the ALCO on a monthly basis.

As per the guidelines of CBO, the bank is required to maintain a Liquidity Coverage Ratio (LCR) of at least 100%. Further, the Net Stable Funding Ratio (NSFR) prescribed at a minimum of 100%. The Islamic window has implemented a more stringent internal requirement for these ratios which are reviewed by ALCO each month. A detailed disclosure on the position of the Bank in regards to these ratios is contained later in this report.

Diversification of liabilities

The Bank and Islamic window seek to maintain a diversified funding base, and monitor the degree of diversification in its liability base on a monthly basis. Depositor concentration is reviewed by the ALCO on a monthly basis.

The liquidity and funding policy recognizes the inherent value of the Bank's term depositors. The Islamic window seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Islamic window also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Islamic window addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Islamic window assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

The Treasurer along with the Head of Risk Management derives and documents the Maturity Profile behavioral adjustments, based on redemptions and withdrawal requests. These are communicated to the ALCO for discussion and acceptance.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

7. LIQUIDITY RISK (continued)

Limit Breaches

All liquidity limit (internal) breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

Liquidity Contingency Plan:

It is imperative for the Islamic window to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP serves as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations.

Islamic window has adopted quantitative and qualitative key warning indicators which is monitored by Market & Liquidity Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking, DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

8. OPERATIONAL RISK

Operational Risk Framework

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

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

Operational risk is identified and controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Islamic Window's internal controls and its ability to minimize the impact of operational risks. The Operational Risk Committee that is the owner of this Framework oversees the Islamic window.

The Islamic window identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

8. OPERATIONAL RISK (continued)

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Islamic window's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

The Islamic window has identified the following operational risks and has been implementing an effective framework to manage them:

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk
- Shariah Compliance Risk

Control and Mitigation of Operational Risk

The Islamic window and the Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Islamic window has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Islamic window also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis. The Islamic window ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Islamic window ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Islamic window takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Islamic window's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Fraud Risk Management

The Islamic window takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Islamic window.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

8. OPERATIONAL RISK (continued)

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Islamic window's profitability or image. Reputational risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in. The Islamic window identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Islamic window's commitment to their interests
- Quality of products, services and sales practices
- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies and procedures in place to manage and monitor reputation risk.

Business Continuity Risk

The Bank has a documented Business Continuity Policy (BCP) and plan which outlines the Business Continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes; this BCP also applies to the processes and systems pertaining to the Islamic window. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

Business Continuity Test

During the year 2019, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

Concentration risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from large exposure to counterparty, a sector or country. Concentration risk can be mitigated by formulating limits, by a thorough check on counterparty's quality or adequate collateral support etc.

As part of ICAAP, thresholds for exposure concentrations has been set up, this will trigger additional capital requirements based on concentration in terms of large exposures to counterparties, sector exposure concentration (excluding retail lending) and geographical exposure concentration (other than to Oman).

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

8. OPERATIONAL RISK (continued)

Information Security Risk

The Islamic window has adopted an Information Security Management System (ISMS) /process and a framework by which the bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

Other Risks

The Islamic window is also exposed to other risks such as reputational risk, strategic risk, business cycle risk, legal risk, residual risk, settlement risk, Shariah non-compliance risk, etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

The Islamic window follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income includes Net income from financing activities gross of any provisions and depreciation expense on ijarah assets (+) Net income from investment activities (-) fee income (-) investment account holders share of income (-) extraordinary / irregular items of income.

Item (RO '000)	2019	2018	2017
Net Income from financing and investing activities	19,067	16,588	13,106
Other income - net	949	619	1,791
Gross Income	20,016	17,207	14,897
Net return on equity of unrestricted investment accountholders	(1,181)	(1,312)	(800)
Profit on wakala deposits and due to banks	(10,965)	(7,973)	(5,718)
Net Operating Income	7,870	7,922	8,379
Average Income	8,057		
Gross Income times of Alpha (15%)	1,209		
Operational risk based on Basic Indicator Approach	15,107		

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,185 million as of 31 December 2019. The Risk weighted assets for operational risk as per Basel II is RO 14.817 million.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

9. DISPLACED COMMERCIAL RISK

Displaced commercial risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

The Islamic window has in place a Profit Distribution Policy which specifies detailed guidelines for creation of PER and IRR to mitigate the DCR. The Islamic window may forgo its fee in case DCR arises. Rates of returns are benchmarked with other Banks in the market and reviewed on periodic basis.

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

	2019	2018	2017	2016	2015
Total Profits available for distribution	6,538	5,948	5,196	4,577	3,914
Profit Sharing:					
- Profit to Shareholders	4,554	3,773	3,616	3,938	3,692
- Share of IAH	1,181	1,312	1,580	639	222
- Mudarib Share	803	863	783	447	140

During the year ended December 2019 there were no appropriations made towards Profit equalization and Investment risk reserve.

10. INVESTMENT ACCOUNT HOLDERS

The Islamic window receives deposits by Investment Account Holders (IAH) under mudaraba contract and Wakala bil Istithmar contract. The Islamic window has Unrestricted Account Holders only.

Investment account holders under mudaraba contract

As per the mudaraba contract the investment account holders authorizes the Islamic window to invest the account holders' funds in a manner which the Islamic window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement, Islamic window can commingle the equity of investment account holders with its own funds (owner's equity) or with other funds the Islamic window has right to use (current accounts or any other funds not received under Mudaraba mode). As at year end the Islamic window does not have any investment account under restricted mudaraba contract.

Net profit is allocated to the pool participants based on weighted average balance. Participation factor, weights of profit sharing ratios are pre-decided by the management of the bank and are initiated to the investors. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

Investment account holders under wakala

Under Wakala bil Istithmar arrangement, Islamic window accepts funds from investors as Wakeel and invests in Shari'a 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 Islamic window as Wakeel as incentive fee. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala bil Istithmar agreement, otherwise the loss would be borne by the investor or Muwakil.

Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool

Participation factor, Weights or profit-sharing ratios are pre decided by the management of the Bank. In case of any change, after approval by the Shariah Supervisory Board these are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

The Islamic window has a single pool of comingled assets where the funds of investment accountholders are invested. The Investment Profits are distributed between Mudarib and IAH in the following percentages:

	2019	2018
Unrestricted Investment Accounts Share	60%	60%
Mudarib Share	40%	40%

The Islamic window does not charge Investment accountholders for operating expenses incurred.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

10. INVESTMENT ACCOUNT HOLDERS (continued)

Mudaraba fee

Mudaraba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Islamic window can create reserves as allowed by SSB and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR).

Investment Risk Reserve (IRR)

This reserve is created out of the depositors' share of profit out of the Net Profit from the Common Pool. Purpose of the reserve is to offset the effect of future losses. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. The basis for computing the amounts to be appropriated are applied in accordance with SSB directions. This is to secure suitable and competitive return to the depositors in case there are certain extra ordinary circumstances, depressing the return, which were anticipated by the depositors. The disposition of the reserve amount will take place with the prior approval of the SSB. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the depositors with the approval of SSB.

Transfer to or from Profit Equalization reserve (PER)

Percentage to be approved by Bank management subject to internal sharia approval that should be appropriated by Islamic window out of the total common pool profit as per the policy before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio. Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the policy which will be in adherence to the central bank revised provisioning policy. The balance of the PER shall also be maintained as a current account.

No PER has been created and no transfer has been made during the year ended December 2019.

Transfer to or from (IRR)

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Bank's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

No IRR has been created and no transfer has been made during the year ended December 2019.

Assignment of a portion of shareholders' profit to depositors

If required, the Islamic window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No assignment of shareholder profit to depositors has been made during the year ended December 2019.

I. Equity of Investment Accountholders - by type (RO '000)

Type	Equity of IAH	
	2019	2018
Saving & Call accounts	57,337	50,906

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

10. INVESTMENT ACCOUNT HOLDERS (continued)

II. Equity of Investment Accountholders - Ratios

RO in '000	2019	2018	2017	2016	2015
Ratios and Returns					
Amount of total net income	4,747	6,975	5,758	4,617	4091
Average amount of assets	380,456	328,640	284,225	260,898	215,932
ROA (Net income before IA's distribution / total assets)	1.25%	2.12%	2.03%	1.77%	1.89%
Amount of total net income	3,556	5,663	4,958	4,433	4024
Average amount of shareholder's equity	43,307	38,580	35,856	33,397	31,430
ROE (Net income after IA's distribution / Shareholders equity)	8.23%	14.68%	13.83%	13.30%	12.80%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib : Investment Accountholders)	40:60	40:60	40:60	70:30	70:30
Average Profit paid to investment accountholders	2.27%	2.60%	2.37%	1.27%	0.86%
Average Profit distributed per type of IAH					
Savings (RO 100 - RO 999.999)	0.25%	0.26%	0.26%	0.22%	0.22%
Savings (RO 1,000 - RO 9,999.999)	0.41%	0.42%	0.42%	0.33%	0.33%
Savings (above RO 10,000)	0.57%	0.59%	0.58%	0.55%	0.55%
Call Account (RO 100 - RO 999.999)	0.25%	0.26%	0.30%	0.33%	0.33%
Call Account (RO 1,000 - RO 9,999.999)	0.43%	0.43%	-	-	-
Al Nama Smart Saving (RO 100 - RO 2,499.99)	0.57%	0.59%	0.58%	0.22%	0.22%
Al Nama Smart Saving (RO 2,500 - RO 49,999.99)	2.04%	2.10%	2.08%	1.32%	1.32%
Al Nama Smart Saving (RO 50,000 - RO 499,999.99)	2.59%	2.67%	2.64%	1.54%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	3.13%	3.22%	3.19%	1.76%	1.71%
Al Nama (Above 1,000,000)	3.51%	3.60%	3.55%	-	-
URIA Saving Awqaf	0.43%	-	-	-	-
Qitaf Saving Account	0.25%	-	-	-	-

The Islamic window has no off-balance sheet exposures arising from investment decisions. Further, the Islamic window had no limits imposed on the amount that can be invested in any one type of asset.

III. Assets allocation and distribution of profit (RO '000)

	2019	2018	2017	2016	2015
Average Assets Allocated	117,524	105,209	86,127	62,114	53,420
Total profits	6,538	5,948	5,196	4,577	3,914
Profits to Shareholders	4,554	3,773	3,613	3,985	3,713
Profits to IAH	1,181	1,312	800	184	67
Mudarib Share	803	863	783	408	134

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

10. INVESTMENT ACCOUNT HOLDERS (continued)

The calculation and distribution of profit was based on average balances.

There was no appropriation made towards Profit Equalization Reserve and Investment Risk Reserve.

IV. Computation of pool income for the year ended 31 December 2019 (RO '000)

	2019	2018
Pool income		
Income from financing	18,437	16,025
Income from placements	630	563
Distribution of Income		
Revenue generated on Mudaraba funds	6,538	5,948
Profit equalization reserve	-	-
Mudarib share	803	863
Investment risk reserve	-	-
Distributable Profit	5,735	5,085
Share of Profit for IAH and shareholders	5,735	5,085

VI. Investment account holders under wakala (RO '000)

	2019	2018
Average Wakala deposits	15,767	7,375
Average Profit paid to investment accountholders %	3.97	3.74

11. CONTRACT SPECIFIC RISK

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2019

Type of Credit Exposure	RWAs	
	2019	2018
Balances with Central bank of Oman	-	-
Sovereign	818	764
Due from banks	1,703	1,297
Musharaka	144,517	123,408
Murabaha	46,992	83,455
Ijarah assets - Ijarah Muntahia Bittamleek	95,953	47,052
Credit Card Receivable	553	536
Service Ijarah	341	232
Other assets & off balance sheet items	12,520	6,933
Total	303,397	263,677

12. ZAKAH

Zakah is calculated in accordance with FAS 9 Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually, if any. Payment of Zakah on the Investment Accounts and other Accounts is the responsibility of Investments Account Holders.

13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2019, no income has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2019, Islamic window has taken approval from SSB for deferment of disbursement to next year.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

14. COMPENSATION POLICY AND REMUNERATION OF SHARIA SUPERVISORY BOARD (SSB)

In line with the CBO guidelines on remuneration disclosure as part of pillar III, the relevant qualitative and quantitative disclosure are presented in the banks Basel II Pillar III.

Following remuneration of Sharia Board has been approved by the general assembly;

Chairman: RO 9,625 per annum (US\$ 25,000 per annum).

Member: RO 6,738 per annum (US\$ 17,500 per annum).

Sitting fee: US\$ 1,000 per meeting per member, maximum of 5 sitting per year.

Details of Sharia Supervisory Board and meetings attended during the year has been disclosed in corporate governance report.

15. GENERAL DISCLOSURES

Shari'a governance

Shari'a governance is the most important feature of the Islamic window. Shari'a governance is defined as a system whereby the Bank attempts and abides by the Shari'a principles in all its activities. The main objective of Shari'a governance framework is to ensure Shari'a compliance at all the times and at all levels and that is to enable the Islamic Window to be perceived as fully Shari'a compliant by all aspects. The key elements of Shari'a governance framework of the Islamic window are as follows:

- i. Shari'a Supervisory Board (SSB)
- ii. Head Shari'a Audit and Compliance/Internal Shari'a Reviewer (Head SAC)
- iii. Shari'a Audit Unit (SAU)
- iv. Shari'a Compliance Unit (SCU)
- v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

As per the Shari'a governance structure of the Window, Shari'a Audit and Compliance Unit (SACU) is a full-fledged department of the Bank. The Shari'a Audit and Compliance includes SAU, SCU and SRCU and is led by Head Shari'a Audit and Compliance / Internal Shari'a Reviewer. SACU main function is to objectively examine and evaluate the extent of compliance of the Bank in view of the pronouncements issued by the SSB or its Chairman and in adherence to the regulations issued by CBO

SACU has direct and regular communication with all levels of management, the SSB, and external auditors and it is provided with full and continuous support of management and the SSB to perform its duties. Shari'a Audit and Compliance works under supervision of the SSB to ensure independence and objectivity in performance of department's tasks.

Trainings

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2019 and got that approved by the SSB. In accordance with the training plan, Sharia Audit and Compliance prepared material on the Islamic window products and their Shari'a Principles by including essential features of Islamic banking, Sharia governance, Sharia structures of Islamic banking products and their process flows, list of legal documentation and Sharia principles underlying to each product. The training material was made in line with SSB directives, Islamic banking guidelines issued by CBO and AAOIFI Sharia Standards. The trainings were made as mandatory for the related staff of Ahli Islamic and Ahli Bank.

The trainings were conducted by Head SAC, Manager Sharia Audit and Manager Sharia Compliance as per SSB approved Training Plan for 2019 for staff of the Bank. Additionally, selected staff of Sharia Audit and Compliance, Corporate, Retail and Finance were facilitated to attend outsourced trainings and conferences for knowledge and awareness of Islamic banking developments and practices. The SSB members were also facilitated by the Bank to attend Al Baraka conference on Islamic Economics in Jeddah to go through the industry developments on Sharia governance and compliance.

For 2020, the Head SACD logged a training plan with Training and Development Team. Annual training budget is in place for employees as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

15. GENERAL DISCLOSURES (continued)

Complaints

Ahli Bank has devised "Code of Ethics and Fair Practices - Customer Complaints Redressal Policy & Procedure" and same is implemented for the Islamic window with regard to professional ethics as well as procedure to resolve customers' queries and complaints. According to the policy, any Islamic Banking related enquiries and complaints are sent to related department of Islamic banking to address and advice and there is proper mechanism in place and a responsible person is identified who collects complaints and send the same to the relevant staff.

The Islamic window has trained customer services representative in all the branches who provide appropriate guidance to customers in selection of relevant products suitable to the individual investors. Further, complete product booklet is available at the branches and on the Bank's website which can be referred in case of any further clarification is required. Customers call center (can contact number 24577177) or walk in any of the branches to register their complaints.

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2018 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2019 are disclosed in note 29 of Islamic window financial statements.

16. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2019.

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

17. BASEL III REGULATORY CAPITAL DISCLOSURES

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III common disclosure template (RO '000)		2019	2018
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	25,000	25,000
2	Retained earnings	18,534	14,488
6	Common Equity Tier 1 capital before regulatory adjustments	43,534	39,488
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(642)	(865)
28	Total regulatory adjustments to Common equity Tier 1	(642)	(865)
29	Common Equity Tier 1 capital (CET1)	42,892	38,623
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	42,892	38,623
Tier 2 capital: instruments and provisions			
50	Provisions (<i>provision and fair value reserve</i>)	1,517	1,196
51	Tier 2 capital before regulatory adjustments	1,517	1,196
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	1,517	1,196
59	Total capital (TC = T1 + T2)	44,409	39,819
60	Total risk weighted assets	322,946	280,638
60a	Of which: Credit risk weighted assets	303,397	263,677
60b	Of which: Market risk weighted assets	4,732	2,291
60c	Of which: Operational risk weighted assets	14,817	14,670
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.28%	13.76%
62	Tier 1 (as a percentage of risk weighted assets)	13.28%	13.76%
63	Total capital (as a percentage of risk weighted assets)	13.75%	14.19%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	of which: capital conservation buffer requirement	-	-
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: G-SIB buffer requirement	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.86%	3.19%
National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%	11.000%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	149	135
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	1,395	1,196
77	Cap on inclusion of provisions in Tier 2 under standardized approach	3,791	2,587

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

(RO'000)	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	31,500	31,500
Certificates of deposit	-	-
Due from banks	467	467
Financings, net	334,935	334,935
Investments in securities	34,330	34,330
Placements with banks	-	-
Property and equipment	1,505	1,505
Deferred tax assets	-	-
Other assets	2,617	2,617
Total assets	405,354	405,354
Liabilities		
Due to banks	142,637	142,637
Customer deposits	207,213	207,213
Current and deferred tax liabilities	-	-
Other liabilities	10,193	10,193
Subordinated bonds	-	-
Total liabilities	360,043	360,043
Shareholders' Equity		
Paid-up share capital	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	18,534	18,534
Cumulative changes in fair value of investments	(21)	(21)
Subordinated debt reserve	-	-
Other Reserves	1,798	1,798
Total shareholders' equity	45,311	45,311
Total liability and shareholders' funds	405,354	405,354

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

Table 2b - Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2019	31-Dec-19	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	31,500	31,500	
Due from banks	467	467	
Financings - Net, of which:	334,935	334,935	
- Financings to domestic customers		337,433	
- Provision against financings, of which:		2,498	
- Stage 3 Impairment allowance		476	
- Stage 1 / 2 impairment allowance, of which		2,022	
- Amount eligible for T2		1,395	A
- Amount ineligible for T2		627	
Investments, of which:	34,330	34,330	
- fair value through other comprehensive income		34,330	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	1,505	1,505	
- Intangibles (CET1 adjustment)		346	
- Other fixed Asset		1,159	
Other assets	2,617	2,617	
Total Assets	405,354	405,354	
Capital & Liabilities			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1		25,000	B
Reserves & Surplus; of which	20,311	20,311	
- Amount eligible for CET1		18,534	C
- Amount eligible for T2 (Investments Fair value gains)		122	D
- AFS investments fair value loss (CET1 adjustment)		(296)	E
- AFS investments fair value gain unutilized		153	
- Amount eligible for CET1- Reserves (special reserve)		323	
- Reserves (impairment reserve - not eligible for CET1)		1,475	
Total Capital	45,311	45,311	
Deposits	207,212	207,212	
Due to banks	142,637	142,637	
Other liabilities and provisions	10,193	10,193	
Other liabilities & provisions , of which		10,217	
- Stage 1 / 2 impairment allowance, of which		(24)	
- amount eligible for T2		-	
- amount ineligible for T2		(24)	
TOTAL	405,354	405,354	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)		
Year ended 31 December 2019	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	B
2	Retained earnings	C
3	Common Equity Tier 1 capital before regulatory adjustments	43,534
4	Prudential valuation adjustments	(642)
5	Total regulatory adjustments to Common equity Tier 1	(642)
6	Common Equity Tier 1 capital (CET1)	42,892
Additional Tier 1 capital: instruments		
7	Additional Tier 1 capital (AT1)	-
	Tier 1 capital (T1 = CET1 + AT1)	42,892
Tier 2 capital: instruments and provisions		
8	Provisions	1,395
9	Fair value reserve of AFS investments	122
	Tier 2 capital before regulatory adjustments	1,517
	Tier 2 capital: regulatory adjustments	-
	Tier 2 capital (T2)	1,517
	Total capital (TC = T1 + T2)	44,409

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

17.1 MAIN FEATURES OF REGULATORY CAPITAL

		Year ended 31 December 2019
1	Ahli Islamic	Common Equity Share Capital
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	25 million
9	Par value of instrument	
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Capital allocated in 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

18. Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III - Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

Year ended 31 December 2019		(R0 '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		57,179
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	77,436	14,312
3	Stable deposits	34,525	1,654
4	Less stable deposits	42,911	2,731
5	Unsecured wholesale funding, of which:	74,931	49,806
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	40,129	15,004
8	Unsecured debt	34,802	34,802
9	Secured wholesale funding		-
10	Additional requirements, of which	-	-
11	Outflows related to derivative exposures and other collateral requirements	46,790	46,790
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	1,033	103
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS		101,085
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	7,631	4,982
19	Other cash inflows	118,781	46,790
20	TOTAL CASH INFLOWS	126,412	51,772
			Total Adjusted Value
21	TOTAL HQLA		57,179
22	TOTAL NET CASH OUTFLOWS		49,313
23	LIQUIDITY COVERAGE RATIO (%)		115.95%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

18. Basel III LIQUIDITY DISCLOSURE

LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template

Year ended 31 December 2018

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		49,574
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	56,882	4,423
3	Stable deposits	24,299	1,164
4	Less stable deposits	32,584	3,258
5	Unsecured wholesale funding, of which:	77,411	38,211
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	64,764	25,564
8	Unsecured debt	12,647	12,647
9	Secured wholesale funding		-
10	Additional requirements, of which	-	-
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations	1,938	194
15	Other contingent funding obligations	11,550	11,550
16	TOTAL CASH OUTFLOWS		54,377
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	4,031	2,015
19	Other cash inflows	13,812	13,812
20	TOTAL CASH INFLOWS	17,843	15,828
			Total Adjusted Value
21	TOTAL HQLA		49,574
22	TOTAL NET CASH OUTFLOWS		38,550
23	LIQUIDITY COVERAGE RATIO (%)		128.60%

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2019 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

							31 December 2019
Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	Weighted Value	
ASF ITEM							
1	Capital	45,051	-	-	-	45,051	
2	Regulatory Capital	45,051	-	-	-	45,051	
3	Retail Deposits and Deposits from small Business Customers	65,217	3,148	7,341	6,945	76,059	
4	Stable Deposit	19,193	149	222	241	18,827	
5	Less Stable Deposit	46,025	2,998	7,119	6,704	57,232	
6	Wholesale Funding	33,791	54,437	43,297	105,038	170,800	
7	Other Wholesale Funding	33,791	54,437	43,297	105,038	170,800	
8	All other liabilities and equities not included in above categories	41,486	-	-	-	-	
9	Total ASF					291,910	
RSF ITEMS							
10	Total NSFR high-quality liquid assets (HQLA)					1,620	
11	Deposits held at other financial institutions for operational purposes	467	-	-	-	234	
12	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	-	-	232,692	197,788	
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	14,520	17,080	-	15,800	
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	70,618	45,902	
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,785	1,518	
16	All other assets not included in the above categories	-	-	-	4,692	4,692	
17	Off-balance sheet items	-	15,377	3,000	-	919	
18	Total RSF					268,473	
19	NET STABLE FUNDING RATIO					108.73%	

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template (continued)

The financial statements and other related disclosures are also available on the ahlibank's website, to view it on the website refer the link <http://ahlibank.om/investor-relations/financial-reports/>.

The Basel II Pillar III disclosures are prepared in accordance with the requirements of Basel II Pillar III disclosures as set out in the CBO circulates BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated march 20, 2018 and BM 1127 'Basel III - Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated October 26, 2016.

For Ahli Islamic



Hamdan Ali Nasser Al Hinai

Chairman

Date: 23 January 2020