ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER
2018

بنك عُمان العربي
OMAN ARAB BANK

HIS MAJESTY
SULTAN QABOOS BIN SAID

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

His Majesty Sultan Qaboos bin Said
Speech on November 2014

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Chairman's Report

Dear Shareholders, behalf of the Board of Directors, it is my privilege to present to you the Annual Report of Oman Arab Bank for the financial year ending 31 December 2018, together with relevant financial statements reflecting the Bank's results and achievements over the past year.

I am pleased to report that Oman Arab Bank has ended 2018 with a very strong performance, culminating in the Bank's total income increasing to nearly 13 per cent to OMR 87.6 M with the cost lens controlled increasing by only 3.4 per cent. This resulted in a consolidated net profit after tax milestone north of OMR 30 M. Furthermore, our Islamic banking offering (Al Yusr) also surpassed another milestone by achieving a net profit, after tax of OMR 1.1 M. This positive growth was in part a result of the ongoing recovery of which to rise consistently throughout the year. However, the major contributor to it's growth has been the Bank's transformation strategy, one that has seen the Bank continue to enhance, develop and incorporate new state-of-the-art systems, platforms, and services focused on enhancing customer experience and satisfaction across all touch points. With each new launch of the bank's initiatives, Oman Arab Bank continually sets new benchmarks for technological advancement and customer excellence.

Throughout 2018, the Corporate Banking franchise, continued to support its partners in the public and private sectors, financing several energy, infrastructure, and large scale projects in the Sultanate, as well as boosting its support of small and medium enterprises. The Retail Banking Group delivered a sound performance despite ongoing headwinds from tighter regulation and the need to keep pace with technological advancement. As it continues to grow its franchise, the Group continues to be recognised for its efforts in ensuring the customer experience remains at the forefront of its DNA. In 2018, the Group won a number of awards and accolades against its peers in Oman and across the region.

As highlighted earlier, the Bank's consolidated net profit increased by 13.5 per cent year-on-year to reach OMR 30.1 M by the end of 2018 compared to OMR 26.5 M reported in 2017. Net Interest Income increased by 19.6 per cent culminating in a strong OMR 66.5 M. Loans and Advances increased by 10.8 per cent to reach OMR 1.8 billion, while core underlying funding from Customer Deposits increased by 7.1 per cent to OMR 1.9 billion.

Given the above, it was pleasing to see that the Bank's total assets increased by nearly 9 per cent, reaching OMR 2.3 billion by the end of 2018 while its Capital Adequacy Ratio was maintained at a healthy 16.54 per cent, well above the regulatory requirement of 13.25 per cent.

During 2018, we continued on our branch transformation journey, which began back in 2017, revamping our branches across the network. A number of branches were transformed to refresh the brand, provide a more efficient customer queuing system, offer new and updated services, and ensure a more streamlined operation to enhance the customer experience. In fact, 2018 saw us transform 9 branches, of which 4 are now elevated as "flagship".

In addition, our digital channels have enjoyed wide acceptance and praise from our clients, which has motivated us to continue to update and add new features and facilities to the platform and create an efficient omnichannel experience. These include updates and enhancements to our Mobile Banking Application and Internet Banking and the launch of new facilities such as the recent addition of "Tap and Go" facilities at ATMs and Point of Sale (POS) machines together with automated OAB Rewards redemptions on POS machines. I am extremely pleased to state that our unique digital platform has reinforced Oman Arab Bank's position as one of the pioneers of digital banking in the local market. That said, this is an ongoing journey and as such we have many more launches in the pipeline that, when launched, will further consolidate the Bank's position at the forefront of digitalization and create a new retail paradigm that elevates the experience, with customers demanding a unique and integrated service delivered through every channel.

Ultimately, however, the value of our products and services to customers depends entirely on the ability to unlock the full potential of our staff. At OAB, we value our staff highly and recognise the importance of creating a vibrant workplace that embraces innovation and allows employees to energise each other and aim for ambitious targets. The Bank prides itself in the various talent management initiatives and training programmes that are tailored to accelerate this cultural transformation. This includes our LEAD programme, which has seen the successful completion of LEAD 2 in 2017, and with plans in place for the launch of LEAD 3 this year for more of the Bank's high potential employees. In addition, we have the Mutamayizoon award for outstanding performance, the 'Insights' Workshops to promote a culture of ongoing learning, a comprehensive training and development calendar and other internal initiatives that create a platform for our staff to engage and continue to develop their careers.

Reinforcing our commitment to Omanisation is key and the Bank also recorded a remarkable milestone in terms of citizens employed across all levels, achieving a percentage over *<number>*per cent, making it one of the leading Banks in the Sultanate to employ, engage and develop Omanis.

Looking ahead, the Bank has exited 2018 with a renewed focus towards innovation and has set the barrier high with the Bank's "24-Hour Innovation Hub" weekend. Oman Arab Bank continues to accelerate its innovation journey through the minds of clients, staff and the community to drive innovative thinking and progressive ideas from concept to reality. As such, we expect 2019 to be yet another eventful year for us as we continue in our efforts to reaffirm the Bank's position as a leading Omani banking institution that will elevate the customer banking experience across all touchpoints and platforms.

I wish to express on behalf of the Board of Directors our gratitude and appreciation to His Majesty Sultan Qaboos bin Said for his wise leadership and vision, which has contributed to the prosperity of our great nation. Likewise, we extend our thanks to His Excellency the Governor of the Central Bank of Oman, Tahir Salim Al Amri for the continued support and guidance. Lastly, I wish to thank our clients, customers, partners, and shareholders for their faith in the Bank, which has been the cornerstone of our continued success.

I could not end without a word of thanks to the executive management of the Bank and all of our employees for their hard work and dedication towards achieving a strong 2018 performance.

The Board of Directors are indebted to the commitment and professionalism of all our staff. Operations and initiatives a core component of our operational strategy.

OAB has always strived to maintain close bonds with society and is fully committed towards promoting and supporting the initiatives and day-to-day activities of institutions and individuals who play an effective role in helping nurture and grow society in Oman. From helping the underprivileged and preserving the cultural heritage of Oman, to promoting environmental awareness and fostering the professional growth of citizens and their businesses, the Bank considers it a privilege to be associated with such organisations and initiatives that are targeted towards achieving such admirable goals.

Over the next few pages, you will be able to gain some insight into some of our most prominent CSR-related activities over the past year. Before we move ahead however, on behalf of the Bank, I would like to sincerely thank our customers, our employees, and all our well-wishers for contributing towards our success over 2018. It is only through your continued support that we can truly attain what we have set out to achieve and see our efforts bear fruit.

Rashad al Zubair
Chairman of the board of Directors

Chief Executive Officer's Report

While the economy witnessed a positive turnaround in 2018 as a result of the recovery of the oil price, prudent fiscal management continues to be a priority as Oman seeks to keep the budgeted deficit below 10 per cent of GDP. Following the spike in the actual deficit in 2016 at around OMR 5.3 billion (initially budgeted at OMR 3.3 billion), the deficit appears to be managed and is showing recovery. Indeed The estimated deficit in 2019 is lower than the deficit of 2017 by approximately 18 per cent and lower than 2018 by nearly 4 per cent. This positive trend is now allowing Oman to cautiously invest in projects that are key to sustain the country's future.

Similarly, Oman's revenues have also seen a steady increase. Growing from OMR 7.6 billion in 2016 to OMR 9.2 billion in 2017, and OMR 9.5 billion in 2018. Revenue is expected to increase further and reach OMR 10.1 billion this year. While these estimates were based on a relatively conservative average oil price of USD 58 per barrel for 2019, it is believed that the oil price could be significantly higher for the year.

Capitalising on this economic stimulus, Oman Arab Bank has laid down significant groundwork in 2018 to build on our existing capabilities and support our growth aspirations. This includes critical enhancements to our IT infrastructure, risk management framework, up-scaling and refurbishing our branch network and transforming our channels. Furthermore, it has achieved this while enhancing its asset quality, strengthening its financial position and increasing productivity for the years ahead.

The Bank has also continued to work towards developing its staff, attracting local competencies, and enhancing the skills of its teams in each of its various branches, through programmes specifically designed for Oman Arab Bank. In fact, last year alone, over *** employees participated in various training courses designed to match their area of expertise.

Furthermore, we have optimised our portfolio, by identifying in which high-potential lines of business to invest and the right target segments to focus. This included strengthening the Trade and Elite value proposition, deepening relationships with Government and Semi-Government entities, and growing our Al Yusr portfolio with a strong focus on SMEs.

Overview on the Bank's achievements for 2018

- In 2018, both the bank and its Islamic offering Al Yusr outperformed its targets, with a net profit of OMR 30 M and OMR 1 M respectively.

- Al Yusr signed an agreement to finance the 4-star Movenpick hotel – Bowsher, a step that will boost Islamic banking finance for local projects within the tourism sector.

- We continue to improve asset quality and manage our exposure to risk, maintaining a robust risk management model, while retaining a strong focus on growing our share of wallet in key target segments.

- We successfully closed an unsecured perpetual subordinated bonds value of OMR 42,553,000 as additional Tier 1 capital with an issue price of OMR 1.000 per bond noteat an interest rate of 7.5% per annum.

- OAB and Thawani Technologies entered into a partnership agreement under which OAB will function as the banking partner of the Thawani platform, an innovative e-payment solution.

- A new system called 'Mersal' was implemented. This system was designed to follow-up on internally sent orders from all departments and track the time required for completing them. With Mersal in place, OAB's executive management now has, at their disposal, accurate figures about the number and kind of orders exchanged between departments and the time taken to complete them. With this information in hand, the Bank is working towards reducing the completion time of orders and take yet another step forward towards offering the very best customer service in the Sultanate.

- We continue to revamp our branch network and digital channels to create an omnichannel experience that will set us apart from the competition. This includes the launch of our Mobile Banking App, Internet Banking, the NFC Tap and Go payments and OAB Rewards redemptions on POS machines. With many more launches in the pipeline the Bank will continue to enhance our customers' banking experience in 2019.

- We have established a "first-to-market" innovation lab in the Sultanate to provide an agile testing environment for innovative open banking solutions to be developed and implemented thereby encouraging entrepreneurialship and creativity..

- We introduced our remote account opening service, which enables us to offer services at a location convenient to the customer. The experience is digital and is completely paperless and instant. The service is deployed on fully secured tablets with digital KYC documents and signature.

- We have launched various talent management initiatives to accelerate this cultural transformation. This includes the newly launched LEAD 3 programme for high potential employees, the Mutamayizoon award for outstanding performance and the 'Insights' Workshops to promote a culture of ongoing learning Aa comprehensive calendar suite has already been determined for 2019 and will be announced in due course.

- We have launched a new integrated customer care campaign aimed at enriching customers' experience at each of our 58 branches across the Sultanate. This was achieved by appointing a customer care manager in each branch whose responsibility it is to ensure that each OAB branch visit is a unique banking experience.

- As part of our ongoing transformation strategy, we updated three of our branches in 2018. These branches feature an enhanced brand identity with a refreshed look and feel, augmented by a number of new features and systems.

Rashad Al Musafir
Chief Executive Officer

Board of Directors

Mr. Rashad Al Zubair
Chairman

Mr. Wahbe Tamari
Deputy Chairman

Ms. Randa Sadik
Board Member

Mr. Hani Al Zubair
Board Member

Mr. Mulham Al-Jarf
Board Member

Mr. Abdulaziz Al Balushi
Board Member

Mr. Waleed Samhouri
Board Member

Mr. Imad Sultan
Board Member

Ms. Nadya Talhouni
Board Member

Annual Report 2018

Senior Management

Rashad Al Musafir
Chief Executive Officer

Ali Moosa
Head of Executive Office

Asma Al Zadjali
Head of Banking Operations Group

Adil Al Rahbi
Head of Human Resources

Leen Khattar Al Attasi
Head of Innovation

Kartik Natarajan
Head of Strategy

Salah Al Sharji
Head of Internal Audit Group

Lamees Al Baharna
Chief Risk Officer

Abdullah Al Hooti
Head of Legal Affairs and Legal Advisor

Mansoor Al Raisi
Chief Compliance Officer

Daren Warner
Chief Financial Officer

Al Salt Al Kharusi
Head of Corporate & Institutional Banking Group

Fahd bin Amjad
Head of Retail Banking Group

Stephen David Whitaker
Chief Information Officer

Sulaiman Al Hinai
Head of Treasury, Investments & Government Relations

Mustafa Srour
Chief Technology Officer

Rashad Al Shaikh
Deputy Head of Retail Banking Group

Hilal Al Siyabi
Head of Corporate Communication

Faisal Al Balushi
Head of Logistics

Dr. Khalifa al Ghammari
Head of Al Yusr Islamic Banking

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

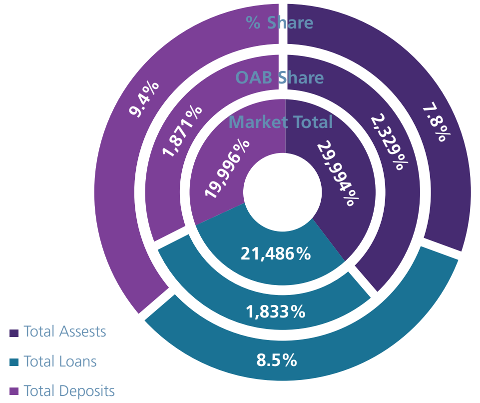
Industry Structure & Development

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and various other regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition, banks must also comply with the requirements of the Commercial Companies Law of 1974, as amended, and necessary requirements of the Capital Market Authority (CMA). A summary of the banking sector performance for the year ended 2018, based on the latest publication and other statistics issued by the Central Bank of Oman is as follows:

1. Total assets of commercial banks grew by 7.5% from RO 28 billion at 31-Dec-2017 to reach RO 30 billion at 31-Dec-2018.
2. Loans and advances recorded grew 6.4% reaching RO 25.1 billion at 31-Dec-2018 from RO 23.6 billion at 31-Dec-2017.
3. Customer deposits also followed suit positively and grew by 7.8% to RO 23.3 billion at 31-Dec-2018 from RO 21.6 billion at 31-Dec-2017. However, the private sector deposits of conventional banks declined and constituted 62.7% of the total customer deposits at 31-Dec-2018, falling from 67.3% as at 31-Dec-2017.
4. The loans to deposit ratio in Conventional banks also fell, crystallising at 107.5% as against 110.3% at the end of 2017.
5. The average deposit interest rate on Rial Omani deposits ended at 1.90% an increase of 0.23% compared to the previous year.
6. The average Rial Omani lending rates increased to 5.33% up 13 bps from 5.20% at December 2017.

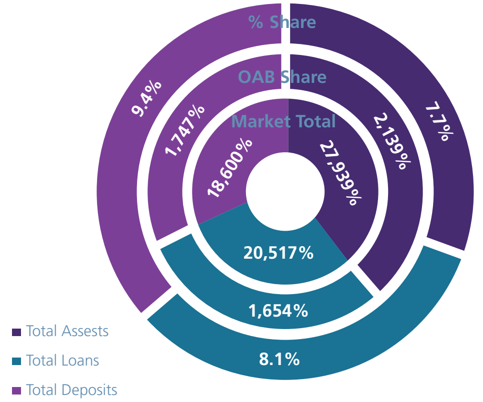
RO Millions

Market Share 2018



RO Millions

Market Share 2017



Economic Outlook

World

United States GDP ended the year at 2.9 per cent reflecting a stronger public demand than expected. Unemployment is the lowest it has been in 50 years with labour productivity showing signs of improvement as well. With the continued economic friction between the USA and China, 2019 forecasts have been changed to reflect the high tariffs imposed on US $ 250 billion of Chinese imports. While the underlying cause for the US has been to safeguard intellectual property rights, the tsunami impact may lead to a potential weakness for the global economy, as a whole, due to market volatility with the result that the IMF may scale back its macroeconomic outlook for global growth. If such trade embargo persists, and there is a global slowdown, this could influence the economic growth adversely in emerging market and developing economies such as the GCC.

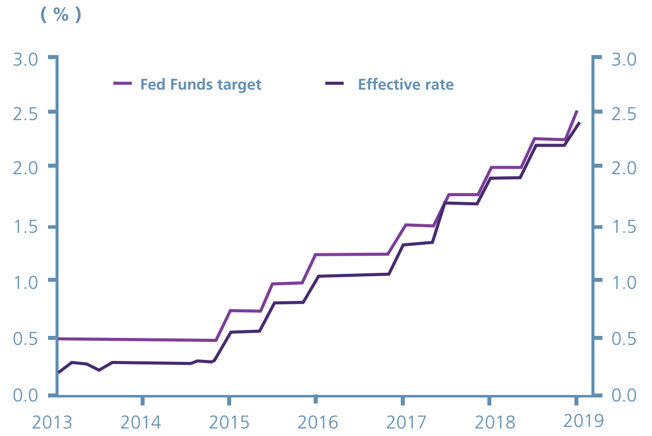
Hydraulic fracturing, or "fracking" has put the US on course to become a net exporter of oil. As a result of advances in the fracking technology, US output of oil and gas production has increased to an all-time high and around two-thirds of the country's gas is produced by fracking. However, despite years of rising oil prices, oil and gas fracking companies have spent more on drilling than they have on the sales of oil and gas (around $3.9 billion more on drilling in the first half of 2018). This forced fracking companies to use cash reserves to fund capital expenditures and shareholder pay-outs.

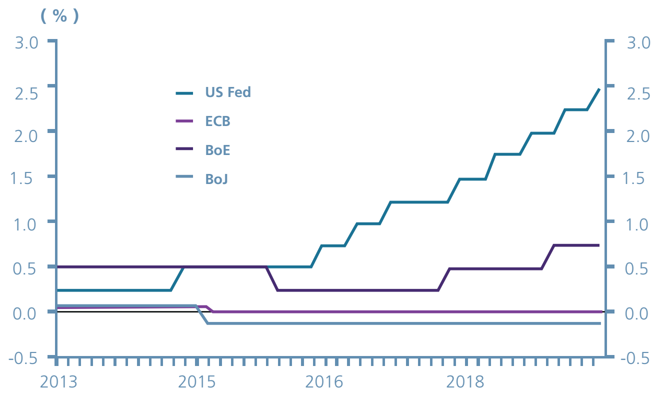
Europe GDP has declined to an estimated 1.9 per cent (0.2 per cent lower than previous projections). Employment has also declined while core inflation remains around 1 per cent. In the UK growth is projected to slow due to the uncertainty about post-Brexit arrangements and the risk of restricted trade policies causing business investment to trend weaker in light of such assumptions (1.8 per cent in 2017 to 1.5 per cent in 2019). A "no deal" Brexit in 2019 could be negative for the UK economy as a whole and impact the European economy as a result of deteriorating investment activity and business confidence. Considering trade tensions, Brexit and tighter financial conditions, the IMF continues to focus on downside risks despite Europe having a solid growth rate.

In 2018, the US Federal Reserve (Fed) hiked rates four times, by 25bps each time against a backdrop of strong economic growth prospects and a tight labour market. Following the March hike, rising inflationary pressures encouraged the Fed to continue the normalization of monetary policy, with further hikes in June September and December leaving the target rate range at 2.25-2.50 per cent. The ramifications for emerging market economies and especially those with currencies pegged to the US dollar were increased capital outflows and higher borrowing costs and also an increased pressure on USD liquidity.

Concerns over a US government shutdown further weighed on the financial sector sentiment toward the end of 2018. Central Banks appear to be adopting a more cautious approach to interest rates. The European Central Bank confirmed that monetary policy would remain amply accommodative while in the UK, monetary policy remains flexible in order to cope with changes associated with the Brexit negotiations.

US Policy Interest Rates



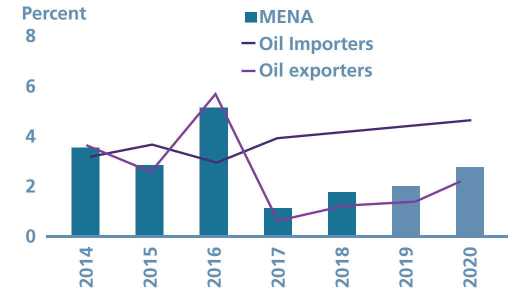


Sterling remains a volatile currency against both Euro and USD with the UK and EU yet to define their ultimate relationship. However, a combination of the uncertainty along with slowing world growth, global trade tensions and the withdrawal of monetary stimulus by European Central Bank, Europe's economic mood continues to dampen. As of early January 2019, the Euro has weakened by circa 2 per cent and the pound has depreciated by 2 per cent. In contrast, the US dollar remains broadly unchanged in real effective terms relative to September 2018.

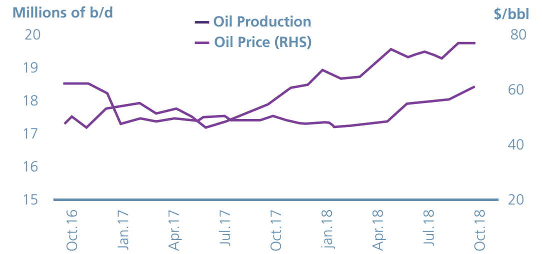
Region

2018 was a promising year for the Middle East and North Africa region (MENA) as GDP improved by 1.7 per cent and is expected to rise slightly to 1.9 per cent in 2019. For oil exporters, this growth was supported by an easing in its fiscal stance and increased oil production. This has lessened the pressure for fiscal consolidation, supporting higher current account balances and enabling higher public spending. Activity in Iran is still impacted by US sanctions and this has been a significant drag on regional growth

A.Growth



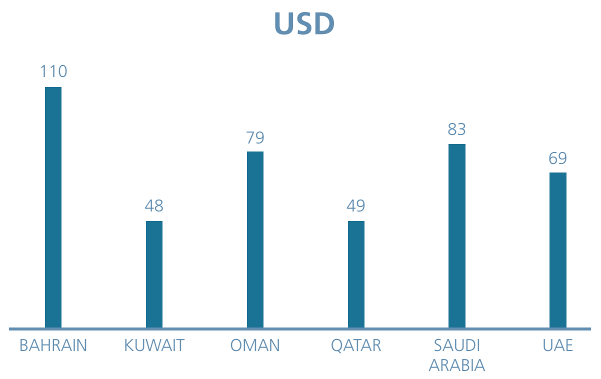
B. Oil production: GCC



Among oil importers, growth has been supported by policy improvements, increased innovation, public spending and investment, but high public debt still remains a significant headwind to further growth. According to the World Bank, inflation remains volatile in Egypt and Iran but is generally stable throughout the rest of the MENA region.

Recent global trade tensions could have a negative impact on the MENA region. Other factors that represent core risks to the MENA region include oil market volatility with prolonged periods of low oil prices potentially dampening growth prospects for oil-exporting economies, which represents the majority of MENA's nominal GDP.

Furthermore, the decline in oil prices will negatively affect all producer's revenue, albeit in some countries more than others. The fiscal break-even crude oil prices for GCC exporters in 2018 estimated by the IMF are shown in table below.



There are continued efforts by the GCC to diversify away from the prominence of hydrocarbon revenues to non-hydrocarbon revenues and the recent introduction of VAT in KSA and UAE, are proving to be a sound source of additional income.

In the Middle East, Gulf currencies have all been pegged at a fixed rate to the US dollar since the mid-1980 to help reduce uncertainty on income from oil exports as the US is seen as a major trading partner of oil. The peg influences Central Banks to match US interest rates even if these rates do not suit the GCC's economic needs.

In that respect, GCC economists have debated whether a change in the peg regime might now be appropriate. However, the current environment of low oil prices has shown fresh interest in the suitability of the peg and as long as the GCC economies are dominated by oil and other commodities de-pegging would carry limited benefits and investors would be more cautious towards investment in the region due to the increase in cash outflows. De-pegging would therefore more likely make sense when diversification efforts are successful and oil plays a smaller role in GCC economies.

Oman's GDP at current prices reached 14.7 billion Omani Rials in the first half of 2018 compared to 12.8 billion Omani Rials in the first half of 2017. GDP from natural gas grew by 98 per cent and from crude petroleum by 25 per cent.

Oman

As Oman's economy remains heavily dependent on oil prices, the recovery in international markets in 2018 taking into consideration the 2019 budget is based on an oil price of US$ 58/bbl, compared to a 2018 budgeted oil prices of US$ 50/bbl. This is still well below the Fiscal break-even point at US$ 79/bbl.

In line with OPEC's strategy to limit output and reduce volumes, hydrocarbon revenue estimates are based on Oman's commitment to cut oil production and revenue from the Khazzan gas project. Although Oman is not a member of OPEC, Oman joined its initiative in 2016 by cutting the production of crude oil.

According to the IMF's World Economic Outlook (2018) Oman is expected to outperform all the other GCC countries on the basis of increased oil and gas production. (Please check & confirm).

However, despite the improving economy, Oman's government is still building upon diversification of its underlying finances. Taking necessary steps in improving non-oil revenue is vital. Diversification efforts are focused on growth in manufacturing, tourism, and logistics while renewable energy projects underway will likely support non-oil GDP growth going forward. Furthermore, the possible introduction of VAT, along with excise tax on beverages and tobacco products in the coming year should give non-oil revenues a further boost.

In 2018, the Omani government focused its intention to drive tourism and increase contribution to its non-hydrocarbon economy with the opening the new Muscat International Airport. The government plans to increase the number of tourists from 3 million in 2017 to 5 million in 2020. Projects underway include a new urban center for Muscat "Madinat Al Ifran" or "Ifran City" and the Mina Sultan Qaboos Waterfront.

The construction sector has already gained momentum in 2018. This sector employs the greatest number of people and is the second-largest driver of non-hydrocarbon growth and the momentum is expected to continue in 2019. The real estate sector is looking to attract a greater flow of revenue in the following years with the opening of $715 M Mall of Oman in 2020/21.

A primary social concern for Oman in 2018 was the lack of jobs for Omanis in certain industries and, the authorities launched an initiative to provide 25,000 new jobs in the private sector while issuing less visas to expats for certain professions.

As the economy recovers, inflation is expected to pick up over the following two years and given that the Ministry of Finance has issued a decision to introduce VAT, annual inflation is expected to rise from an estimate of 0.9 per cent in 2018 to around 3 per cent in 2019. (Graph 1).

Moody's latest Oman rating has the country's Economic Strength score at Moderate+ to reflect the economy's high vulnerability to fluctuations in oil prices, thus reflecting policy and institutional constraints facing the government.

Management Discussion and Analysis Report

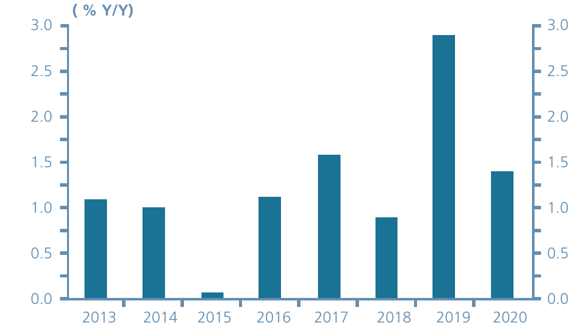
Such constraints include delayed policy implementations such as the postponement of implementing VAT in Oman.

Moody's downgraded the long-term issuer and senior unsecured bond ratings of the Government of Oman to Ba1 from Baa3 (with negative outlook).

Fitch also downgraded Oman's sovereign credit rating to BB+ (previously BBB-) due to its rising debt levels and weakening public finances.

Moody's expects the government to continue to show a high willingness to extend support to its banking sector in a crisis, but the rating agency points out that the authorities may become more selective in providing support to banks as the sovereign's credit strength reduces.

Graph 1: Inflation



Looking Forward

Volatility in oil prices requires a careful balance of revenue and expenditure. Revenue from the hydrocarbon sector represents 74 per cent of total government revenue, and this is expected to increase by 10 per cent in 2019 from the previous 2018 budget based on an oil price of US$58/bbl. Non-hydrocarbon revenue represents 26 per cent of total government revenue, but this declined in 2018 by 2 per cent. Total expenditure is budgeted to be 12.9 billion Omani Rials allocating sufficient funds on health, social welfare and education.

Interest on loans is projected to increase to 630 M Omani Rials in 2019 compared to 480 M Omani Rials budgeted in 2018. The budget deficit has also reduced by 7 per cent (to 2.8 billion Omani Rials) which was lower by 200 M than the 2018 budget. This deficit is expected to be financed by reserves (14 per cent) and borrowings (86 per cent).

The 2019 budget does not make reference to VAT which was originally meant to "go live" in September 2019 but this will now more likely be implemented in 2020. According to the World Bank, inflation is projected to increase to 3.2 per cent by 2020 as VAT is introduced. Moreover, Oman's fiscal deficit is projected to narrow to 4.9 per cent of GDP by 2020 with the introduction of VAT and other excises.

Increased government spending will be supportive of GDP growth as Oman remains vulnerable to future oil price shocks. Higher interest rates will continue to weigh on the non-oil sector activity.

Reforms to boost private sector investment and activity will thus remain key to sustaining growth over the medium term. The 2019 budget includes revenue of RO 120 Million from the sale of investments in government-owned entities, which indicates the government's willingness to implement its privatization agenda.

Corporate Social Responsibility

OAB Branches Network

A critical point of focus for OAB over the past few years has been the transformation of its current branches, a process that is still underway across its country-wide branch network that encompasses 65 branches and representative offices. Each of the newly transformed branches were designed to reflect the concept of the 'Omani Skyline', with the colours white, brown, grey and blue symbolising Omani architecture, vast deserts, majestic mountains, and the sky. The modern refreshed Brand is also supplemented by several new features and systems.

Of particular note are the advanced meet and greet facilities with a streamlined queuing system, private advisory space with moving monitors for a more personal interaction, and digital signature pads and ID card readers within the advisory station design.

Additionally, every transformed flagship OAB branch also comprises of a dedicated 'Elite' section, complete with its own Majlis and RM Offices. So far nine branches have undergone the transformation, of which three – Sur, Salalah, and Al Khuwair branches, were carried out in 2018.

OAB ATM Network

Alongside the branch transformation and in keeping with its customer-centric approach, in 2017, OAB launched a revolutionary new digital banking platform. The primary objective was to develop a design that would be simple and user friendly. As a result, this relatively new platform brought with it a unified interface across all its digital touch points such as the website, mobile application, and the Bank's network of 152 ATMs spread across the Sultanate of Oman.

This digital platform is also being evolved continuously and upgraded to include more features and facilities to consolidate the Bank's position at the forefront of digitalization and create a new retail paradigm that elevates the experience, with customers demanding a unique and integrated service delivered through every channel.

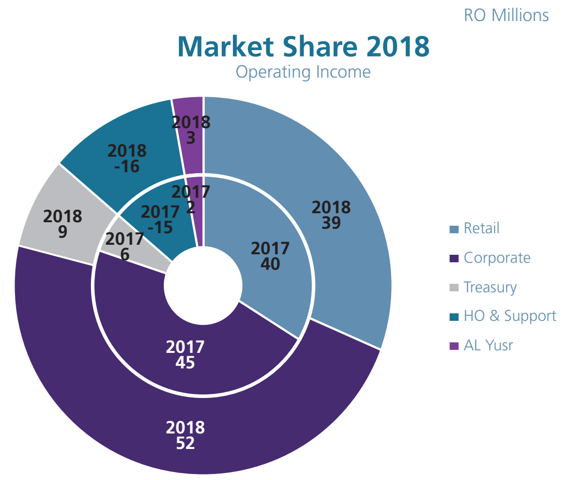
Discussion on Financial and Operational Performance

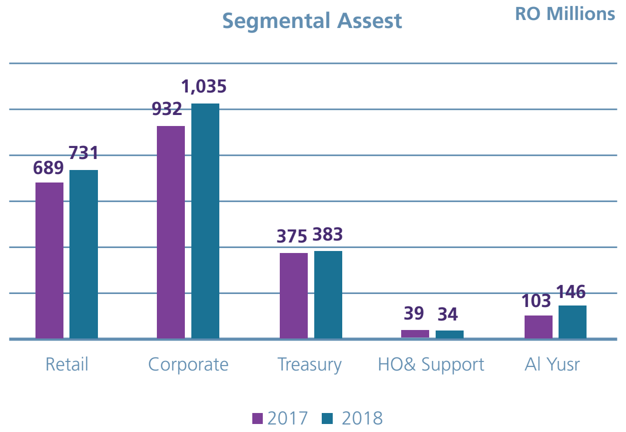
The Bank reports its performance under four segments namely Retail, Corporate, Treasury, Al Yusr and Head office & Support function.

During 2018, total income of the corporate segment saw a growth of RO 7 million (16%) leading to overall increase in the Bank's profitability. The growth in corporate loans by 11% is the key contributing factor to the growth in total income. Income from retail banking reduced by RO 1 million as the non-funded income decreased YoY by RO 1.7 million due to fragmentation in the cards business.

The Islamic window, Al Yusr, witnessed YoY growth of RO 1 million (53%) due to the growth in financing receivables.

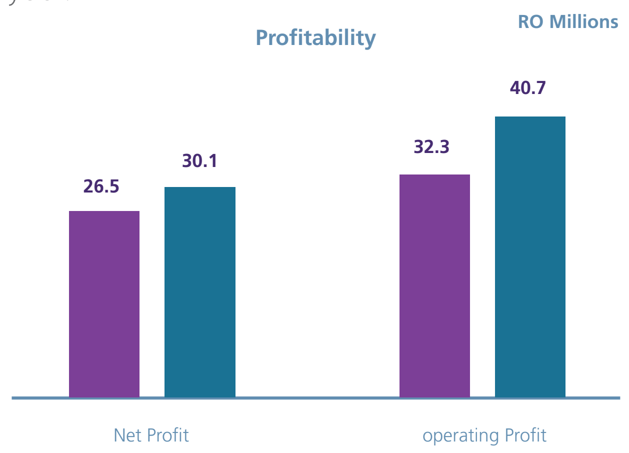
The income from Treasury has improved significantly by 46% mainly due to income generated out of the liquid funds through inter-bank money market placements and interest on Oman Government Development Bonds.





Net Profit

Net profit for the year ended 31 December 2018 is RO 30.1 million (2017 26.5 million), which is 14% higher than the previous year. The operating profit at RO 40.7 million (2017 32.3) is 26% higher than previous year.



The significant changes in income and expenses during 2018 are as follows:

- Net interest income increased during the period by RO 11 million, which is a growth of 20%. The main driver for this sturdy growth is the increase in interest income by 14% achieved with an equitable growth in loan portfolio re-priced effectively. The yield on loans increased marginally to 5.27% compared to 5.21% for 2017. The increased interest expense by 5% moderated the growth to an extent. The interest rates on deposits increased on account of liquidity factor resulting in the cost of deposits at 1.73% (2017 1.66%).
- Increased investments in government bonds at higher yields has significantly increased the overall yields on the non-lendable funds.
- Yield on interest bearing assets also witnessed a similar increase at 5.01% compared to 4.67% for 2017 and the total cost of funds is 1.68% compared to 1.67% for 2017.
- This resulted in increase of net interest margin to 3.33% from 2.93% in 2017.
- Income from Al Yusr, Islamic window, has increased by RO 1 million due to increase in net financing receivables by 48%.
- Overall commission and fee income, excluding Al Yusr, has reduced by RO 1.3 million compared with previous year mainly due to the reduction in the income from retail banking and investment securities.
- The continued cost control measures by the management has resulted in reduction in the growth rate of operating expenses. Operating costs, other than staff, increased by 4% compared to an increase of 13% in 2017. Staff costs increased by 3% in 2018 with the number of staff increasing from 1,172 to 1,191 coupled with new recruitments in the top management.
- With the implementation of IFRS 9 in 2018 and the exemption from reinstatement of previous year's figures, the allowance for credit loss and recoveries for 2018 and 2017 are not directly
- comparable. The allowance for credit loss increased by RO 2.9 million to RO 11.1 million (2017 RO 8.3 million). Also, recoveries from allowances of RO 6.3 million (2017 8.1 million) reduced by 23%.
- Credit loss on investment of RO 9K for 2018 relates to investment in corporate bonds, whereas the Impairment on investment of 2017 relates to the impairment of RO 0.7 million in the equity investment due to the adverse markets in Oman and GCC.
- The Earnings Per Share (EPS) increased to 20 Baiza from 18 Baiza in 2017.

Assets

Total assets of RO 2.3 Billion as at December 31 2018 are RO 0.2 Billion (9%) higher than RO 2.1 Billion as at December 31 2017. The significant changes are as follows:

Loans and advances

Gross loans at RO 1.89 Billion are RO 0.18 Billion (11%) higher than RO 1.70 Billion as at December 2017. The growth in loans is higher than the total growth in the market of 6.4%.

The YoY growth consist of RO 0.14 Billion (14%) increase in Corporate loans and RO 45 Million (6%) in Personal loans.

Overall Asset quality has improved with a reduction in the Non-Performing Loans (NPL) ratio to 2.73% from 2.95% as of 31-Dec-2017, given the high growth in loans and a minimal increase in total NPL to RO 51.5 Million as on 31-Dec-18 from RO 50.3 Million as at 31-Dec-17. Retail NPL is at 1.47% of the total retail loans compared to 1.38% as at 31-Dec-17 while the corporate loans is 3.59% of the total corporate loans compared to 4.11% as at 31-Dec-17. The non-performing loans include corporate loans of RO 8 million granted under the Government Soft Loan scheme, the principal amount of which are guaranteed and a part of the interest is paid by the Government of Oman.

The total provision coverage is at December 31 2018 is 108% of the non-performing assets compared to 102% at December 31 2017. The increase due to increased provision requirement under IFRS 9. The specific provision is at 44% of the NPL as the provision requirement is lower after considering the collaterals available for these loans. The provision levels are considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

Investments

Investments in securities of RO 131 million (2017 RO 138 million) comprises mainly of Oman Government Bonds of RO 120 million (2017 RO 86 million) issued by the Central Bank of Oman. The growth of investment in Government Bonds was mostly thru reallocation of funds from Treasury Bills, which witnessed a reduction of RO RO 38 million in 2018.

Investment in corporate bonds is RO 2.4 million compared to RO 0.9 million as at 31-Dec-17. The investment in equities is at RO 9 million compared to RO 13 million as at 31-Dec-17. The reduction in equity investment is consistent with the management's strategy of exiting the equity investment related activities.

Due from Banks

Due from Banks at RO 91 million reduced by 16% from RO 109 million as of 31-Dec-17, with an objective of increasing the overall returns on assets while maintaining the requisite liquidity. The average yields on due from banks increased to 1.72% from 0.94 % in 2017.

Liabilities

Customer Deposits

The customer deposits constitute 95% (2017 95%) of the liabilities. Customer deposits at RO 1.87 Billion as at December 2018 are 7% higher than the RO 1.75 Billion as at 2017. This is slightly lower than the growth in the banking sector of 7.8%. The growth comprises of an increase of RO 133 Million (18%) in Term deposits (2017 decrease of RO 25 Million) while the Savings deposits increased by RO 18 million (2017 increase of RO 30 Million), however Demand deposits decreased by RO -28 million (-4%) (2017 increase of RO 103 million).

Due to Banks

Due to Banks at RO 15 million, increased by RO 11 million during the year due to increased borrowings in the interbank market to manage the liquidity and overall cost of fund.

Shareholders' Funds

Shareholders' funds increased to RO 284 million from RO 276 million in the previous year. The paid-up share capital at RO 134.62 remained the same. Out of the total paid-up capital RO 17 million has been assigned to the Bank's Islamic Banking Window, Al Yusr. The subordinated debt reserve of RO 12 million is for the subordinated debt of RO 20 million, which is scheduled to mature in 2021.

The increase in special reserve is on account of reserve requirements for restructured accounts and the same stands withdrawn as on 18 November 2018. The special reserve is required to be held until the restructure accounts are upgraded. Accordingly, the Bank has transferred an amount of RO 1.5 million (2017: RO 0.36 million) from retained earnings to special reserve.

Capital Adequacy

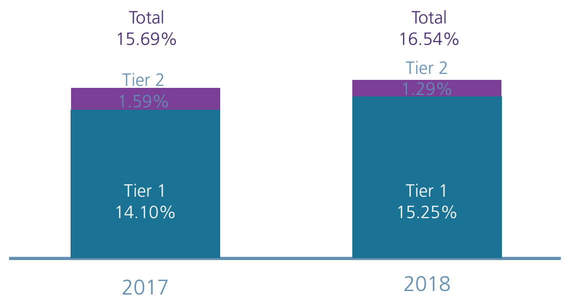
Capital adequacy ratio is calculated in accordance with the guidelines issued by Bank for International Settlements (BIS) is 16.54% (2017: 15.69%) as a result of issuing Additional Tier-1 capital bonds of RO 42.5 million. The Tier-1 Capital consisting mainly of Common Equity Tier1 (CET1) is 15.25% (2017: 14.10%).

The Bank has issued Additional Tier-1 Perpetual capital bonds of RO 42.5 million in October-2018 at a coupon rate of 7.5%.

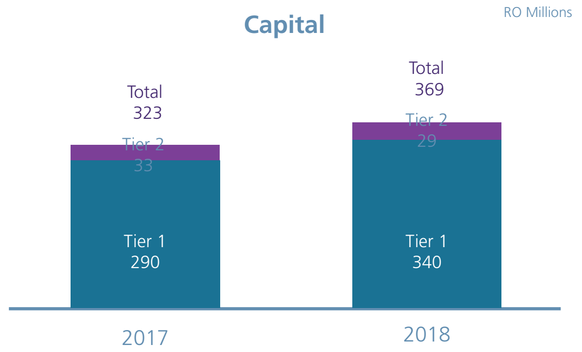
The details of the calculation and the Bank's policy for capital management are provided in notes to the financial statements and the disclosure as per Pillar 3 of the Basel II guidelines.

During 2018 the Bank maintained the capital base higher than the regulatory requirements, including Capital Conservative Buffer (CCB).

Capital Adequacy Ratio



Capital



CORPORATE GOVERNANCE REPORT

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

Building a better working world

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

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Oman Arab Bank SAOC (the "Bank") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarised as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2018. The Bank's Board of Directors has identified certain areas of non-compliance with the Code, which are included in the Bank's report.

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman Arab Bank SAOC to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young LLC

Muscat
18 March 2019

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

A member firm of Ernst & Young Global Limited

OAB's approach to corporate governance

Framework and Approach to corporate governance and responsibility

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

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

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

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

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

Our Governance Standards – Principles and Processes

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

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

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

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2018.

Corporate Governance – Part 1

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

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

corporate governance report

1. The Board – putting governance into practice

Role of the Board

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

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

Board size and Composition

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

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

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

Selection and Role of the Chairman

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

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

Board Independence

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

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings. Meetings attended by the Directors for the past financial year are reported in Part 2.

Attendance at Annual General Meeting

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

Avoidance of Conflicts of Interest of Directors

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

Expertise of our Board

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

Nomination and Appointment of New Directors

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

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

The Board is appointed for a period of three years. The term of the current Board expires in March 2019.

Review of Board Performance

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

Board Access to Information

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

2. Board Committees

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

Operation of the Committees

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

Composition and Independence of the Committees

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

How the Committees report to the Board

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

Brief Terms of Reference of Board Committees

a) Credit Committee

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

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

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

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

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

- assists the Board with the formulation of the Bank's Risk Appetite Statement.
- establishes and reviews the framework for risk management throughout the Bank covering all risks including strategic, market, liquidity, credit, operational and reputation risks on an ongoing basis
- Ensure the, risk management frameworks, including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal and regulatory requirements.
- promotes and ensures a high level of awareness of risk management throughout the Bank
- reviews the strategy, plan and budget of risk management function
- reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite
- reviews regulators' reports on the adequacy of the Bank's Risk Management Frameworks

- reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O insurance for approval
- reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements
- reviews any proposed legislative or regulatory changes, the impact such changes may have on the Bank's business and the internal policies and controls which will be introduced to address these changes
- approves the Compliance Department/ Function's Charter and review the same on annual basis to update as appropriate

d) Selection and Remuneration Committee

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

1. recommends the appointment of Chief Executive Officer to the Board.
2. sets up the Key Performance Indicators of the Bank's Chief Executive Officer (CEO) and review the same on annual basis in order to review and recommend to the Board the CEO's total remuneration
3. approves the appointment of the executive management team based on the Chief Executive Officer's nomination/ recommendation except for the Head of Internal Audit, the Chief Compliance Officer, the Chief Risk Officer and the Bank's Legal Counsel whom appointment falls within the responsibility of other Board Committees and/or the Board of Directors'
4. approves remuneration of executive management team include the salaries and other benefits.
5. ensures that the Bank has a proper remuneration policy, reviews and recommends amendments in policy to the Board.
6. reviews and monitors the human resource plan and aligns the plan to achieve the Bank's strategies.
7. ensures that the Bank has proper training, career development and succession plans.
8. reviews and monitors the "Omanisation" plan and identifies the positions that should be occupied by Omanis with the time table to achieve the plan.

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

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

Composition of the Committee and Meetings
The current committee memberships together with dates of meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

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

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

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

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

Restrictions on Non-Audit Work by the Audit Firm
The Bank's external auditors will not be able to carry out the following types of non-audit work for the Bank:

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

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

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

4. Executive Pay and Reward Schemes

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

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

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

Who decides how individuals should be paid and rewarded?
The Board recommends the remuneration and the sitting fee for individual Directors to be approved in the Annual General meeting. The remuneration of the CEO is recommended by the Board Selection and Remuneration Committee and approved by the Board of Directors.

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

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

Fees paid to each Director during the 12 month period ended 31 December 2018 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

5. Controlling and Managing Risk

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

The Bank recognizes three main types of risk:

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

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

The risk management function aims at ensuring that:

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

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

(c) all the attendant risks are adequately monitored.

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

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

Internal Review and Risk Evaluation
Based on Board approved policies the Bank has established appropriate procedures to manage and monitor the risks. Broadly the Asset and Liability Committee is responsible for monitoring market risks arising from the Bank's core lending and deposit-taking activities.

Similarly, the Investment management Committee is responsible for monitoring market risk and related credit and operational risk exposures arising from trading activity. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

6. Communication with Shareholders, Regulators and Wider Market

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

The Bank's website includes annual reports, quarterly financial statements, briefings and presentations given by CEO and other executives, public announcements and economic updates.

Further details on means of communications, including website address, are set out in Part 2

Corporate Governance – Part 2

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

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

1. Board of Directors

The composition of the Board and Audit committee changed during 2018 with the appointment of a new director. Nadya Talhouni was appointed as director with effect from 23 April 2018 replacing Mohammed Masri.

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

2. Board Committees

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

Table 1

Director	Board Membership	Appointed from	Status	Committee Membership			
				Credit Committee	Audit Committee	Compliance and Risk Management Committee	Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Chairman of Credit Committee and Selection & Remuneration Committee	01 October 1989	Independent	√	-	-	√
Wahbe Tamari	Deputy Chairman	25 August 2016	Representing Arab Bank Plc	-	√	-	√
Hani Bin Muhammed Al Zubair	Director Chairman of Risk Management & Compliance Committee	01 June 1999	Independent	-	-	√	-
Mulham Bashir Al Jaraf	Director Chairman of Audit Committee	01 September 2017	Independent	-	√	-	-
Randa Sadik	Director	01 June 2010	Representing Arab Bank Plc	√	-	-	√
Abdulaziz Al Balushi	Director	19 March 2014	Representing OMINVEST	√	-	√	√
Mohammed Masri*	Director	16 November 2015	Representing Arab Bank Plc	-	√	-	-
Walid Samhouri	Director	19 March 2014	Representing Arab Bank Plc	√	-	√	-
Imad Sultan	Director	16 June 2014	Independent	√	-	-	-
Nadya Talhouni*	Director	23 April 2018	Representing Arab Bank Plc	-	√	-	-

*Mohammed Masri resigned from the Board and Nadya Talhouni was appointed as his replacement with effect from 23 April 2018.

The members of the Committees together with the number of meetings held in 2018 and attended by each member are set out in the Table 2.

Table 3

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

Directors' attendance record:

Note 1 Board Meetings were held on – 06 February, 23 April, 12 August, 30 October and 17 December during 2018.
Note 2 Credit Committee meetings were held on – 11 March, 27 May, 18 September and 12 December during 2018.
Note 3 Audit Committee meetings were held on – 23 January, 30 April, 26 July and 23 October during 2018.
Note 4 Compliance and Risk Management Committee were held on – 25 March, 25 June, 18 September, 01 October and 11 December during 2018.
Note 5 Selection and Remuneration Committee meetings were held on – 23 April, 12 August and 17 December during 2018.

Composition of Shari'a Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   i. Ensure that the Fund is managed and administered in accordance with Shari'a principles.
   ii. Provide expertise and guidance in all matters relating to Shari'a principles, including the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters.

iii. Consult the SSB where there is any ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process.

iv. Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.

v. To prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.

Shari'a Supervisory Board Meetings

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

Meetings held during the year	2018 RO	2017 RO
	4	4
Meetings attended:		
Dr. Esam Khalaf Al Enzi	3	4
Dr. Ahmed Sobhi Ahmed Al Ayadi	4	
Dr. Abdulaziz Khalifa Al Qassar	4	3

3. Process of nomination of Directors
The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters
The processes and procedures of the Bank to reward and remunerate the Directors and senior executives are set out in Part 1, paragraph 4.

The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law and regulations issued by the Central Bank of Oman.

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

In the Annual General Meeting held on 28 March 2018 the shareholders approved the Directors' remuneration as well as the sitting fees of RO 500 per meeting for 2017.

The remuneration and sitting fees which were approved and paid to each Director for 2017 were as follows:

Table 3

Director's Name	Remuneration RO	Total Sitting Fees RO	RO Total
Rashad Bin Muhammed Al Zubair	15,000	4,500	19,500
Wahbe Tamari	8,000	5,500	13,500
Hani Bin Muhammed Al Zubair	8,000	4,500	12,500
Abdul Aziz Al Balushi	8,000	7,500	15,500
Walid Samhouri	8,000	7,000	15,000
Randa Sadik	8,000	6,000	14,000
Mohammed Masri	8,000	5,000	13,000
Imad Sultan	8,000	4,000	12,000
Mulham Bashir Al Jaraf	8,000	4,500	12,500
Total	**79,000**	**48,500**	**127,500**

The remuneration of RO 79,000 and sitting fees of RO 46,000 for 2018 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration paid to the key management personnel of the Bank for 2018 is RO 948,944 (2017: RO 1,434,638).
No stock options are available to Directors or the executives of the Bank. The Executives are required to serve 30-60 days' notice should they wish to resign. No severance fees are payable to the key management personnel in the event of termination of employment.

Remuneration of Shari'a Supervisory Board

The remuneration and sitting fees for 2017 were paid during 2018. A resolution to approve the proposed remuneration of RO 30,800 and sitting fees of RO 4,235 for 2018 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration and sitting fees which were approved and paid to each member for 2017 were as follows:

Name of SSB Member	Annual Fee	Meeting Fee	Total Fee
	RO	RO	RO
Dr. Esam Khalaf Al Enzi	11,550	1,540	13,090
Dr. Ahmed Sobhi Ahmed Al Ayadi	9,625	1,540	11,165
Dr. Abdulaziz Khalifa Al Qassar	9,625	1,155	11,780
Total	30,800	4,235	35,035

5. Non-Compliance of Corporate Governance and Penalties
The Bank has complied with all regulatory requirements except for few instances during last four years an amount of RO 134 thousand (in total) was imposed by Central Bank of Oman (CBO) for non-compliance. The Bank has taken necessary corrective action to ensure compliance in future.

Areas of Non-Compliance with the Provisions of Corporate Governance

i. The chairman of Credit Committee is also the chairman of the Selection and Remuneration Committee.
ii. The Board Audit Committee does not have a majority of independent members.

6. Means of Communicating with the Shareholders
We confirm the following:
a) Half-yearly results were sent to the shareholders.
b) Quarterly results and the annual report are posted on the Bank website www.oman-arabbank.com.
c) The website displays all official Bank information releases.
d) Management Discussion and Analysis (MD&A) forms part of the annual report.

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

7. Acknowledgment by the Board
The Board of Directors acknowledges its responsibilities and confirms that:

i. The audited financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the Central Bank of Oman, and the applicable requirements of the Commercial Companies Law of 1974, as amended.
ii. The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

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

1. Establish provisions that support the Bank's financial position.
2. Pay cash dividend to the shareholders appropriate to their investment.
3. Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.
4. Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

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

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99 % and 49 % of the share capital respectively.

OMINVEST is a public joint stock company listed at the Muscat Securities Market and Arab Bank Plc is a publicly held company and is listed at the Amman Stock Exchange, Jordan.

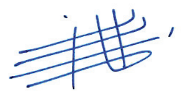
10. Profile of the Statutory Auditors
EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies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

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country.

EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY.

11. Audit fees
The Bank paid RO 56,000 to the external auditors for their audit and related services for the year ended 2018.

Rashad Muhammed Al Zubair
Chairman



Rashad Al Musafir
Chief Executive Officer

FINANCIAL HIGHLIGHTS

Financial Highlights	**2018 RO '000**	2017 RO '000	2016 RO '000	2015 RO '000	2014 RO'000
Total Assets	**2,328,818**	2,138,999	2,065,972	1,982,699	1,816,091
Deposits	**1,870,558**	1,746,856	1,637,152	1,601,162	1,468,313
Net Loans	**1,832,817**	1,654,013	1,594,799	1,519,571	1,259,836
Shareholders› Equity	**284,323**	275,561		214,419	201,259
Net Profit	**30,140**	26,560	24,526	29,011	28,400
Net interest income	**66,523**	55,599	50,886	49,134	43,843
Other operating income	**21,121**	22,152	22,112	30,620	27,973
Net operating income	**87,644**	77,751	72,998	79,754	71,816
Operating expenses	**(46,960)**	(45,403)	(45,780)	(43,523)	(37,416)
Impairment of investments available-for-sale	**(9)**	(728)	(2,336)	(406)	-
Profit from sale of non-banking asset	**-**	-	2	2,400	-
Provision for loan impairment	**(11,142)**	(8,276)	(14,384)	(13,327)	(8,885)
Release/recovery from provision for loan impairment	**6,269**	8,132	6,705	7,977	6,871
Taxation	**(5,662)**	(4,916)	(2,561)	(3,864)	(3,986)
Profit after tax for the year from discontinued operations	**-**	-	9,882		
Net Profit after taxation	**30,140**	26,560	24,526	29,011	28,400
Dividend	**14,808**	14,808	7,620	11,600	13,920
Total Assets	**2,328,818**	2,138,999	2,065,972	1,982,699	1,816,091
Gross Loans and advances	**1,888,036**	1,704,472	1,644,862	1,564,384	1,296,826
Provision for loan impairment	**(55,219)**	(50,459)	(50,063)	(44,813)	(36,990)
Net Loans and advances	**1,832,817**	1,654,013	1,594,799	1,519,571	1,259,836
Non-performing loans	**51,501**	50,273	47,938	44,842	38,185
Customer deposits	**1,870,558**	1,746,856	1,637,152	1,601,162	1,468,313
Shareholders' funds	**284,323**	275,561	245,479	214,419	201,259
Share Capital	**134,620**	134,620	127,000	116,000	116,000

Financial Highlights	**2018 RO '000**	2017 RO '000	2016 RO '000	2015 RO '000	2014 RO'000
Ratios					
1. Profitability					
Return on shareholders› funds	**10.77%**	10.19%	10.67%	13.96%	14.62%
Return on Total Assets	**1.35%**	1.26%	1.21%	1.53%	1.74%
Cost to income	**53.58%**	58.40%	62.71%	54.57%	52.10%
2. Capital					
Capital Adequacy (BIS standard)	**16.54%**	15.69%	15.73%	14.22%	15.14%
Shareholders› funds to Total Assets	**12.21%**	12.88%	11.88%	10.81%	11.08%
3. Asset Quality					
Non-performing loans to Total loans	**2.73%**	2.95%	2.91%	2.87%	2.94%
Provision coverage	**107.22%**	100.37%	104.43%	99.94%	96.87%
4. Liquidity					
Net loans to customer deposits	**97.98%**	94.69%	97.41%	94.90%	85.80%
Net loans to Total Assets	**78.70%**	77.33%	77.19%	76.64%	69.37%
Liquid Assets to Customer Deposits	**21.83%**	22.60%	23.16%	23.25%	31.39%
5. Others					
Dividend rate	**11.00%**	11.00%	6.00%	10.00%	12.00%
Dividends per share in RO	**0.011**	0.011	0.006	0.010	0.012
Basic Earnings per share in RO	**0.020**	0.019	0.020	0.025	0.025

Financial Highlights	2018 RO '000	2017 RO '000	2016 RO '000	2015 RO '000	2014 RO '000

Financial Trends (Graph)

Net Profit	**30,140**	26,560	24,526	29,011	28,400
Return on Shareholders› Funds	**10.77%**	10.19%	10.67%	13.96%	14.62%
Return on Assets	**1.35%**	1.26%	1.21%	1.53%	1.74%
Cost to income	**0.536**	0.584	0.627	0.546	0.521
Earnings per Share	**0.020**	0.019	0.020	0.025	0.025
Loans & Advances(net)	**1,832,817**	1,654,013	1,594,799	1,519,571	1,259,836
Customer Deposits	**1,870,558**	1,746,856	1,637,152	1,601,162	1,468,313
Capital Adequacy Ratio	**16.54%**	15.69%	15.73%	14.22%	15.14%

Comparative Movements:
Total Assets

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Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Oman Arab Bank SAOC (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

Key audit matters (continued)

1. Impairment provision for loans, advances and financing activities for customers subject to credit risk

Key audit matters	*How our audit addressed the key audit matters*
At 31 December 2018 the Bank reported gross loans, advances and financing activities for customers amounting to RO 1,888.04 million and RO 55.22 million of expected credit loss allowances. Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for loans, advances and financing activities for customers, there is a risk that the amount of ECL may be misstated. The key areas of judgement include: • The identification of exposure with a significant deterioration in credit quality. • Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. • The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model. The accounting policies relating to estimating impairment provision on loans, advances and financing activities for customers, critical accounting estimates and judgements, and the disclosures relating to impairment of loans, advances and financing activities for customers are set out in notes 2.4.1, 2.5, 3.1 and 9 to the financial statements.	Our audit procedures in this area included the following: • Evaluated the appropriateness of the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • We performed audit procedures on the opening balances to gain assurance on the transition. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. • Obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions; • Evaluated Bank's key judgments and estimates made in the ECL computation and involved specialists to assist in evaluating the judgments and estimates relating to probability of default, macro-economic variables and recovery rates; • For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Bank's staging; and - ECL calculation. • Checked the completeness of the loans, advances and financing activities for customers (including off balance sheets) in the ECL calculation as of 31 December 2018. We understood the theoretical soundness and tested the mathematical integrity of the models; • Checked the consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • Considered the adequacy of the disclosures in the financial statements in relation to impairment of loans, advances and financing activities for customers and other financial assets subject to credit risk as required under IFRS 9.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

Other information included in the Bank's 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Bank's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Corporate governance report
- Management discussion and analysis
- Financial statements of the Islamic Banking Window
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of the Islamic Banking Services

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 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 obtained prior to the date of the 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.

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines 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, those charged with governance 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 those charged with governance either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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 these financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 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 management.
- Conclude on the appropriateness of those charged with governance 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.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Muscat
18 March 2019

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Statement of financial position

At 31 December 2018

	Notes	2018 RO'000	2017 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman			
Due from banks	7	**194,801**	161,987
Loans & advances and financing to customers	8	**91,272**	108,868
Investment securities	9	**1,832,817**	1,654,013
Property and equipment	10	**131,176**	138,421
Other assets	11	**30,245**	29,430
	12	**48,507**	46,280
Total assets		**2,328,818**	2,138,999
LIABILITIES			
Due to banks	13	**15,207**	4,011
Deposits from customers	14	**1,870,558**	1,746,856
Other liabilities	15	**60,241**	57,693
Subordinated debt	17	**20,000**	20,000
Taxation	18	**5,936**	4,891
Total liabilities		**1,971,942**	1,833,451

Statement of financial position (Continued)

At 31 December 2018

	Notes	2018 RO'000	2017 RO'000
EQUITY			
Share capital	19	**134,620**	134,620
Legal reserve	20	**41,490**	38,476
General reserve	21	**25,560**	25,560
Subordinated debt reserve	22	**12,000**	8,000
Special reserve	23	**3,915**	2,760
Fair value reserve		**(2,059)**	(1,845)
Retained earnings		**68,797**	67,977
Total equity attributable to the equity holders of the Bank		**284,323**	275,548
Perpetual Tier 1 capital bonds	24	**72,553**	30,000
Total equity		**356,876**	305,548
Total equity and liabilities		**2,328,818**	2,138,999
Contingent liabilities and commitments	36(a)	**785,370**	897,448

The financial statements were authorised for issue by the Board of Directors on 28 January 2019 and signed by:

Rashad Muhammed Al Zubair
Chairman

Rashad Al Musafir
Chief Executive Officer

The accompanying notes 1 to 41 form part of these financial statements.

Statement of Comprehensive Income year ended 31 December 2018

	Notes	2018 RO'000	2017 RO'000
Interest income	26	100,584	88,115
Interest expense	27	(34,061)	(32,516)
Net interest income		66,523	55,599
Net fee and commission income	28	14,738	14,393
Net Investment income	29	101	1,140
Other operating income	30	6,282	6,606
Total income		87,644	77,738
Operating expenses	31	(46,960)	(45,403)
Allowance for credit losses – customer loans	9	(11,142)	(8,276)
Recoveries/release from allowance for credit losses	9	6,269	8,132
Credit loss / impairment on investment securities	10	9	(728)
Profit before tax		35,802	31,463
Income tax expense	18	(5,662)	(4,916)
Profit for the year		30,140	26,547
Other comprehensive expense:			
Items that will not be reclassified to profit or loss in the subsequent periods (net of tax):			
Revaluation loss on equity instruments at fair value through other comprehensive income (FVOCI)		(681)	-
Items that may be reclassified to profit or loss in subsequent periods (net of tax):			
Net movement on AFS investments		-	(1,773)
Other comprehensive expense for the year		(681)	(1,773)
Total comprehensive income for the year		29,459	24,774
Earnings per share:			
Basic and diluted (RO)	32	0.020	0.018

The accompanying notes 1 to 41 form part of these financial statements.

Statement of Changes in Equity year ended 31 December 2018

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2018		134,620	38,476	25,560	8,000	2,760	(1,845)	67,977	275,548	30,000	305,548
Impact of adopting IFRS 9	4.1	-	-	-	-	-	467	(3,575)	(3,108)	-	(3,108)
Restated opening balance under IFRS9		134,620	38,476	25,560	8,000	2,760	(1,378)	64,402	272,440	30,000	302,440
Dividends paid		-	-	-	-	-	-	(14,808)	(14,808)	-	(14,808)
Profit for the year		-	-	-	-	-	-	30,140	30,140	-	30,140
Unrealised loss on FVOCI		-	-	-	-	-	(681)	-	(681)	-	(681)
Transfer to special reserve	23	-	-	-	-	1,155	-	(1,155)	-	-	-
Realised loss on FVOCI		-	-	-	-	-	-	(220)	(220)		(220)
Transfer to legal reserve	20	-	3,014	-	-	-	-	(3,014)	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	4,000	-	-	(4,000)	-	-	-
Issuance of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	-	-	42,553	42,553
Interest distribution of Perpetual Tier 1 capital bonds		-	-	-	-	-	-	(2,307)	(2,307)	-	(2,307)
Perpetual Tier 1 issuance cost		-	-	-	-	-	-	(241)	(241)	-	(241)
At 31 December 2018		134,620	41,490	25,560	12,000	3,915	(2,059)	68,797	284,323	72,553	356,876

The accompanying notes 1 to 41 form part of these financial statements.

Statement of changes in equity (Continued) year ended 31 December 2018

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Sub-total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
At 1 January 2017		127,000	35,821	25,560	54,000	2,400	(72)	8,390	253,099	30,000	283,099
Profit for the year		-	-	-	-	-	-	26,547	26,547	-	26,547
Other comprehensive expense, net of tax		-	-	-	-	-	(1,773)	-	(1,773)	-	(1,773)
Total comprehensive income (expense) for the year		-	-	-	-	-	(1,773)	26,547	24,774	-	24,774
Issue of bonus shares		7,620	-	-	-	-	-	(7,620)	-	-	-
Transfer to special reserve	23	-	-	-	-	360	-	(360)	-	-	-
Transfer to legal reserve	20	-	2,655	-	-	-	-	(2,655)	-	-	-
Transfer to retained earnings	22	-		-	(50,000)	-	-	50,000	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	4,000	-	-	(4,000)	-	-	-
Interest distribution of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	(2,325)	(2,325)	-	(2,325)
At 31 December 2017		134,620	38,476	25,560	8,000	2,760	(1,845)	67,977	275,548	30,000	305,548

The accompanying notes 1 to 41 form part of these financial statements.

Statement of Cash Flows year ended 31 December 2018

	Notes	2018 RO'000	2017 RO'000
Operating activities			
Profit before tax		**35,802**	31,463
Adjustments:			
Depreciation	12	**4,052**	3,680
Impairment for credit losses	9	**11,096**	8,276
Recoveries/release from impairment for credit losses	9	**(6,245)**	(8,132)
Net impairment on due from banks		**46**	-
Allowance for impairment on Amortised Cost Securities		**9**	728
Income from held to collect / held-to-maturity investments	10	**(4,895)**	(2,211)
Dividend Income		**(346)**	(648)
Loss on sale of property and equipment	12	**9**	-
Interest on subordinated debt		**1,100**	2,087
Change in fair value of financial assets at fair value through profit or loss	10	**245**	3
Operating profit before working capital changes		**40,873**	35,246
Loans and advances and financing to customers		**(187,251)**	(59,357)
Due from banks		**(2,000)**	(18,000)
Other assets		**(2,226)**	(879)
Deposits from customers		**123,701**	109,704
Other liabilities		**2,548**	(1,810)
Cash (used in) / from operations		**(24,355)**	64,904
Tax paid		**(4,376)**	(4,187)
Net cash (used in) / from operating activities		**(28,731)**	60,717

The accompanying notes 1 to 41 form part of these financial statements.

Statement of Cash Flows (Continued) year ended 31 December 2018

	Notes	2018 RO'000	2017 RO'000
Investing activities			
Held-to-maturity investments matured		**126,102**	326,560
Purchase of held-to-maturity investments		**(123,629)**	(354,484)
Purchase of investments FVOCI / available-for-sale		**(113)**	(17,037)
Financial assets at fair value through profit or loss		**38**	9
Proceeds from sale of investment securities		**3,911**	17,962
Income from maturing of held-to-maturity investments		**4,895**	2,211
Purchase of property and equipment	12	**(4,877)**	(4,460)
Proceeds from sale of property and equipment		**1**	-
Dividend Income		**346**	648
Net cash (used in) investing activities		**6,674**	(28,591)
Financing activities			
Proceeds from issuance of Perpetual Tier 1 capital bonds	24	**42,553**	-
Repayment of subordinated debt	22	**-**	(50,000)
Interest on subordinated debt		**(1,100)**	(2,087)
Interest on Perpetual Tier 1 capital bonds		**(2,325)**	(2,325)
Issue expenses of Perpetual Tier 1 capital bonds		**(241)**	-
Dividends paid		**(14,808)**	-
Net cash from (used in) financing activities		**24,079**	(54,412)
Net increase / (decrease) in cash and cash equivalents		**2,022**	(22,286)
Cash and cash equivalents at the beginning of the year		**248,344**	270,630
Cash and cash equivalents at the end of the year	34	**250,366**	248,344

The accompanying notes 1 to 41 form part of these financial statements.

Notes to the financial statements
At 31 December 2018

1. Legal status and principal activities

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

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the CBO and the applicable requirements of the Commercial Companies Law of 1974, as amended.

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

These are the first set of annual financial statements in which IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in note 2.4.1 and the related transition impact is set out in note 4.

2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

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

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

2.4 Basis of measurement

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

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss (FVTPL)
- are measured at fair value;
- inancial assets at fair value through other comprehensive income (applicable from 1 January 2018);
- available-for-sale financial assets are measured at fair value (before 1 January 2018);
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

The accounting policies have been consistently applied by the Bank and are consistent with those of the previous year, except for the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers with effect from 1st January 2018. The policies related to IFRS 9 Financial Instruments are set out in note 2.4.1.

2.4.1 Financial assets and liabilities (policies applied from 1 January 2018)

Recognition and initial measurement

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

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

Classification

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

Fair value through profit or loss (FVTPL);

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

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

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

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

Business model assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

- For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Loans and advances and financing activities for customers

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

- loans and advances and financing activities for customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances and financing activities for customers mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- the Bank has not designated its loans and advances at FVTPL.

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

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

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

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

Reclassifications

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

Financial liabilities

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

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

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

Derecognition

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired.

In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

De-recognition due to substantial modification of terms and conditions

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

De-recognition other than for substantial modification

Financial assets

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

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

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

Or

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

Modifications of financial assets and financial liabilities

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

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

Impairment

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

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

Overview of the ECL principles

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

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

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2. The Bank considers following types of debts as 'low credit risk (LCR)':

- All local currency sovereign exposures funded in local currency
- All local currency exposures to the Government of Oman or CBO

It is assumed that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

Stage 2

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

Stage 3

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

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

Stage 1

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

Stage 2

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

Stage 3

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

Purchased or originated credit impaired (POCI)

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

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

The calculation of ECLs

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2.5 Financial instruments – initial recognition and subsequent measurement (policies applied before 1 January 2018)

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity investments and available-for-sale investments.

Management determines the classification of its investments at initial recognition. The Bank classifies its financial liabilities into deposits from customers, subordinated debts and due to banks.

2.5.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

This includes "regular way trades": 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.

2.5.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2.5.3 Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in investment income -net. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, while dividend income is recorded in investment income –net, when the right to the payment has been established.

2.5.4 Available-for-sale investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income.

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established.

The losses arising from impairment of such investments are recognised in the profit or loss in 'Impairment of investments available-for-sale' and removed from the cumulative changes in fair value of investments available-for-sale.

2.5.5 Held-to-maturity investments

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale. These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income. Held to maturity investments are government development bonds and treasury bills.

2.5.6 Loans and advances to customers and due from banks

Loans and receivables to customers and due from banks are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market.
Loans and 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 rate method. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Impairment for credit losses'.

2.5.7 De-recognition

i) Financial assets

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

- The rights to receive cash flows from the asset have expired; or
- 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; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, 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 the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

ii) Financial liabilities

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

2.5.8 Identification and measurement of impairment of financial assets

a) Assets carried at held to collect

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events as well as considering the guidelines issued by the CBO:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

b) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.6 Cash and cash equivalents

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

2.7 Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

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2.8 Property and equipment

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

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

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

2.9 Impairment of non-financial assets

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

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

2.10 Collateral pending sale

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

2.11 Borrowings

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

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

2.12 Perpetual bonds

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

2.13 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in other liabilities.

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

2.14 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

2.15 Deposits from customers

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

2.16 Taxation

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

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

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

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

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.17 Fair value measurement principles

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

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

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

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

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

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

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

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

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

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

2.18 Interest income and expense

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

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest distribution on perpetual bonds, which are classified as equity, are recorded in the statement of changes in equity, when declared.

2.19 Fee and commission income

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

2.20 Acceptances

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

2.21 Derivative financial instruments

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

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

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

2.22 Financial guarantees contracts

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

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

2.23 Dividends on shares

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

2.24 Repurchase and resale agreements

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

2.25 Foreign currencies

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

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

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

2.26 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

2.27 Directors' remuneration

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

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

2.28 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and support and unallocated functions. The segment information is set out in note 41.

3. Critical accounting estimates and judgments in applying accounting policies

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

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

3.1 Impairment losses on financial assets (applicable to 2018 only)

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

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

- The Bank's internal credit grading model
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

3.3 Impairment of available-for-sale investments (applicable to 2017 only)

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. However, any decline in fair value of an equity investment below its cost for a continuous period of more than 12 months is considered as prolonged, by the end of the current financial year. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

3.4 Taxes (applicable to 2017 and 2018)

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

The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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3.5 Going concern (applicable to 2017 and 2018)

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

3.6 Classification of investments (applicable to 2017 only)

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss, available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

3.7 Classification of financial assets (applicable to 2018 only)

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Bank applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

3.8 Fair value of financial instruments (applicable to 2017 and 2018)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

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

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

For the year ended 31 December 2018, the bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The adoption of above standards and interpretations has not resulted in significant changes to the Bank's accounting policies and has not affected the amounts reported and disclosures for the current and prior periods except as noted below.

IFRS 9 Financial Instruments

IFRS 9 has significant impact on the Bank's financial statements and details are set out below:

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Bank did not early adopt IFRS 9 in any previous periods. As permitted by the transitional provisions of IFRS 9, the bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

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

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

There were no changes to the classification and measurement of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Hedge accounting

IFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

Hedge effectiveness: IFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness requirement.

Hedge discontinuation: IFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under IAS 39, the Bank may revoke the hedging relationship if it seems fit.

These changes have not had a material impact on the statement of comprehensive income of the Bank. The Bank does not entered into any hedging arrangement during the previous and current year.

Transition

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- he following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets as measured at FVTPL
  - For hedging relationships under IAS 39, determination of whether these qualify for hedge accounting in accordance with the criteria of IFRS 9, after taking into account any rebalancing of the hedging relationship on transition, shall be regarded as continuing hedging relationships.

The CBO has issued guidelines relating to implementation of IFRS 9.

The relevant requirements relating to transition are set out below:

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

Impact of adopting IFRS 9

Set out below is the impact of initial application of IFRS 9 on the Bank's financial statements:

	Retained earnings RO'000	Fair value reserve RO'000
Closing balance under IAS 39 (31 December 2017)	67,977	(1,845)
Impact on reclassification and remeasurements :		
Investment securities transferred from available-for-sale investments to those measured at fair value through profit or loss	(467)	467
	67,510	(1,378)
Impact on recognition of Expected Credit Losses		
Due from banks	(492)	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	(2,613)	-
Expected credit losses under IFRS 9 for debt securities at held to collect	(3)	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	**64,402**	(1,378)

Expected credit loss / Impairment allowances

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

	31 December 2017 RO'000	Remeasurement RO'000	Fair value reserve RO'000
Loans and advances to customers	43,147	49	43,196
Due from banks	-	492	492
Available-for-sale debt investment securities under			
IAS 39/debt financial assets at FVOCI under IFRS 9	-	3	3
Loan Commitments and Financial Guarantees	-	2,563	2,563
	43,147	**3,107**	**46,254**

Classification and Measurement of Financial Instruments

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

	Original classification under IAS 39 RO'000	New classificationunder IFRS 9 RO'000	New carrying amount	Remeasurement RO'000	Reclassification	Original carrying amount RO'000
Financial assets						
Cash and balances with central banks	Loans and receivables	Amortised cost	161,987	-	-	161,987
Due from banks	Loans and receivables	Amortised cost	108,376	(492)	-	108,868
Loans and advances to customers	Loans and receivables	Amortised cost	1,651,401	(2,612)	-	1,654,013
Investment securities – debt	Available-for-sale	FVOCI	-	-	-	-
Investment securities – debt	Available-for-sale	FVTPL	-	-	-	-
Investment securities – debt	Held-for-trading	Amortised cost	-	-	-	-
Investment securities – debt	Held-to-maturity	Amortised cost	124,744	(3)	900	123,847
Investment securities – equity	FVTPL	FVTPL	4,315	-	3,753	562
Investment securities – equity	Available-for-sale	FVOCI	9,359	-	(4,599)	13,958
Investment securities – equity	Held-for-trading	FVOCI	-	-	(54)	54
Accrued interest receivable	Loans and receivables	Amortised cost	12,379	-	-	12,379
Derivatives with positive fair value	FVTPL	FVTPL	321	-	-	321
Others	Loans and receivables	Amortised cost	63,010	-	-	63,010

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

IFRS 15 – Revenue from Contracts with Customers
IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The Bank adopted the new standard on the required effective date using the modified retrospective approach. The Bank performed an impact assessment and concluded that the impact is not material as in majority of the Bank's facility agreements with customers generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 did not result in any material impact on the Bank's income and profit or loss. The related accounting policies are set out in note 2.18.

4.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2018:

IFRS 16 – Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. Based on the initial assessment, the above standard has no material impact on the financial statements of the Bank as at the reporting date. The actual impact of adopting the standard on 1 January 2019 may change. The Bank will recognise new assets and liabilities for its operating leases. The nature of expenses relating to these leases will now change because IFRS 16 replaces the straight line operating lease expenses with a depreciation charge for right of use assets and interest expense on lease liabilities.

5. Financial risk management

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

A bank risk committee, comprising the bank's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The bank risk committee also reviews all risk policies

and limits. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks.

5.1 Credit risk

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

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

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

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

Definition of default

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

Incorporation of forward-looking information

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

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

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

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

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

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

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

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.
The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2018, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 66.66%:16.67%:16.67% respectively.

Credit risk profile

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

The internal ratings map as follows:

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

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

	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1 (12-month ECL)				
Rating grades 1 to 5	326,949	3,025	523,485	159,095
Rating grade 6 to 7	222,072	-	202,977	39,191
Rating grade 8 to 9	137	-	442,111	78,928
Rating grade 10	3	-	32,709	63,998
Equity investments	-	466	-	-
Carrying amount (net)	**549,160**	**3,491**	**1,201,282**	**341,211**
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grades 1 to 5	-	-	91,416	110,727
Rating grade 6 to 7	-	-	77,976	79,691
Rating grade 8 to 9	-	-	131,488	221,491
Rating grade 10	-	-	56,599	17,449
Special Mention	-	-	313,453	92,465
Carrying amount (net)	**-**	**-**	**670,932**	**521,824**
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	2,307	-
Doubtful	-	-	4,934	-
Loss	-	-	28,413	-
Carrying amount (net)	-	-	**35,654**	-

The above analysis is reported net of the following provisions for impairment:

	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage				
Stage 1	538	12	7,202	119
Stage 2	-	-	24,067	346
Stage 3	-	-	15,847	-
Total	**538**	**12**	**47,116**	**465**

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

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

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

Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2018.

Key drivers	ECL scenario and assigned weightage	2019	2020	2021	2022	2023
GDP growth (% change)	Base (66.6%)	2.05%	3.60%	2.95%	3.41%	3.85%
	Upside (16.7%)	5.63%	3.91%	4.00%	4.10%	4.21%
	Downside (16.7%)	2.06%	2.06%	2.09%	2.83%	3.57%
Oil revenue (%GDP)	Base (66.6%)	24.26%	24.71%	27.84%	29.65%	31.42%
	Upside (16.7%)	38.49%	31.63%	32.02%	32.41%	32.84%
	Downside (16.7%)	24.30%	24.30%	24.43%	27.36%	30.30%

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

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

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

5.1.1 Risk mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

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

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

The concentration of credit related commitments by industry sector at the year-end is set out in Note 36(a).

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

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not paid RO'000	Non performing loans RO 000	Gross Loans RO 000
Loans and advances with collateral available	490,013	90,369	36,489	616,871
Loans and advances with guarantees available	29,479	-	7,906	37,385
Balance as at 31 December 2018	**519,492**	**90,369**	**44,395**	**654,256**
Balance as at 31 December 2017	489,451	107,740	34,379	631,570

5.1.2 Impairment and provisioning policy (applicable to 2017 only)

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

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

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment. The critical estimates used in determining the provision for impairment are explained in Note 3

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

Items on the statement of financial position	2018 RO' 000	2017 RO' 000
Cash and balances with Central Bank of Oman	194,801	161,987
Due from banks	91,272	108,868
Loans and advances		
Corporate loans	1,120,627	981,990
Personal loans	767,409	722,482
Other assets	48,507	46,280
Held to collect / held to maturity investment		
Government Development Bonds	122,263	85,847
Treasury Bills	-	38,000
	2,344,879	2,145,454
Off-Balance sheet items		
Letters of credit	210,776	262,250
Guarantees	437,579	481,340
Financial guarantees	137,015	153,858
	785,370	897,448
Unutilised loan commitments	1,854	62,767
	787,224	960,215

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2018 and 31 December 2017 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.

- 61% (2017 – 59%) of the inter-bank placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.
- Loans and advances represent 78 % (2017 – 77 %) of the total on-balance sheet items. Of the total loans and advances 80 % (2017 - 86 %) are neither past due nor impaired.
- The impaired loans represent 2.7 % (2017 – 2.9 %) of the total loans as at 31 December 2018. The impaired personal loans constitute 0.60 % of the total loans at 31 December 2018 compared to 0.58 % at 31 December 2017.

5.1.4 Loans and advances and due from banks

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

31 December 2018	Loans and advances to customers RO 000	Due from banks RO 000	Total RO 000
Neither past due nor impaired	848,15	91,810	939,968
Special Mention loans	321,628	-	321,628
Past due but not impaired	666,749	-	666,749
Impaired	51,501	-	51,501
Gross loans and advances	**1,888,036**	**91,810**	**1,979,846**
Less: allowance for loan impairment and contractual interest not recognized	(55,219)	(538)	(55,219)
Net loans and advances	**1,832,817**	**91,272**	**1,924,627**

31 December 2017	Loans and advances to customers RO 000	Due from banks RO 000	Total RO 000
Neither past due nor impaired	1,379,392	108,868	1,488,260
Special Mention loans	191,508	-	191,508
Past due but not impaired	83,299	-	83,299
Impaired	50,273	-	50,273
Gross loans and advances	**1,704,472**	**108,868**	**1,813,340**
Less: allowance for loan impairment and contractual interest not recognized	(50,459)	-	(50,459)
Net loans and advances	**1,762,881**	**108,868**	**1,762,881**

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

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

31 December 2017	Retail loans RO 000	Corporate loans RO 000	Total RO 000
Standard loans	709,620	753,071	1,462,691
Special mention loans	2,901	188,607	191,508
Substandard loans	1,834	926	2,760
Doubtful loans	2,438	1,525	3,963
Loss	5,689	37,861	43,550
	722,482	981,990	1,704,472

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

	2018 RO' 000	2017 RO' 000
Past due up to 30 days	**551,154**	24,320
Past due 30-60 days	**59,221**	30,915
Past due 60-90 days	**56,374**	28,064
Total	**666,749**	83,299
Fair value of collateral	**127,218**	144,335

d) Loans and advances individually impaired

	2018 RO' 000	2017 RO' 000
Individually impaired loans	**51,510**	50,273
Fair value of collateral	**35,458**	25,897

5.1.5 Loans and advances renegotiated

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

The total restructured loans at 31 December 2018 amounted to RO 54,520,835 (2017 – RO 12,353,105). In accordance with a related CBO circular, the restructuring provision is waived for a certain exposure pertaining to a customer.

5.1.6 Debt securities

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

5.1.7 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2018 is RO 803,000 (2017 – RO 183,000).

5.2 Market risk

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

5.2.1 Price risk

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

A significant portion of Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's profits at 31 December 2018 may decrease by 1.14% (2017 – increase by 0.08%) due to increase by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The Bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period.

The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability.

The table in Note 38 summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

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

The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EAR at 31 December 2018 is 2.49% (2017 – 2.36%).

5.2.3 Currency risk

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

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

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

Net foreign currency exposure	2018 RO'000	2017 RO'000
USD	**6,827**	36,539
AED	**6,297**	1,121
GBP	**32**	12
Others	**3,663**	2,041
	16,819	39,713

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

5.2.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital.

Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates.

The table in Note 36 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

5.3 Operational risk

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

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

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

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

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2018.

Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique.

The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and from banks

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

5.4.2 Loans and advances

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

5.4.3 Investments at fair value through profit or loss (applicable to 2018 and 2017) and available-for-sale (applicable to 2017 only)

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

5.4.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which equal to the carrying value of those liabilities.

The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

5.4.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies.

For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5.5 Financial instruments by category

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

Assets as per statement of financial position	Fair value through profit or loss (FVTPL) RO'000	Amortized Costs (AC) RO'000	Fair value through other comprehensive income (FVOCI) RO'000	Loans and receivables RO'000	Total RO'000
31 December 2018					
Bank balances and cash	-	-	-	194,801	194,801
Due from banks	-	-	-	91,272	91,272
Loans and advances & Financing activities	-	-	-	1,832,817	1,832,817
Investment securities	4,031	122,262	4,883	-	131,176
Other assets	-	-	-	48,507	48,507
	4,031	122,262	4,883	2,167,397	2,298,573
31 December 2017					
Bank balances and cash	-	-	-	161,987	161,987
Due from banks	-	-	-	108,868	108,868
Loans and advances	-	-	-	1,654,013	1,654,013
Investment securities	616	123,847	13,958	-	138,421
Other assets	-	-	-	46,280	46,280
	616	123,847	13,958	1,971,148	2,109,569

Liabilities as per statement of financial position	Other liabilities RO'000	Total RO'000
31 December 2018		
Due to banks	**15,207**	**15,207**
Deposits from customers	**1,870,558**	**1,870,558**
Other liabilities	**60,241**	**60,241**
Subordinated Bonds	**20,000**	**20,000**
	1,966,006	**1,966,006**
31 December 2017		
Due to banks	4,011	4,011
Deposits from customers	1,746,856	1,746,856
Other liabilities	57,693	57,693
Subordinated bonds	20,000	20,000
	1,828,560	**1,828,560**

6. Capital management

The Bank's objectives of capital management are:

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

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS). CBO requires the banks registered in the Sultanate of Oman to maintain the capital adequacy at a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. In addition, CBO mandated the banks in Oman to maintain a Capital Conservation Buffer (CCB) under Basel III of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 1 January 2019. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 1 January 2019.

	2018 RO'000	2017 RO'000
Capital		
Common Equity Tier 1 (CET 1)	**267,942**	260,267
Additional Tier 1	**72,553**	30,000
Total Tier 1	**340,495**	290,267
Tier 2	**28,756**	32,756
Total capital base	**369,251**	323,023
Risk weighted assets		
Credit risk	**2,058,470**	1,885,048
Market risk	**25,775**	30,713
Operational risk	**148,375**	143,438
Total risk weighted assets	**2,232,620**	2,059,199
Capital adequacy ratio %	**16.54%**	15.69%
CET 1 ratio	**12.00%**	12.64%
Tier 1 Capial ratio	**15.25%**	14.10%

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

7. Cash and balances with the Central Bank of Oman

	2018 RO' 000	2017 RO' 000
Cash in hand	**40,308**	39,299
Balances with the Central Bank of Oman:		
- Clearing account	**85,384**	112,563
- Placements	**68,609**	9,625
- Capital deposit	**500**	500
	194,801	161,987

i. The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1.5% (2017 – 1.0%).

ii. During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 59.328 million (2017: RO 52.662million).

8. Due from banks

	2018 RO'000	2017 RO'000
Placements	**84,516**	93,747
Current accounts	**7,294**	15,121
Due from banks and other money market placements	**91,810**	108,868
Less: allowance for credit losses	**(538)**	-
	91,272	108,868

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

	2018 RO'000
Impact of adopting IFRS 9 (note 4.1)	**492**
Provided during the period	**46**
Balance at the end of the period	**538**

At 31 December 2018, 71% of the Bank's placements were with eight banks rated in the range of Aa3 to Baa3 and 22% of the placements were with Oman Housing Bank SAOC, which is owned by Government (2017– 81% of the Bank's placements were with Oman Housing Bank SAOC, which is owned by Government).

There have been no significant changes in due from banks and other money market placements gross balances, which have contributed to significant changes to the ECL over the year.

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

9. Loans and advances and financing to customers

	2018 RO' 000	2017 RO' 000
Corporate loans		
Term loans	**819,128**	710,437
Overdrafts	**136,148**	146,469
Bills Discounted	**79,355**	74,965
Islamic Finance	**85,996**	50,119
	1,120,627	981,990
Personal loans		
Consumer loans	**443,355**	431,166
Mortgage loans	**283,065**	249,475
Overdrafts	**612**	755
Credit cards	**3,815**	8,052
Islamic Finance	**36,562**	33,034
Gross loans and advances	**767,409**	722,482
	1,888,036	1,704,472
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(55,219)**	(50,459)
Net loans and advance	**1,832,817**	1,654,013

Allowance for the credit losses and reserved interest

The movements in the allowance for the credit losses and reserved interest were as follows:

2018	Allowance for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
Balance at 31 December 2017	**43,147**	**7,312**	**50,459**
Impact of Adopting IFRS 9	**2,612**	**-**	**2,612**
Balance at 1 January 2018	**45,759**	**7,312**	**53,071**
Provided during the year	**11,142**	**3,838**	**14,980**
Amounts written off during the year	**(4,424)**	**(2,139)**	**(6,563)**
Amounts released / recovered during the year	**(4,881)**	**(1,388)**	**(6,269)**
Balance at end of year	**47,596**	**7,623**	**55,219**
2017			
At 1 January 2017	43,788	6,275	50,063
Provided during the year	8,276	3,299	11,575
Amounts written off during the year	(2,342)	(705)	(3,047)
Amounts released / recovered during the year	(6,575)	(1,557)	(8,132)
At 31 December 2017	43,147	7,312	50,459

Total allowance for the credit losses on the performing loans as at 31 December 2018 is RO 32,284,000 (2017: RO 21,216,990). The Central Bank of Oman regulation requires that the allowance for credit losses should be in accordance with IFRS 9 and if the provision requirement as per the Central Bank of Oman guidelines is higher than IFRS 9, the difference net of tax needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 51,509,684 (2017: RO 50,272,537).

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
		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)
	Stage 1	1,152,609	16,992	7,202	9,790	1,135,617	1,145,408	-	-
	Stage 2	362,298	3,600	4,818	(1,218)	358,698	357,480	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
		1,514,907	20,592	12,020	8,572	1,494,315	1,502,888	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	321,628	4,606	19,240	(14,634)	315,986	302,388	-	1,036
Special Mention	Stage 3	-	-	-	-	-	-	-	-
		321,628	4,606	19,240	(14,634)	315,986	302,388	-	1,036
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	2,978	732	671	61	2,189	2,307	-	56
		2,978	732	671	61	2,189	2,307	-	56
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	7,209	2,596	2,275	321	4,381	4,934	-	232
		7,209	2,596	2,275	321	4,381	4,934	-	232
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	41,315	16,645	12,901	3,744	18,370	28,413	-	6,300
		41,315	16,645	12,901	3,744	18,370	28,413	-	6,300
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	950,405	-	669	(669)	950,405	949,737	-	-
	Stage 2	533,242	-	355	(355)	533,242	532,887	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,483,647	-	1,024	(1,024)	1,483,647	1,482,624	-	-
	Stage 1	2,103,014	16,992	7,871	9,121	2,086,022	2,095,145	-	-
	Stage 2	1,217,168	8,206	24,413	(16,207)	1,207,926	1,192,755	-	1,036
	Stage 3	51,502	19,973	15,847	4,126	24,940	35,654	-	6,587
Total		3,371,684	45,171	48,131	(2,960)	3,318,888	3,323,554	-	7,623

Stage Classification at origination and Staging Guidelines

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

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

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

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

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

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

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

Islamic financing

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

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

2017	Personal RO'000	Corporate RO'000	Total RO'000
Musharaka	24,851	22,384	47,235
Murabaha	4,658	8,142	12,800
Ijarah Muntahia Bittamleek	3,525	13,410	16,935
Wakala	-	6,183	6,183
At 31 December 2017	33,034	50,119	83,153

Restructured loans

RO 000

Asset Classification as per CBO Norms (1)	Asset Classification as per IFRS 9 (2)	Gross Carrying Amount (3)	Provision required as per CBO Norms (4)	Provision held as per IFRS 9 (5)	Difference between CBO provision required and provision held (6) = (4)-(5)	Net Carrying Amount as per CBO norms* (7)=(3)-(4)-(10)	Net Carrying Amount as per IFRS 9 (8) = (3)-(5)	Interest recognised in P&L as per IFRS 9 (9)	Reserve interest as per CBO norms (10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	51,788	516	1,852	(1,336)	51,272	49,936	-	-
	Stage 3	-	-	-	-	-	-	-	-
		51,788	**516**	**1,852**	**(1,336)**	**51,272**	**49,936**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,228	1,318	1,311	7	1,674	1,917	-	236
		3,228	**1,318**	**1,311**	**7**	**1,674**	**1,917**	**-**	**236**
Total	**Stage 1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**51,788**	**516**	**1,852**	**(1,336)**	**51,272**	**49,936**	**-**	**-**
	Stage 3	**3,228**	**1,318**	**1,311**	**7**	**1,674**	**1,917**	**-**	**236**
	Total	**55,016**	**1,834**	**3,163**	**(1,329)**	**52,946**	**51,853**	**-**	**236**

Concentration of loans and advances

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

	2018 RO' 000		2017 RO' 000	
Personal loans	**767,409**	**41%**	722,482	42%
Construction	**237,479**	**13%**	280,754	16%
Manufacturing	**112,822**	**6%**	114,990	7%
Mining and quarrying	**146,901**	**8%**	127,172	7%
Services	**114,877**	**6%**	89,845	5%
Import trade	**63,668**	**3%**	50,448	3%
Transportation	**114,979**	**6%**	76,472	4%
Electricity , water & gas	**54,920**	**3%**	51,827	3%
Wholesale and retail trade	**65,748**	**3%**	51,786	3%
Financial institutions	**66,114**	**4%**	55,401	3%
Agriculture and allied activities	**5,486**	**0%**	5,492	1%
Export trade	**429**	**0%**	1,066	1%
Lending to non-residents	**2,048**	**0%**	1,305	1%
Others	**135,156**	**7%**	75,432	4%
	1,888,036	**100%**	1,704,472	100%

Of the above, loans with variable interest rates amount to RO 727,178,004 (2017 – RO 706,079,194), loans carrying fixed interest rates amount to RO 1,038,300 (2017 – RO 915,239,806) and Islamic finance contracts amounts to RO 122,558,004 (2017 – RO 83,152,563).

Movement in Expected credit losses (ECL)

	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Exposure subject to ECL				
- Loans and Advances to Customers	809,050	183,857	51,131	**1,044,038**
- Investment Securities (Debt)	2,400	-	-	**2,400**
- Loan Commitments and Financial Guarantees	434,303	497,448	378	**932,129**
- Due from Banks, Central Banks and Other Financial Assets	550,065	-	-	**550,065**
	1,795,818	**681,305**	**51,509**	**2,528,632**
Opening Balance (Day 1 impact) - as at 1 January 2018				
- Loans and Advances to Customers	7,948	17,911	17,417	**43,276**
- Investment Securities (Debt)	3	-	-	**3**
- Loan Commitments and Financial Guarantees	1,979	504	-	**2,483**
- Due from Banks, Central Banks and Other Financial Assets	492	-	-	**492**
	10,422	**18,415**	**17,417**	**46,254**
Net transfer between stages				
- Loans and Advances to Customers	1,441	(1,840)	399	**-**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	13	(13)	-	**-**
Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	1,454	**(1,853)**	**399**	**-**

	Stage 1 RO 000	Stage 2 RO 000	Stage 3 RO 000	Total RO 000
Charge for the Period (net)				
- Loans and Advances to Customers	(2,213)	7,988	(1,968)	**3,807**
- Investment Securities (Debt)	9	-	-	**9**
- Loan Commitments and Financial Guarantees	(1,848)	(138)	-	**(1,986)**
- Due from Banks, Central Banks and Other Financial Assets	46	-	-	**46**
	(4,006)	**7,850**	**(1,968)**	**1,876**
Closing Balance - as at 31 December 2018				
- Loans and Advances to Customers	7,177	24,060	15,847	**47,084**
- Investment Securities (Debt)	12	-	-	**12**
- Loan Commitments and Financial Guarantees	144	352	-	**496**
- Due from Banks, Central Banks and Other Financial Assets	538	-	-	**538**
	7,871	**24,412**	**15,847**	**48,130**

Impairment charge and provisions held

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

10. Investment securities

	Carrying value 2018 RO'000	Carrying value 2017 RO'000
Fair value through profit and loss (FVTPL):		
Quoted investments- Oman		
Banking and investment sector	**3,875**	431
	3,875	431
Quoted investments- Foreign		
Banking and investment sector	**156**	-
	156	-
Unquoted investments		
Banking and investment sector	**-**	131
	-	131
Total Fair value through profit and loss	**4,031**	562
Held for trading		
Quoted investments- Oman		
Banking and investment sector	**-**	54
Total held for trading	**-**	54
Equity investments measured at FVOCI:		
Quoted investments- Oman		
Manufacturing sector	**1,020**	-
Service sector	**1,957**	-
	2,977	-
Quoted investments- Foreign		
Service sector	**199**	-
	199	-
Unquoted investments		
Banking and investment sector	**1,362**	-
Manufacturing sector	**185**	-
Service sector	**160**	-
	1,707	-
Total FVOCI– Equity investments	**4,883**	-

	Carrying value 2018 RO'000	Carrying value 2017 RO'000
Available for sale		
Quoted investments- Oman		
Banking and investment sector	-	4,625
Manufacturing sector	-	1,175
Service sector	-	3,166
	-	8,966
Quoted investments- Foreign		
Banking and investment sector	-	2,589
Service sector	-	1,545
	-	4,134
Unquoted investments		
Banking and investment sector	-	858
Service sector	-	-
	-	858
Total available for sale	-	13,958
Investment Held to collect		
Quoted investments- Oman		
(Government Development Bonds (GDBs	**119,238**	-
Government Sukuk	**636**	-
Banking and investment sector	**2,388**	-
Total Held to collect	**122,262**	-
Held to collect		
Quoted investments- Oman	-	
Government Development Bonds	-	85,211
Treasury Bills	-	38,000
Government Sukuk	-	636
Total Held to collect	-	123,847
Total financial investments	**131,176**	138,421

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

	31 December 2018 RO'000	31 December 2017 RO'000
Impact of adopting IFRS 9 (note 4.1)	3	-
Provided during the year	9	-
Balance at the end of the year	12	-

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

	Bank's portfolio %	Carrying value RO'000
31 December 2018		
Government Development Bonds and sukuks	91%	119,874
31 December 2017		
Government Development Bonds and sukuks	62%	85,847

In 2018, the Bank received dividends of RO 346,491 (note 29) from its FVOCI equities (2017: RO 648,060 (note 29) for available-for-sale securities), recorded as other operating income.

The Bank has designated its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading.

The Bank sold RO 3.91 million of FVOCI equity instruments in 2018 (2017: RO 17.96 million)

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

11. Property and equipment

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

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Capital work in progress RO '000	Total RO'000
2017						
Cost						
At 1 January 2017	21,571	19,713	11,406	656	1,341	54,687
Additions	-	1,250	2,941	11	258	4,460
Transfers	-	546	61	-	(607)	-
Disposals	-	(3)	(39)	-	-	(42)
At 31 December 2017	21,571	21,506	14,369	667	992	59,105
Depreciation						
At 1 January 2017	2,163	14,889	8,580	404	-	26,036
Charge for the year	590	1,869	1,146	75	-	3,680
Relating to disposals	-	(2)	(39)	-	-	(41)
At 31 December 2017	2,753	16,756	9,687	479	-	29,675
Net book value						
At 31 December 2017	18,818	4,750	4,682	188	992	29,430

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12. Other assets

	2018 RO 000	2017 RO 000
Customers' indebtedness against acceptances	**21,691**	25,021
Fees receivable	**4,314**	3,722
Interest receivable	**15,957**	8,657
Prepayments	**2,176**	1,849
Positive fair value of derivatives (note 35)	**249**	321
Others	**4,120**	6,710
	48,507	46,280

13. Due to banks

	2018 RO'000	2017 RO'000
Current accounts	**6,207**	4,011
Placements	**9,000**	-
	15,207	4,011

14. Deposits from customers

a) By type

	2018 RO'000	2017 RO'000
Term deposits	**871,785**	738,813
Demand and call accounts	**708,266**	736,032
Saving accounts	**290,507**	272,011
	1,870,558	1,746,856

b) By sector

	2018 RO'000	2017 RO'000
Private	**1,357,168**	1,351,964
Government	**513,390**	394,892
	1,870,558	1,746,856

Islamic customers' deposits

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

	2018 RO'000	2017 RO'000
Wakala acceptances	**105,700**	72,008
Current account - Qard	**12,714**	14,679
Mudaraba accounts	**3,730**	3,218
	122,144	89,905

15. Other liabilities

	2018 RO'000	2017 RO'000
Liabilities against acceptances	**21,691**	25,021
Interest payable	**20,687**	17,901
Accrued expenses and other payables	**10,053**	8,610
Cheques and trade settlement payable	**5,329**	3,364
Staff terminal benefits (note 16)	**830**	1,158
Interest and commission received in advance	**1,497**	1,349
Negative fair value of derivatives (note 35)	**154**	290
	60,241	57,693

16. Staff terminal benefits

	2018 RO'000	2017 RO'000
At 1 January	**1,158**	1,429
Charge for the year	**225**	225
Payment to employees during the year	**(553)**	(495)
At 31 December	**830**	1,158

17. Subordinated debt

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

	2018 RO'000	2017 RO'000
Subordinated loans	**20,000**	20,000

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

18. Taxation

	2018 RO' 000	2017 RO' 000
Statement of profit or loss:		
Current year	**5,182**	4,725
Prior years	**-**	120
Deferred tax	**480**	71
	5,662	4,916
Statement of financial position		
Current year	**5,363**	4,798
Deferred tax	**573**	93
	5,936	4,891
Deferred tax liability		
At 1 January	**93**	22
Movement for the year	**480**	71
At 31 December	**573**	93

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2017: 15%). For determining the tax expense for the year, the accounting profit for the year has been adjusted

for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.51% (2017 – 15.02%). The deferred tax liability has been recognised at the effective rate of 15% (2017 - 15%).

	2018 RO' 000	2017 RO' 000
Profit before tax	**35,802**	31,463
Tax at the applicable rate of 15%	**5,370**	4,719
Tax effect of temporary differences	**480**	74
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**(668)**	(68)
Prior Period	**-**	120
Deferred tax liability created during the year	**480**	71
Tax expense for the year	**5,662**	4,916

Status of tax assessments

The assessments for the years up to 2013 are complete. The assessments for 2014 to 2017 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

19. Share capital

The authorised capital of the Bank is RO 200,000,000 and the issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each (2017: 1,346,200,000 fully paid shares of RO 0.100 each).

RO 17,000,000 has been assigned as capital for the Islamic Banking services of the Bank (2017: RO 14,000,000)

	Country of incorporation	Share holding %	2018 RO'000	2017 RO'000
Oman International Development and Investment Company SAOG	Oman	**50.99**	**68,643**	68,643
Arab Bank Plc	Jordan	**49.00**	**65,964**	65,964
Oman Real Estate Investment Services SAOC	Oman	**0.01**	**13**	13
			134,620	134,620

20. Legal reserve

In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

21. General reserve

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

22. Subordinated debt reserve

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

23. Special reserve

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

On 20 June 2017, CBO issued a circular in relation to the reserve requirements for restructured accounts and the same stands withdrawn as on 18 November 2018. The special reserve is required to be held until the restructure accounts are upgraded. Accordingly, the Bank has transferred an amount of RO 1,515,810 (2017: RO 360,489) from retained earnings to special reserve.

24. Perpetual Tier 1 Capital Bonds

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

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

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

25. Dividend proposed and paid

The Board of Directors proposed a cash dividend of RO 0.011 per share totalling to RO 14.81 million for the year ended 31 December 2018 (2017 – cash dividend of RO 0.011 per share totalling to RO 14.81 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

During the year, a cash dividend of RO 0.011 per share totalling to RO 14.81 million was paid as approved by shareholders in their annual general meeting held on 28 March 2018.

26. Interest income

	2018 RO'000	2017 RO'000
Loans and advances	**93,583**	84,320
Oman Government Development Bonds and Sukuk	**4,895**	2,211
Treasury Bills	**744**	540
Amounts deposited with banks	**1,362**	1,044
	100,584	88,115

27. Interest expense

	2018 RO'000	2017 RO'000
Time deposits	**24,971**	23,522
Subordinated Debt	**1,100**	2,087
Call accounts	**3,128**	1,826
Amounts deposited by banks	**2,607**	2,801
Savings accounts	**2,255**	2,280
	34,061	32,516

Notes to Financial Statements 2018

28. Net fee and commission income

	2018 RO'000	2017 RO'000
Fee and commission on funded facilities	**15,648**	15,331
Fee and commission expense	**(910)**	(938)
	14,738	14,393

29. Net income from investment securities

	2018 RO'000	2017 RO'000
Fair value changes	**(244)**	(3)
Profit (loss) on sale of investments	**(1)**	495
Dividend income	**346**	648
	101	1,140

30. Other operating income

	2018 RO'000	2017 RO'000
Exchange income	**6,107**	5,763
Other income	**175**	843
	6,282	6,606

31. Operating expenses

	2018 RO'000	2017 RO'000
Staff costs (refer below)	**28,036**	27,190
Other operating expenses	**14,695**	14,399
Depreciation	**4,052**	3,680
Directors' remuneration	**177**	134
	46,960	45,403
Details of staff costs are as follows:		
Salaries	**19,067**	18,366
Allowances	**3,963**	3,912
Social security costs	**1,923**	1,898
End of service benefits	**224**	225
Other costs	**2,859**	2,789
	28,036	27,190

32. Earnings per share

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

	2018 RO'000	2017 RO'000
Profit for the year (RO'000)	**30,140**	26,547
Less: Issue expenses of Perpetual Tier 1 capital bonds (RO'000)	**(241)**	-
Less: Interest distribution of Perpetual Tier 1 capital bonds (RO'000)	**(2,325)**	(2,325)
Profit for the period attributable to equity holders of the Bank	**27,574**	24,222
Weighted average number of shares outstanding during the year	**1,346,200,000**	1,346,200,000
Basic earning per share (RO)	**0.020**	0.018

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

33. Related party transactions

Management service agreement with a shareholder
The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2018, the management fees in accordance with the agreement amounted to RO 90,420 (2017: RO 79,641).

Other related parties transactions

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

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

2017	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	11,500	56,007	67,507
Customers' deposits	619	22,566	23,185
Due from banks	35,725	-	35,725
Due to banks	1,538	-	1,538
Stand by line of credit	48,125	-	48,125
Letters of credit guarantees and acceptances	153,179	16,090	169,269

Movement of loans and advances given to related parties:

	2018 RO'000	2017 RO'000
At 1 January 2018	**67,507**	58,060
Disbursed during the year	**236,451**	258,055
Paid during the year	**(234,047)**	(248,608)
At 31 December 2018	**69,911**	67,507

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2017: none identified or recognised)

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

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

31 December 2017	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	937	2,397	3,334
Interest expense	561	152	713

Key management compensation

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

	2018 RO'000	2017 RO'000
Salaries and other short-term benefits	**923**	1,261
End of service benefits	**26**	174
	949	1,435

34. Cash and cash equivalents

	2018 RO'000	2017 RO'000
Cash and balances with the Central Bank of Oman (CBO) (note 7)	**194,801**	161,987
Due from banks	**71,272**	90,868
Less: due to banks (note 13)	**(15,207)**	(4,011)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	250,366	248,344

35. Derivative financial instruments

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

31 December 2018	Positive fair value RO'000 (note 11)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	12 - 3 months RO'000
Purchase contracts	**249**	**-**	**78,458**	**59,384**	**19,188**
Sale contracts	**-**	**(154)**	**(78,354)**	**(59,396)**	**(19,072)**
	249	**(154)**	**104**	**(12)**	**116**

31 December 2017	Positive fair value RO'000 (note 11)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
Purchase contracts	321	-	33,548	26,104	7,444
Sale contracts	-	(290)	(33,516)	(26,085)	(7,431)
	321	(290)	32	19	13

Derivative financial instruments are fair valued as level 2.

36. Contingent liabilities and commitments

(a) Letters of credit and guarantees

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

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

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

	2018 RO'000	2017 RO'000
Guarantees	574,594	635,198
Letters of credit	210,776	262,250
Unutilised commitment of facilities	1,854	62,767
	787,224	960,215

Letters of credit and guarantees amounting to RO 464,392,178 (2017: RO 557,458,987) were counter guaranteed by other banks.
(i) The allowances for credit losses for commitments and financial guarantees is included under note 9(b).
(ii) Contingent liabilities include RO 378,364 (2017– RO 467,951) relating to non-performing loans.

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

	2018 RO'000		2017 RO'000	
Construction	319,586	41%	322,321	36%
Utilities	187,620	24%	236,007	26%
Export trade	154,109	20%	235,188	26%
Government	23,472	3%	45,064	5%
Import trade	80,184	10%	25,303	3%
Transportation	4,206	1%	16,046	2%
Wholesale and retail trade	9,375	1%	11,711	1%
Services	3,023	0%	2,823	1%
Manufacturing	2,114	0%	2,929	0%
Mining & Quarrying	1,681	0%	56	0%
	785,370	100%	897,448	100%

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

	31-Dec-18		31-Dec-17	
	Notional principal amount	Risk-weighted exposure	Notional principal amount	Risk-weighted exposure
Guarantees	574,594	114,919	635,198	127,040
Letters of credit	210,776	42,155	262,250	52,450
Unutilised credit of facilities	1,854	927	62,767	31,384
	787,224	158,001	960,215	210,874

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 4,407,948 (2017: RO 4,645,780).

(c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements (2017: Nil).

37. Assets and liabilities maturity profile

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

2018	On demand or within 3 months	to 12 3 months	Sub total	to 5 Years 1	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets						
Cash and balances with the Central Bank of Oman	152,931	19,328	172,259	10,056	12,486	194,801
Due from banks	91,272	-	91,272	-	-	91,272
Loans and advances	406,197	160,820	567,017	449,912	815,888	1,832,817
Investment securities	11,356	20,000	31,356	28,326	71,494	131,176
Other assets	41,101	7,392	48,493	-	14	48,507
Property and equipment	-	-	-	-	30,245	30,245
Total assets	**702,857**	**207,540**	**910,397**	**488,294**	**930,127**	**2,328,818**

2018	On demand or within 3 months	to 12 3 months	Sub total	to 5 Years 1	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Liabilities						
Due to banks	15,207	-	15,207	-	-	15,207
Deposits from customers	377,641	695,819	1,073,460	362,033	435,065	1,870,558
Other liabilities	42,658	9,644	52,302	7,434	505	60,241
Subordinated loans	-	-	-	20,000	-	20,000
Taxation	5,363	573	5,936	-	-	5,936
Total liabilities	**440,869**	**706,036**	**1,146,905**	**389,467**	**435,570**	**1,971,942**
Net assets	**261,988**	**(498,496)**	**(236,508)**	**98,827**	**494,557**	**356,876**
Forward exchange contracts at notional amounts (note 35)						
Purchase contracts	59,384	19,188	78,572	-	-	78,572
Sale contracts	(59,396)	(19,072)	(78,468)	-	-	(78,468)
	(12)	**116**	**104**	**-**	**-**	**104**

2017	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the CBO	124,132	15,460	139,592	12,449	9,946	161,987
Due from banks	108,868	-	108,868	-	-	108,868
Loans and advances and financing to customers	198,126	216,046	414,172	436,272	803,569	1,654,013
Investment securities	37,613	19,000	56,613	28,667	53,141	138,421
Other assets	37,562	8,700	46,262	-	18	46,280
Property and equipment	-	-	-	-	29,430	29,430
	506,301	259,206	765,507	477,388	896,104	2,138,999

2017	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Due to banks	4,011	-	4,011	-	-	4,011
Deposits from customers	435,823	539,644	975,467	435,949	335,440	1,746,856
Other liabilities	40,275	10,982	51,257	5,951	485	57,693
Subordinated bond	-	-	-	20,000	-	20,000
Taxation	4,798	93	4,891	-	-	4,891
	484,907	550,719	1,035,626	461,900	335,925	1,833,451
Net assets	21,394	(291,513)	(270,119)	15,488	560,179	305,548
Forward exchange contracts at notional amounts (note 35)						
Purchase contracts	26,104	7,444	33,548	-	-	33,548
Sale contracts	(26,085)	(7,431)	(33,516)	-	-	(33,516)
	19	13	32	-	-	32

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

2018	**or within 3 months RO'000**	**3 to 12 months RO'000**	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Letters of guarantee	**236,478**	**325,608**	**63,278**	**281**	**625,645**
Letters of credit	**158,692**	**1,033**	**-**	**-**	**159,725**
Total commitments and contingencies	**395,170**	**326,641**	**63,278**	**281**	**785,370**
2017					
Letters of guarantee	277,811	169,699	187,688	-	458,248
Letters of credit	255,688	6,562	-	-	439,200
Total commitments and contingencies	533,499	176,261	187,688	-	897,448

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The details of Bank's capital commitments and unutilised loan commitments are disclosed in note 36.

38. Assets and liabilities re-pricing profile

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

2018	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								-
Central Bank of Oman	1.00	-	-	-	-	500	194,301	194,801
Due from banks	1.72	83,978	-	-	-	-	7,294	91,272
Loans and advances	5.27	653,364	62,205	11,683	1,069,564	36,001	-	1,832,817
Investment securities								
at FVTPL & FVOCI		-	-	-	-	-	8,914	8,914
Investment at Held to collect	4.57	-	-	20,000	30,714	71,548	-	122,262
Other assets		15,957	-	-	-	-	32,550	48,507
Property and equipment		-	-	-	-	-	30,245	30,245
Total assets		**753,299**	**62,205**	**31,683**	**1,100,278**	**108,049**	**273,304**	**2,328,818**

2018	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Liabilities								
Due to banks		-	5,000	-	4,000	-	6,207	15,207
Deposits from customers	1.73	306,328	215,448	253,627	173,190	-	921,965	1,870,558
Other liabilities		5,329	-	-	-	-	54,912	60,241
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	5,936	5,936
Total liabilities		**311,657**	**220,448**	**253,627**	**197,190**	**-**	**989,020**	**1,971,942**
Total interest sensitivity gap		**441,642**	**(158,243)**	**(221,944)**	**903,088**	**108,049**	**(715,716)**	**356,876**

2017	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	>1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets								
Cash and balances with the								
Central Bank of Oman	1.00	-	-	-	-	500	161,487	161,987
Due from banks	0.94	93,747	-	-	-	-	15,121	108,868
Loans and advances	5.08	528,730	124,585	38,570	913,657	48,471	-	1,654,013
Investment securities								
at fair value		-	-		-	-	14,574	14,574
Investment–held to maturity	1.67	23,000	15,000	4,000	28,668	53,179	-	123,847
Other assets		8,657	-	-	-	-	37,623	46,280
Property and equipment		-	-	-	-	-	29,430	29,430
Total assets		654,134	139,585	42,570	942,325	102,150	258,235	2,138,999

2017	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000		1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Liabilities								
Due to banks		-	-		-	-	4,011	4,011
Deposits from customers	1.58	426,011	208,157	123,181	175,924	-	813,583	1,746,856
Other liabilities		3,364	-	-	-	-	54,329	57,693
Subordinated debt	5.50	-	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	-	4,891	4,891
Total liabilities		429,375	208,157	123,181	195,924	-	876,814	1,833,451
Total interest sensitivity gap		224,759	(68,572)	(80,611)	746,401	102,150	(618,579)	305,548

39. Geographical distribution of assets and liabilities

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

2017	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Assets						
Cash and balances with the Central Bank of Oman	161,987	-	-	-	-	161,987
Due from banks	55,395	38,427	13,380	779	887	108,868
Loans and advances	1,654,013	-	-	-	-	1,654,013
Investment securities	132,977	4,134	-	-	1,310	138,421
Other assets	46,280	-	-	-	-	46,280
Property and equipment	29,430	-	-	-	-	29,430
Total assets	2,080,082	42,561	13,380	779	2,197	2,138,999
Liabilities						
Due to banks	680	2,261	430	-	640	4,011
Deposits from customers	1,746,856	-	-	-	-	1,746,856
Other liabilities	57,693	-	-	-	-	57,693
Subordinated bonds	20,000	-	-	-	-	20,000
Taxation	4,891	-	-	-	-	4,891
Total liabilities	1,830,120	2,261	430	-	640	1,833,451

40. Customer concentration

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

2017	Assets			Liabilities		
	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	-	722,482	-	506,106	-	511
Corporate	108,868	981,990	14,574	845,859	4,011	888,446
Government	-	-	123,847	394,891	-	8,491
	108,868	1,704,472	138,421	1,746,856	4,011	897,448

Notes to Financial Statements 2018

41. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2018. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2018 and 2017 is set out in note 39.

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

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

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

Cash and balances with Central Bank of Oman, Certificate of Deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2018 or 2017.

2018	**Retail banking**	**Corporate banking**	**Treasury**	**Head office and support**	**Islamic banking "Al Yusr"**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest income	**38,476**	**55,108**	**6,677**	**323**	**-**	**100,584**
Interest expense	**(5,305)**	**(12,346)**	**(400)**	**(16,010)**	**-**	**(34,061)**
Other operating income	**6,023**	**9,208**	**2,662**	**170**	**3,058**	**21,121**
Total operating income	**39,194**	**51,970**	**8,939**	**(15,517)**	**3,058**	**87,644**
Assets	**730,847**	**1,034,631**	**382,979**	**34,131**	**146,230**	**2,328,818**
Liabilities	**501,833**	**1,246,581**	**47,008**	**51,575**	**124,945**	**1,971,942**
Allowance for impairment	**8,992**	**44,371**	**538**	**-**	**1,318**	**55,219**

2017	Retail banking	Corporate banking	Treasury	Head office and support	Islamic banking "Al Yusr"	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	37,558	46,762	3,521	274	-	88,115
Interest expense	(5,268)	(10,560)	(14)	(16,674)	-	(32,516)
Other operating income	7,753	8,499	2,629	1,256	2,002	22,139
Total operating income	40,043	44,701	6,136	(15,144)	2,002	77,738
Assets	689,448	931,871	375,260	38,943	103,477	2,138,999
Liabilities	488,072	1,168,879	2,985	81,371	92,144	1,833,451
Allowance for impairment	17,707	31,769	-	-	983	50,459

DISCLOSURES UNDER BASEL II – PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2018

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF OMAN ARAB BANK SAOC IN RESPECT OF BASEL II – PILLAR III AND BASEL III RELATED DISCLOSURES

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman's (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 Oman Arab Bank SAOC (the bank) as at and for the year ended 31 December 2018. 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 and Circular number 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 Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and 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 the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2018 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young LLC

Muscat
18 March 2019

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

A. SCOPE OF APPLICATION

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

The Bank's objectives of capital management are:

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

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

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

B. CAPITAL STRUCTURE

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

	RO '000
Paid up share capital	134,620
Legal reserve	41,490
General reserve	25,560
Special reserve	2,400
Subordinated Debt reserve	12,000
Other disclosed reserves	(2,059)
Other intangibles	(59)
Retained earnings	53,990
Perpetual Bonds	72,553
Tier 1 Capital	**340,495**
Eligible expected credit loss on loans & advances and financing to customers	20,756
Subordinated term debt	8,000
Tier 2 Capital	**28,756**
Total Capital	**340,495**

Tier 1 Capital

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

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

Additional Tier 1 Capital

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity.

Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

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

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

Tier 2 Capital

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

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

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

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

C. CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

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

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

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

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

Quantitative disclosure

Table-1

2018

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

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

Quantitative disclosure - (Continued)

Table-1

2018

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,189,460	2,201,528	1,547,474
2	Off -Balance sheet Item	897,448	395,619	321,297
	Assets for Operations risk	143,438	143,438	143,438
	Assets in Trading book	30,713	30,713	30,713
3	Derivatives	19,943	19,943	16,277
4	**Total**	**3,281,002**	**2,791,241**	**2,059,199**
5	Tier 1 Capital			290,267
6	Tier 2 Capital			32,756
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**323,023**
8.1	Capital requirement for credit risk			249,769
8.2	Capital requirement for market risk			4,069
8.3	Capital requirement for operational risk			19,006
9	**Total required capital**			**272,844**
10	**Tier 1 Ratio**			**14.10%**
11	**Total Capital Ratio**			**15.69%**

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman. Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management and credit review teams which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Risk Department while the Retail Banking Department manages the credit risk with predefined programs. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004 and the special dispensation for specific projects of Government owned entities.

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

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

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time

(PIT) probability of default (PD) using Banks own internal historical experience. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category.

The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data

Credit Risk Management and Control

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure.

The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal ratings map as follows:

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

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

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

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

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

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

Some other specific control and mitigation measures are outlined below.

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

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

Impairment provisioning (applicable to 2017 only)

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

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

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

Measurement of ECL

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

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

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

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

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

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

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

Disclosures Under Basel II – Pillar III and Basel III Related Disclosures

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

2018

Sl.No	Type of credit exposure	Average Gross Exposure 2018 RO'000	Average Gross Exposure 2017 RO'000	Total Gross Exposure as at 31-Dec-18 RO'000	Total Gross Exposure as at 31-Dec-17 RO'000
1	Overdrafts	155,361	153,253	143,402	152,739
2	Personal Loans	740,382	719,104	767,409	718,696
3	Loans against Trust Receipts	108,796	83,951	107,768	98,159
4	Other Loans	775,839	688,970	790,102	659,913
5	Bills Purchased Discounted	73,805	75,862	79,355	74,965
	Total	**1,854,183**	**1,721,140**	**1,888,036**	**1,704,472**

iii. Geographic distribution of exposures

Table-3

2018

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

2017

Sl. No	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	152,739	-	-	-	-	-	152,739
2	Personal Loans	718,696	-	-	-	-	-	718,696
3	Loans against Trust Receipts	98,159	-	-	-	-	-	98,159
4	Other Loans	659,913	-	-	-	-	-	659,913
5	Bills Purchased/Discounted	74,965	-	-	-	-	-	74,965
	Total	**1,704,472**	-	-	-	-	-	**1,704,472**

Disclosures Under Basel II – Pillar III and Basel III Related Disclosures

iv. Industry or counterparty type distribution of exposures

Table-4

2018

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

2017

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	6,203	40,973	3,272	-	50,448	25,303
2	Export Trade	66	873	127	-	1,066	235,188
3	Wholesale & Retail Trade	9,610	41,201	975	-	51,786	11,711
4	Mining & Quarrying	2,538	124,055	579	-	127,172	56
5	Construction	32,784	196,984	50,986	-	280,754	322,321
6	Manufacturing	10,737	99,363	4,890	-	114,990	2,929
7	Electricity ,gas & water	330	50,472	1,025	-	51,827	236,007
8	Transport & communication	8,680	67,722	70	-	76,472	16,046
9	Financial Institutions	113	55,144	144	-	55,401	-
10	Services	10,400	76,278	3,167	-	89,845	2,823
11	Personal Loans	-	722,482	-	-	722,482	-
12	Agriculture & Allied Activites	350	4,400	742	-	5,492	-
13	Government	-	-	-	-	-	45,064
14	Non-Resident Lending	-	1,305	-	-	1,305	-
15	All Others	70,928	(4,484)	8,988	-	75,432	-
16	**Total (1 to 15)**	**152,739**	**1,476,768**	**74,965**	**-**	**1,704,472**	**897,448**

v. Residual contractual maturity of credit exposure

Table-5

2018

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

2017

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	7,637	68,377	22,950	-	98,964	196,023
2	months 1-3	7,637	58,005	33,521	-	99,163	333,326
3	months 3-6	7,637	88,828	16,170	-	112,635	62,311
4	months 6-9	7,637	50,169	2,300	-	60,106	47,788
5	months 9-12	7,637	42,976	2	-	50,615	64,162
6	years 1-3	38,184	210,018	-	-	248,202	176,549
7	years 3-5	38,184	149,886	-	-	188,070	17,289
8	Over 5 years	38,184	808,511	22	-	846,717	-
9	**Total**	**152,737**	**1,476,770**	**74,965**	**-**	**1,704,472**	**897,448**

vi. Industry or counterparty type distribution of exposures

Table-6

2018

Sl. NO	Economic Sector	Gross Loans RO'000	Of which Stage 3 loans RO'000	ECL held for Stage 1 & 2 RO'000	ECL held for Stage 3 RO'000	Stage 3 ECL Provided during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	63,668	2,778	1,590	1,013	188	9
2	Export Trade	429	782	(9)	43	3	-
3	Wholesale & retail trade	65,748	3,988	1,613	3,768	85	187
4	Mining & quarrying	146,901	-	3,837	-	28	1
5	Construction	237,479	6,709	6,027	2,775	1,354	612
6	Manufacturing	112,822	12,089	2,631	4,003	351	22
7	Electricity ,gas & water	54,920	18	1,434	18	-	-
8	Transport & communication	114,979	957	2,978	564	125	-
9	Financial Institutions	66,114	1	1,727	2	88	-
10	Services	114,877	2,923	2,924	1,144	217	123
11	Personal Loans	767,409	12,896	4,022	5,222	8,190	1,824
12	Agriculture & Allied Activities	5,486	567	128	258	82	-
13	Government	-	-	-	-	-	-
14	Non-Resident Lending	2,048	-	53	-	-	-
15	All Others	135,156	7,793	3,328	4,664	862	3,810
16	**Total**	**1,888,036**	**51,501**	**32,283**	**23,474**	**11,573**	**6,588**

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

2017

Sl. NO	Economic Sector	Gross Loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognized contractual interest	Provisions made during the year *	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	50,448	2,912	475	835	883	94	
2	Export Trade	1,066	59	10	22	3	-	31
3	Wholesale & retail trade	51,786	1,402	504	750	282	41	452
4	Mining & quarrying	127,172	6	1,272	6	1	19	
5	Construction	280,754	10,774	2,700	5,063	1,904	1,177	377
6	Manufacturing	114,990	14,311	1,007	3,322	2,162	445	26
7	Electricity ,gas & water	51,827	-	518	-	-	-	-
8	Transport & communication	76,472	652	758	313	40	315	-
9	Financial Institutions	55,401	555	548	290	78	21	-
10	Services	89,845	1,743	881	791	160	460	31
11	Personal Loans	722,482	12,702	11,773	7,075	1,117	5,168	2,070
12	Agriculture & Allied Activities	5,492	785	47	459	71	330	-
13	Government	-	-	-	-	-	-	-
14	Non-Resident Lending	1,305	-	13	-	-	-	-
15	All Others	75,432	4,372	711	3,004	611	1,954	119
16	**Total**	**1,704,472**	**50,273**	**21,217**	**21,930**	**7,312**	**10,024**	**3,106**

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

vii. Geographic distribution of impaired loans

Table-7

2018

Sl. No	Countries	Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 & 2	ECL held for Stage 3	Stage 3 ECL Provided during the year *	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	1,888,036	51,501	32,283	23,474	11,573	6,588
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
7	**Total**	**1,888,036**	**51,501**	**32,283**	**23,474**	**11,573**	**6,588**

2017

Sl. No	Countries	Gross Loans	Of which NPLs	Collective impairment	Specific Provision Held	Unrecognized contractual interest	Provisions made during the year	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	1,704,472	50,273	21,217	21,930	7,312	10,024	3,106
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,704,472**	**50,273**	**21,217**	**21,930**	**7,312**	**10,024**	**3,106**

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2018					
Sl.No	Details	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
1	Opening Balance	1,462,691	191,508	50,273	**1,704,472**
2	Migration /changes(+/-)	82,466	(75,846)	(6,620)	**-**
3	New Loans	781,505	247,546	16,750	**1,045,801**
4	Recovery of Loans	(812,838)	(40,496)	(2,315)	**(855,649)**
5	Loans written off	1	-	6,587	**6,588**
6	Closing Balance	1,513,823	322,712	51,501	**1,888,036**
7	Expected credit loss held	7,871	24,412	23,474	**55,754**

Movement of Gross Loans during the year - 2017							
		Performing Loans		Non- Performing Loans			
Sl.No	Details	Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening Balance	1,385,033	211,891	2,910	6,727	38,301	**1,644,862**
2	Migration /changes(+/-)	9,689	1,424	(7,642)	(4,566)	1,095	**-**
3	New Loans	956,489	94,111	7,586	1,888	8,413	**1,068,487**
4	Recovery of Loans	(888,514)	(115,915)	(114)	(108)	(1,119)	**(1,005,770)**
5	Loans written off	5	3	4	2	3,093	**3,107**
6	Closing Balance	1,462,692	191,508	2,760	3,963	43,550	**1,704,472**
7	Provisions held	19,095	2,122	805	1,632	19,493	**43,147**
8	Reserve Interest	-	-	77	141	7,094	**7,312**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

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

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

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

Quantitative Disclosure

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

Table-9

2018

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

2017

Sl. No	Risk bucket	0% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	75% RO' 000	100% RO' 000	150% RO' 000	Total RO' 000
1	Sovereigns(Rated)	297,120	-	-	-	-	-	-	297,120
2	Banks(Rated)	-	117,324	-	115,512	-	130,837	557	364,230
3	Corporate	-	37,765	-	-	-	774,288	-	812,053
4	Retail	-	-	-	-	37,341	395,062	-	432,403
5	Claims secured by residential property	-	-	220,558	-	-	57,082	-	277,640
6	Claims secured by commercial property	-	-	-	-	-	207,671	-	207,671
7	Past due loans	-	-	-	-	-	21,379	-	21,379
8	Other assets	39,299	-	-	-	-	89,166	-	128,465
9	Un-drawn exposure	-	-	92	67,098	-	8,939	-	76,129
	Total	**336,419**	**155,089**	**220,650**	**182,610**	**37,341**	**1,684,424**	**557**	**2,617,090**

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

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

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

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Quantitative disclosure

	2018 RO '000	2017 RO '000
Total exposure covered by eligible financial collateral	22,479	39,052
Value of the eligible collateral	22,388	38,698

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

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

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

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

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

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

Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments FVTPL at 31 December 2018 is ±1.14% of the total income (2017 - ±0.08%).

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period.

The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

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

Quantitative disclosure

The EaR at 31 December 2018 is 2.49% (2017 – 2.36%)

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

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

2017	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets							
Cash and balances with the							-
Central Bank of Oman	1.00	-		-	500	161,487	161,987
Due from banks	0.94	93,747		-	-	15,121	108,868
Loans and advances	5.08	528,730	163,155	913,657	48,471	-	1,654,013
Investment securities							
at fair value		-		-	-	14,574	14,574
Investment–held to maturity	1.67	23,000	19,000	28,668	53,179	-	123,847
Other assets		8,657		-	-	37,623	46,280
Property and equipment		-		-	-	29,430	29,430
Total assets		**654,134**	**182,155**	**942,325**	**102,150**	**258,235**	**2,138,999**
Liabilities							
Due to banks		-		-	-	4,011	4,011
Deposits from customers	1.58	426,011	331,338	175,924	-	813,583	1,746,856
Other liabilities		3,364		-	-	54,329	57,693
Subordinated debt	5.50	-	-	20,000	-	-	20,000
Taxation		-		-	-	4,891	4,891
Total liabilities		**429,375**	**331,338**	**195,924**	**-**	**876,814**	**1,833,451**
Total interest sensitivity gap		**224,759**	**(149,183)**	**746,401**	**102,150**	**(618,579)**	**305,548**

I. LIQUIDITY RISK

Qualitative Disclosures

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

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

Disclosures Under Basel II – Pillar III and Basel III Related Disclosures

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

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date. The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. The LCR of the Bank is 657% as at 31 December 2018

2017	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	124,132	15,460	12,449	9,946	161,987
Due from banks	108,868	-	-	-	108,868
Loans and advances	198,126	216,046	436,272	803,569	1,654,013
Investment securities	37,613	19,000	28,667	53,141	138,421
Other assets	37,561	8,701	-	18	46,280
Property and equipment	-	-	-	29,430	29,430
Total assets	**506,300**	**259,207**	**477,388**	**896,104**	**2,138,999**
Liabilities					
Due to banks	4,011	-	-	-	4,011
Deposits from customers	435,823	539,644	435,949	335,440	1,746,856
Other liabilities	40,275	10,982	5,951	485	57,693
Subordinated bond	-	-	20,000	-	20,000
Taxation	4,798	93	-	-	4,891
Total liabilities	**484,907**	**550,719**	**461,900**	**335,925**	**1,833,451**
Net assets	**21,393**	**(291,512)**	**15,488**	**560,179**	**305,548**

J. OPERATIONAL RISK

Qualitative Disclosures

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

Disclosures Under Basel II – Pillar III and Basel III Related Disclosures

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

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 148.375 million at 31 December 2018 (2017: RO 143.438 million).

K. COMPOSITION OF CAPITAL DISCLOSURE

- The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of
- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and CountercyclicalBuffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.

The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank's Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2018 RO '000	Under regulatory scope of consolidation As at Dec-31-2018 RO '000
Assets		
Cash and balances with CBO	**194,801**	194,801
Balance with banks and money at call and short notice	**91,272**	91,272
Investments :	**131,176**	**131,176**
Of which :		
Held to collect	122,262	122,262
FVOCI	4,883	4,883
FVPL	4,031	4,031
Held for Trading	-	-
Loans and advances	**1,832,817**	**1,843,806**
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,765,478	1,662,849
Loans and advances to non-resident Customers for domestic operations	-	-
Loans and advances to non-resident Customers for operations abroad	-	-
Loans and advances to SMEs	-	102,629
Financing from Islamic banking window	122,558	122,558
Allowances for the credit losses	(55,219)	(44,230)
Of which :		
Stage 3	(23,474)	(23,474)
Stage 1 & Stage 2	(31,745)	(20,756)
Fixed assets	**30,245**	**30,245**
Other assets	**48,507**	**48,507**
Total Assets	**2,328,818**	**2,339,807**

RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2018 RO '000	Under regulatory scope of consolidation As at Dec-31-2018 RO '000
Assets		
Cash and balances with CBO	**194,801**	194,801
Balance with banks and money at call and short notice	**91,272**	91,272
Investments :	**131,176**	**131,176**
Of which :		
Held to collect	122,262	122,262
FVOCI	4,883	4,883
FVPL	4,031	4,031
Held for Trading	-	-
Loans and advances	**1,832,817**	**1,843,806**
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,765,478	1,662,849
Loans and advances to non-resident Customers for domestic operations	-	-
Loans and advances to non-resident Customers for operations abroad	-	-
Loans and advances to SMEs	-	102,629
Financing from Islamic banking window	122,558	122,558
Allowances for the credit losses	(55,219)	(44,230)
Of which :		
Stage 3	(23,474)	(23,474)
Stage 1 & Stage 2	(31,745)	(20,756)
Fixed assets	**30,245**	**30,245**
Other assets	**48,507**	**48,507**
Total Assets	**2,328,818**	**2,339,807**
Capital & Liabilities		
Paid-up Capital	**134,620**	**134,620**
Of which:		
Amount eligible for CET1	134,620	134,620
Amount eligible for AT1	-	-
Reserves & Surplus	**149,703**	**148,189**

RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2018 RO '000	Under regulatory scope of consolidation As at Dec-31-2018 RO '000
Of which:		
Legal reserve	41,490	41,490
General reserve	25,560	25,560
Retained earnings	68,797	53,990
Proposed dividends		14,808
Cumulative changes in fair value of investments	(2,059)	(2,059)
Of which:		
Amount eligible for Tier 2 capital	(2,059)	(2,059)
Amount ineligible due to regulatory adjustment		
Subordinated debt reserve	12,000	12,000
Special reserve	3,915	2,400
Total Capital	**284,323**	**282,809**
Deposits	**1,870,558**	**1,870,558**
Of which:		
Deposits from banks	-	-
Customer deposits	1,748,414	1,748,414
Deposits of Islamic Banking window	122,144	122,144
Borrowings	**35,207**	**35,207**
Of which:		
From CBO	-	-
From banks	15,207	15,207
From other institutions & agencies	-	-
Borrowings in the form of bonds, Debentures and sukuks	20,000	20,000
Of which:		
Directly issued qualifying Tier 2 instruments	20,000	8,000
Amount de-recognised from Tier 2 capital	-	12,000
Other liabilities & provisions	**66,177**	**66,177**
Total Capital, Other liabilities & provisions	**2,256,265**	**2,254,751**

Step 3: Mapping each of the components that are disclosed in Step 2 to the composition of capital disclosure

2018

	Common Equity Tier 1 capital: instruments and reserves	**Under regulatory scope of consolidation**
1	Directly issued qualifying common share capital	134,620
2	Retained earnings	53,990
3	Accumulated other comprehensive income (and other reserves)	79,391
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital (CET1)**	**268,001**
7	**Additional Tier 1 capital (AT1)**	72,553
8	**Tier 1 capital (T1 = CET1 + AT1)**	**340,554**
	Tier 2 capital: instruments and provisions	
9	Directly issued qualifying Tier 2 instruments	8,000
#	Eligible expected credit loss	20,756
#	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-
#	**Tier 2 capital (T2)**	**28,756**
	Total capital (TC = T1 + T2)	**369,310**

2017

	Common Equity Tier 1 capital: instruments and reserves	**Under regulatory scope of consolidation**
1	Directly issued qualifying common share capital	134,620
2	Retained earnings	53,169
3	Accumulated other comprehensive income (and other reserves)	72,478
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital (CET1)**	**260,267**
7	**Additional Tier 1 capital (AT1)**	30,000
8	**Tier 1 capital (T1 = CET1 + AT1)**	**290,267**
	Tier 2 capital: instruments and provisions	
9	Directly issued qualifying Tier 2 instruments	12,000
10	Provisions	20,756
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-
12	**Tier 2 capital (T2)**	**32,756**
	Total capital (TC = T1 + T2)	**323,023**

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

Disclosures Under Basel II – Pillar III and Basel III Related Disclosures

Main features of Subordinated Loans	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
Governing law(s) of the instrument Regulatory treatment	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 8 Million
Par value of instrument	OMR 20 Million
Accounting classification	Subordinated Debt
Original date of issuance	30/11/2015
Perpetual or dated	Dated
Original maturity date	30/05/2021
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed coupon

Main features of Subordinated Loans	
Issuer	OMAN ARAB BANK
Coupon rate and any related index	5.50%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	-
If write-down, write-down trigger(s)	-
If write-down, full or partial	-
If write-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
Non-compliant transitioned features	-

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

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

	Main features of Perpetual Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier eg CUSIP, ISIN or Bloomberg identifier for private place-) (ment	-
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	(Instrument type (types to be specified by each jurisdiction	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	29/12/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	(If convertible, conversion trigger (s	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	(If write-down, write-down trigger(s	non-liability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mecha-nism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

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

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

Main features of Perpetual Bonds

1	Issuer	OMAN ARAB BANK
2	Unique identifier eg CUSIP, ISIN or Bloomberg identifier for private place-) (ment	-
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdic- (tion	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 42.553 Million
9	Par value of instrument	OMR 42.553 Million
10	Accounting classification	Additional Tier 1
11	Original date of issuance	17/10/2018
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemp- tion amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.5%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	(If convertible, conversion trigger (s	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	(If write-down, write-down trigger(s	non-liability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mech- anism	-
35	Position in subordination hierarchy in liquidation specify instrument type immediately senior to instru-) (ment	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

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

The following table shows the composition of capital under Basel III:

	BASEL-III DISCLOSURE AS AT DECEMBER 31 2018	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT RO '000
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	134,620
2	Retained earnings	53,990
3	Accumulated other comprehensive income (and other reserves)	81,450
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**270,060**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(2,059)
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(59)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-

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

26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	Perpetual Bonds	
29	**Total regulatory adjustments to Common equity Tier 1**	**(2,118)**
29	**Common Equity Tier 1 capital (CET1)**	**267,942**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	72,553
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 capital before regulatory adjustments**	**72,553**
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**
44	**Additional Tier 1 capital (AT1)**	**72,553**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**340,495**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Subordinated term debt.	8,000
50	Eligible expected credit loss	20,756
51	**Tier 2 capital before regulatory adjustments**	**28,756**

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

Tier 2 capital: regulatory adjustments

52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**28,756**
59	**Total capital (TC = T1 + T2)**	**369,251**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	2,232,620
60	**Total risk weighted assets (60a+60b+60c)**	**2,232,620**
60a	Of which: Credit risk weighted assets	2,058,470
60b	Of which: Market risk weighted assets	25,775
60c	Of which: Operational risk weighted assets	148,375

Capital Ratios

61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.00%
62	Tier 1 (as a percentage of risk weighted assets)	15.25%
63	Total capital (as a percentage of risk weighted assets)	16.54%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.875%
65	of which: capital conservation buffer requirement	1.875%
66	of which: bank specific countercyclical buffer requirement	0%
67	of which: D-SIB/G-SIB buffer requirement	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.54%
	National minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.875%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-

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

74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	20,756
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%
78	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of Expected credit loss in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

GLOSSARY

GLOSSARY

A

Additional Tier 1 capital ('AT1'): This capital consists of instruments issued by the Bank (e.g. Perpetual Bonds) and related share premiums that meet the criteria for inclusion in AT1 (and are not included in Common Equity Tier 1), and regulatory adjustments required in the calculation of AT1.

Amortised Cost: The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Arrears: Customers are said to be in arrears (or in a state of delinquency) when they are behind in fulfilling their obligations, with the result that an outstanding loan is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are described as delinquent.

B

Basel II: The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III: In December 2010, the Basel Committee issued 'Basel III rules: a global regulatory framework for more resilient banks and banking systems' and 'International framework for liquidity risk measurement, standards and monitoring'. Together these documents present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In June 2011, the Basel Committee issued a revision to the former document setting out the finalized capital treatment for counterparty credit risk in bilateral trades, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis point ('bps'): One hundredth of a per cent (0.01%), so 100 basis points is 1%. For example, this is used in quoting movements in interest rates or yields on securities.

C

Capital conservation buffer ('CCB'): A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Collectively assessed loan impairment provisions: Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant. This is to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial real estate loans: Includes office buildings to let, retail space, multifamily residential buildings (eg residential towers or mixed use towers covering residential and commercial), industrial or warehouse space, hotels etc. where the prospects of repayment and recovery on the exposure depend primarily upon the cash flows generated by the commercial mortgage.

Common equity tier 1 capital ('CET1'): The highest quality form of regulatory capital under Basel III that comprises common shares issued, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Contingent liabilities: These include standby Letters of Credit (LCs), Financial Guarantees (LGs/FGs) to third parties, Commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value (the notional amount of the instrument). However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

CET1 ratio: A Basel III measure, of CET1 capital expressed as percentage of total risk weighted assets.

Contractual maturity: The date on which the final payment (principal or interest) of any financial instrument is due to be paid, at which point all the remaining outstanding principal and interest have been repaid.

Cost-to-income ratio: Represents the proportion of total operating expenses to total operating income.

Cost of risk: The ratio of net provisions to average net loans.

Countercyclical capital buffer: Regulatory capital of up to 2.5 per cent of risk weighted assets that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk: The risk that a counterparty defaults before satisfying its obligations under a contract.

Coverage ratio: Represents the extent to which non-performing loans are covered by impairment allowances (Stage 3 ECL).

Credit institutions: An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk: Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business, but also from products such as guarantees, derivatives and debt securities.

Credit risk mitigation: A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits: Money deposited by all individuals and companies that are not credit institutions including securities sold under repurchase agreement (repo). Such funds are recorded as liabilities.

D

Debt securities: Financial assets on the Bank's balance sheet representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

Debt securities in issue: Debt securities in issue are transferable certificates of indebtedness of the Bank to the bearer of the certificate. These are liabilities of the Bank.

Delinquency: A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks: All deposits received from domestic and foreign banks, excluding deposits or liabilities in the form of debt securities or for which transferable certificates have been issued.

Dividend per share: Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Domestic systemically Important Bank ('DSIB'): These are banks defined by the Central Bank of Oman as those banks whose failure or distress may lead to significant adverse impact on the entire banking sector, the financial system and/or the economy.

Due from Banks: These are mainly placements and current account balance receivables from local and foreign banks.
Due to Banks: These are mainly placements and current account balance payable to other banks.

E

Earnings per share (EPS): An EPS is a number (generally a smallest denomination of currency e.g. for Omani Rials, the Baisas) that denotes the ordinary equity shareholders' earning per unit.

Expected Credit Loss (ECL): With IFRS 9, the calculation of provisioning has changed significantly. ECL is similar to the erstwhile provision calculations on financial assets; however, the methodology is model driven and involves various complex parameters. The weighted average of credit losses with the respective risks of a default occurring as the weights.

Exposures: Credit exposures represent the amount lent to a customer, together with any undrawn commitment.

Exposure at default ('EAD'): The estimation of the extent to which the Bank may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions ('ECAI'): For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from approved rating agencies, known as ECAI; namely Moody's, Standard & Poor's, Fitch and Capital Intelligence.

F

Fair value adjustment: An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value through Other Comprehensive Income (FVOCI): A measurement category where the difference in the FV is booked under OCI up until derecognition of the Asset/Liability.

Fair Value through Profit or Loss (FVTPL): A measurement category where the difference in the FV is posted to income statement.

Fair Value reserve: A Fair Value reserve is created by transferring all the fair value adjustments on the financial instruments as required under various IFRSs.

Free funds: Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/ Non-funded exposure: Exposures where the notional amount of the transaction is funded or non-funded.
Represents exposures where there is a commitment to provide future funding but funds have been released/not released.

G

General Reserve: A reserve maintained in order to meet any unforeseen contingencies. Transfer to this reserve is not mandatory and is at the discretion of the management to transfer an amount from current year's profits.

Guarantee: An undertaking by a party to pay a creditor should a debtor fail to do so.

H

High-quality liquid assets: Assets that are unencumbered, liquid in markets during a time of stress and, ideally, are central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III Rules require this ratio to be at least 100 per cent.

I

IFRS: The IFRSs are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Impaired loans: Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans which, while impaired, are still performing.

Individually assessed loan impairment provisions: Also known as specific impairment provisions (Stage 3 ECL). Impairment is measured individually for assets that are individually significant to the Bank. Typically, Corporate customers are assessed individually and all other accounts that do not qualify form a basis for collective assessment.

Internal Capital Adequacy Assessment Process ('ICAAP'): The Bank's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

Investment grade: Represents a risk profile similar to a rating of BBB- or better, as defined by an external rating agency.

Interest rate risk ('IRR'): IRR arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

IFRIC: The IFRS Interpretation Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs or IASs.

J

Jaws: The rate of income growth less the rate of expense growth. Expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

L

Lease liability: With the introduction of IFRS 16, the present value of future lease payments has resulted in creation of Lease liability, which is an 'On-Balance Sheet' item of liabilities.

Legal reserve: In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

Legal risk: The risk of financial loss, sanction and/or reputational damage resulting from contractual risk (the risk that the rights and/or obligations within a contractual relationship are defective); dispute risk (the risk due to an adverse dispute environment or the management of potential or actual disputes); legislative risk (the risk that the Bank fails to adhere to laws of the jurisdiction in which it operates); and non-contractual rights risk (the risk that the Bank's assets are not properly owned or are infringed by others or the infringement by the Bank of another party's rights).

Level 1 – quoted market price: Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – valuation technique using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Leverage ratio: A measure, prescribed by regulators under Basel III, which is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Line of credit: Credit A Line of Credit or Revolving Line of Credit facility is a kind of facility received from a financial institution (generally a bank), that provides stand by loans. These facilities become 'On-Balance' visible upon draw down, until then these are 'Off-Balance Sheet' and carry only commission without any associated interest.

Liquidity and credit enhancements: Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through overcollateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.

Liquidity coverage ratio ('LCR'): The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. The LCR is still subject to an observation period and review to address any unintended consequences.

Liquidity risk: The risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Loans and advances: This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks: Amounts lent to credit institutions including securities bought under reverse repurchase agreement (repo).

Loans to individuals: Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays and other consumer uses.

Loan-to-value ratio: The loan-to-value ratio is a mathematical calculation that expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due: Loans on which repayments are overdue.

Loss given default ('LGD'): LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

M

Market risk: The risk that movements in market risk factors, including foreign exchange rates and commodity prices,
interest rates, credit spreads and equity prices will reduce income or portfolio values.

Medium term notes ('MTN's'): Issued by corporates across a range of maturities. Under MTN Programmes notes are offered on a regular and continuous basis to investors.

N

Net asset value per share: Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure: The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

Net interest income (NII): The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin (NIM): The margin is expressed as net interest income divided by average interest-earning assets.

Net stable funding ratio ('NSFR'): The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The NSFR is still subject to an observation period and review to address any unintended consequences.

Non-performing loans ('NPLs'): A nonperforming loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:
• Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or
• Renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation and against which no loss of principal is expected.

Normalised net income: Profit attributable to ordinary shareholders as adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent and other infrequent and/or exceptional transactions that are significant or material in the context of the Bank's normal business earnings for the period.

O

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Over-the-counter ('OTC'): A bilateral transaction (e.g. derivative) that is not exchange traded and that is valued using valuation models.

P

Perpetual Tier 1 capital bonds: Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion at Call Dates or on any interest payment date thereafter subject to the prior consent of the regulatory authority. The bonds carry a fixed coupon rate payable in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation.

Pillar 1: The first Pillar of the three pillars of Basel II/Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2: Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3: Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Probability of default ('PD'): PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders: Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

R

Renegotiated loans: Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forborne loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.

Repo/Reverse repo: A repurchase agreement or repo is a short-term funding agreement which allows a borrower to sell a financial asset, such as asset backed securities or government bonds as collateral for cash. As part of the agreement, the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Reputational risk: The risk that illegal, unethical or inappropriate behavior by the Bank itself, members of staff or clients or representatives of the Bank will damage the reputation, leading, potentially, to a loss of business, fines or penalties.

Residential mortgage: A loan that is granted to a bank's customers which is secured by the collateral of residential property that is either self-occupied or is generating rental income wherein the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the residential mortgage. The residential property should be wholly mortgaged in favor of the bank.

Retail loans: Money lent to individuals rather than institutions. This includes both secured and unsecured loans such as mortgages and credit card balances.

Return on average equity: Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Return on risk-weighted assets: Operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average total risk-weighted assets.

Right of use assets (ROU): With the introduction of IFRS 16, the usability of leased asset has resulted in creation of ROUs. Right of use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities.

Risk appetite: The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

Risk-weighted assets ('RWA's'): A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Supervisory Regulatory Authority.

S

Secured (fully and partially): A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Bank is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Segment: A Segment is a unit / line of business that contributes to majority or significant portion of assets, liabilities or revenues. Accordingly, the Bank has identified Retail Banking, Corporate Banking, Treasury, Head Office & Support and Islamic Banking as Segments.

Senior debt: Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Standardised approach: In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to a supervisory defined gross income.

Stressed value at risk: A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured entities ('SE's'): An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Structured finance/notes: A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated debts/bonds: A debt, which in the event of insolvency or liquidation of the issuer are subordinated to the claims other creditors.

Subordinated debt/bond reserve: The reserve, which is created by transferring an annual equal proportion subordinated debts, out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated loans.

T

Tier 1 capital ('T1'): A component of regulatory capital, comprising CET1 and AT1.

Tier 1 capital ratio: Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital ('T2'): Tier 2 capital includes instruments issued by the Bank that meet the supervisory definition of T2, the related share premium resulting from such issue, certain loan loss provisions (ECL) less any supervisory deductions and adjustments.

Total eligible capital: Sum of T1 and T2 after regulatory adjustments.

V

Value-at-risk ('VaR'): A measure of the loss that might occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

W

Wholesale loans: Money lent to sovereign borrowers, banks, non-bank financial institutions and corporate entities.

Write-off: When a financial asset is written down or written off, a customer balance is partially or fully removed, respectively, from the balance sheet. Loans (and related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.