

# **BANK MUSCAT SAOG**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

### **Registered office**

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Sultanate of Oman

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# **BANK MUSCAT SAOG**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

<b>Contents</b>	<b>Page</b>
Independent auditor's report	1 – 6
Consolidated statement of financial position	7
Consolidated statement of comprehensive income	8
Consolidated statement of changes in equity	9 – 10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12 -126



# Independent auditor's report to the shareholders of bank muscat SAOG

## Report on the audit of the consolidated financial statements

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### Our opinion

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

### What we have audited

The consolidated financial statements of the Group comprise :

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

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### 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 consolidated financial statements section of our report.

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

### Independence

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

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## Independent auditor's report to the shareholders of bank muscat SAOG (continued)

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### Our audit approach

#### Overview

##### Key Audit Matter

- Impairment of loans and advances and Islamic financing receivables

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

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

#### Key audit matters

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

# Independent auditor's report to the shareholders of bank muscat SAOG (continued)

## Our audit approach (continued)

Key audit matters	How our audit addressed the Key audit matter
<p><b>Impairment of loans and advances and Islamic financing receivables</b></p> <p>At 31 December 2019, gross loans and advances and Islamic financing</p> <p>receivables were RO 8,001 million and RO 1,192 million, respectively against which a credit impairment provision of RO 289 million and RO 26 million, respectively, was maintained</p> <p>Impairment allowances represent the directors' best estimate of the losses within the loans and advances and Islamic financing receivables portfolios at the balance sheet date. As described in the notes to the financial statements, the impairment losses have been determined in accordance with International Financial Reporting Standard 9 Financial Instruments (IFRS 9).</p> <p>We focused on this area because the directors make complex and subjective judgements over both timing of recognition of impairment losses and the estimation of the size of any impairment loss, such as:</p> <ul style="list-style-type: none"> <li>○ Determining criteria for significant increase in credit risk (SICR);</li> <li>○ Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD);</li> <li>○ Assessing the recoverability of Stage 3 financial assets;</li> <li>○ Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL;</li> <li>○ Establishing portfolios of similar financial assets for the purposes of measuring ECL; and</li> <li>○ Determining disclosure requirements in accordance with International Financial Reporting Standards.</li> </ul> <p>Information on credit risk and the Group's credit risk management is provided in note 42.2. Disclosure of the impairment allowance and net impairment charge is provided in note 42.2.</p>	<p>We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances.</p> <p>We performed the following substantive procedures:</p> <ul style="list-style-type: none"> <li>○ Reviewed the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;</li> <li>○ Obtained an understanding of and tested the completeness and accuracy of the historical and current datasets used for ECL calculation including where applicable the relevant interface to the expected credit loss model;</li> <li>○ For similar financial assets grouped in portfolios for the purposes of measuring ECL, we obtained an understanding of and tested that grouping;</li> <li>○ Tested a sample of loans to determine the appropriateness and application of the staging criteria;</li> <li>○ Obtained an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and tested a sample of credit exposures against the methodology; and</li> <li>○ Assessed the related financial statement disclosures to determine if they are in accordance with the requirements of International financial Reporting Standards.</li> </ul> <p>We involved our specialists in areas that required specific expertise including:</p> <ul style="list-style-type: none"> <li>○ Testing the implementation of IFRS 9 methodology for the ECL calculation;</li> <li>○ Testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used;</li> <li>○ Assessing the appropriateness of the definition of default and testing the application of the default criteria;</li> <li>○ Assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures;</li> <li>○ Assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; and</li> <li>○ Testing and assessing the reasonableness of the Group's use of scenarios, weightings and discount rates.</li> </ul>



## Independent auditor's report to the shareholders of bank muscat SAOG (continued)

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### Other information

The directors are responsible for the other information. The other information comprises the Chairman's Report, Corporate Governance Statement, Pillar III Disclosures, Meethaq Pillar III Disclosures, Management Discussion and Analysis, Corporate Sustainability and CSR Vision, Financial Review, Meethaq Financial Review and Ten-Year Summary (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with these consolidated 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 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.

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### Responsibilities of the directors for the consolidated financial statements

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

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



## Independent auditor's report to the shareholders of bank muscat SAOG (continued)

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### Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



## Independent auditor's report to the shareholders of bank muscat SAOG (continued)

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated 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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### Report on other legal and regulatory requirements

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

A handwritten signature in blue ink, appearing to read 'Stuart Scoular'.

A second handwritten signature in blue ink, appearing to read 'Stuart Scoular'.

Stuart Scoular  
Muscat, Sultanate of Oman

5 March 2020





## BANK MUSCAT SAOG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

2018	2019		2019	2018
US\$ 000's	US\$ 000's		Notes RO 000's	RO 000's
<b>ASSETS</b>				
3,394,172	2,030,533	Cash and balances with Central Banks	5 781,755	1,306,756
1,236,475	2,259,230	Due from Banks	6 869,804	476,043
20,333,727	20,031,670	Loans and advances	7 7,712,193	7,828,485
2,884,233	3,028,176	Islamic financing receivables	7 1,165,848	1,110,430
3,297,615	3,752,811	Investment securities	9 1,444,832	1,269,582
590,239	614,789	Other assets	8 236,694	227,242
180,522	206,447	Property, equipment and software	11 79,482	69,501
<b>31,916,983</b>	<b>31,923,656</b>	<b>TOTAL ASSETS</b>	<b>12,290,608</b>	<b>12,288,039</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
2,472,411	3,047,997	Deposits from banks	14 1,173,479	951,878
19,491,477	18,211,081	Customers' deposits	15 7,011,266	7,504,219
2,489,523	2,681,558	Islamic customers' deposits	15 1,032,400	958,466
115,865	234,299	Sukuk	16 90,205	44,608
1,000,000	1,001,065	Euro Medium term notes	17 385,410	385,000
1,125,581	1,355,490	Other liabilities	19 521,864	433,349
113,005	122,514	Taxation	20 47,168	43,507
102,000	68,000	Subordinated liabilities	21 26,180	39,270
<b>26,909,862</b>	<b>26,722,004</b>	<b>Total liabilities</b>	<b>10,287,972</b>	<b>10,360,297</b>
<b>EQUITY</b>				
<b>Equity attributable to equity holders of parent</b>				
765,561	803,839	Share capital	22 309,478	294,741
1,380,610	1,380,610	Share premium	23 531,535	531,535
963,605	997,605	General reserve	24 384,078	370,988
255,187	267,948	Legal reserve	24 103,160	98,247
14,987	12,738	Revaluation reserve	12 4,904	5,770
34,000	34,000	Subordinated loan reserve	24 13,090	13,090
1,135	(88)	Cash flow hedge reserve	38 (34)	437
(13,047)	(966)	Cumulative changes in fair value	(372)	(5,023)
(5,371)	(5,964)	Foreign currency translation reserve	(2,296)	(2,068)
12,008	6,769	Impairment reserve / restructured loan reserve	24 2,606	4,623
1,260,784	1,367,499	Retained profit	526,487	485,402
<b>4,669,459</b>	<b>4,863,990</b>	<b>Total equity attributable to the equity holders</b>	<b>1,872,636</b>	<b>1,797,742</b>
<b>337,662</b>	<b>337,662</b>	<b>Perpetual Tier I capital</b>	<b>130,000</b>	<b>130,000</b>
<b>5,007,121</b>	<b>5,201,652</b>	<b>Total equity</b>	<b>2,002,636</b>	<b>1,927,742</b>
<b>31,916,983</b>	<b>31,923,656</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>12,290,608</b>	<b>12,288,039</b>
<b>US\$ 1.58</b>	<b>US\$ 1.57</b>	<b>Net assets per share</b>	<b>27 RO 0.605</b>	<b>RO 0.610</b>
<b>6,951,780</b>	<b>6,033,655</b>	<b>Contingent liabilities and commitments</b>	<b>28 2,322,957</b>	<b>2,676,435</b>

These consolidated financial statements along with notes and other explanatory information on pages 12 to 126 were authorised for issue on 05/MAR/2020 in accordance with the resolution of the Board of Directors.

  
Chairman

  
Director

  
Chief Executive Officer

The notes and other explanatory information on pages 12 to 126 form an integral part of these consolidated financial statements  
Independent auditor's report - pages 1 - 6.

**BANK MUSCAT SAOG****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

2018	2019		Notes	2019	2018
US\$ 000's	US\$ 000's			RO 000's	RO 000's
1,091,006	<b>1,174,072</b>	Interest income	29	<b>452,017</b>	420,037
(372,229)	<b>(418,538)</b>	Interest expense	30	<b>(161,137)</b>	(143,308)
718,777	<b>755,534</b>	<b>Net interest income</b>		<b>290,880</b>	276,729
152,229	<b>171,639</b>	Income from Islamic financing/investments	29	<b>66,081</b>	58,608
(80,644)	<b>(103,868)</b>	Distribution to depositors	30	<b>(39,989)</b>	(31,048)
71,585	<b>67,771</b>	<b>Net income from Islamic financing</b>		<b>26,092</b>	27,560
790,362	<b>823,305</b>	<b>Net interest income and income from Islamic financing</b>		<b>316,972</b>	304,289
250,571	<b>265,673</b>	Commission and fee income (net)	31	<b>102,284</b>	96,470
119,421	<b>137,441</b>	Other operating income	32	<b>52,915</b>	45,977
1,160,354	<b>1,226,419</b>	<b>OPERATING INCOME</b>		<b>472,171</b>	446,736
		<b>OPERATING EXPENSES</b>			
(459,698)	<b>(455,225)</b>	Other operating expenses	33	<b>(175,262)</b>	(176,984)
(34,699)	<b>(53,686)</b>	Depreciation	11	<b>(20,669)</b>	(13,359)
(494,397)	<b>(508,911)</b>			<b>(195,931)</b>	(190,343)
(112,317)	<b>(145,784)</b>	Net impairment losses on financial assets	42	<b>(56,127)</b>	(43,242)
(606,714)	<b>(654,695)</b>			<b>(252,058)</b>	(233,585)
553,640	<b>571,724</b>	<b>PROFIT BEFORE TAXATION</b>		<b>220,113</b>	213,151
(87,060)	<b>(89,774)</b>	Tax expense	20	<b>(34,563)</b>	(33,518)
466,580	<b>481,950</b>	<b>PROFIT FOR THE YEAR</b>		<b>185,550</b>	179,633
		<b>OTHER COMPREHENSIVE (EXPENSE)/ INCOME</b>			
		<i>Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods</i>			
		Translation of net investments in foreign operations		<b>(228)</b>	(745)
(1,935)	<b>(592)</b>	Change in fair value of FVOCI Debt	20	<b>4,679</b>	(1,664)
(4,322)	<b>12,154</b>	Change in fair value of cash flow hedge	20	<b>(471)</b>	623
1,618	<b>(1,223)</b>			<b>3,980</b>	(1,786)
(4,639)	<b>10,339</b>	<i>Net other comprehensive income (expense) not to be reclassified to profit or loss in subsequent periods</i>			
		Change in fair value of FVOCI Equity	20	<b>(28)</b>	(8,747)
(22,719)	<b>(73)</b>	Realised loss on FVOCI Equity	20	<b>(3,433)</b>	(310)
(805)	<b>(8,917)</b>	Tax impact on revaluation reserve	11	<b>(866)</b>	-
-	<b>(2,249)</b>	<b>OTHER COMPREHENSIVE EXPENSE FOR THE YEAR</b>		<b>(347)</b>	(10,843)
(28,163)	<b>(900)</b>	<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>185,203</b>	168,790
438,417	<b>481,050</b>	<b>Total comprehensive income attributable to:</b>			
		Equity holders of Parent Company		<b>185,203</b>	168,790
438,417	<b>481,050</b>	<b>Profit attributable to:</b>			
		Equity holders of Parent Company		<b>185,550</b>	179,633
466,580	<b>481,950</b>	<b>Earnings per share:</b>			
US\$ 0.15	US\$ 0.16	Basic and diluted	35	<b>RO 0.060</b>	RO 0.059

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 20.

The notes and other explanatory information on pages 12 to 126 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 6.

**BANK MUSCAT SAOG****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

2019	Notes	Attributable to equity holders of parent											Total	Perpetual Tier I capital	Total
		Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Impairment reserve / restructured loan reserve	Retained profit			
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
<b>Balance at 1 January 2019</b>		<b>294,741</b>	<b>531,535</b>	<b>370,988</b>	<b>98,247</b>	<b>5,770</b>	<b>13,090</b>	<b>437</b>	<b>(5,023)</b>	<b>(2,068)</b>	<b>4,623</b>	<b>485,402</b>	<b>1,797,742</b>	<b>130,000</b>	<b>1,927,742</b>
Profit for the year		-	-	-	-	-	-	-	-	-	-	185,550	185,550	-	185,550
Transfer from restructured loan reserve to retained profits		-	-	-	-	-	-	-	-	-	(2,017)	2,017	-	-	-
Transfer within equity upon disposal of FVOCI equity instruments	20	-	-	-	-	-	-	-	3,433	-	-	(3,433)	-	-	-
Other comprehensive (expense) income		-	-	-	-	(866)	-	(471)	1,218	(228)	-	-	(347)	-	(347)
Total comprehensive income		-	-	-	-	(866)	-	(471)	4,651	(228)	(2,017)	184,134	185,203	-	185,203
Dividends paid	26	-	-	-	-	-	-	-	-	-	-	(103,159)	(103,159)	-	(103,159)
Issue of bonus shares	26	14,737	-	-	-	-	-	-	-	-	-	(14,737)	-	-	-
Transfer to legal reserve	24	-	-	-	4,913	-	-	-	-	-	-	(4,913)	-	-	-
Transfer from subordinated loan reserve	24	-	-	13,090	-	-	(13,090)	-	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	24	-	-	-	-	-	13,090	-	-	-	-	(13,090)	-	-	-
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-	-	-	-	-	(7,150)	(7,150)	-	(7,150)
<b>Balance at 31 December 2019</b>		<b>309,478</b>	<b>531,535</b>	<b>384,078</b>	<b>103,160</b>	<b>4,904</b>	<b>13,090</b>	<b>(34)</b>	<b>(372)</b>	<b>(2,296)</b>	<b>2,606</b>	<b>526,487</b>	<b>1,872,636</b>	<b>130,000</b>	<b>2,002,636</b>
<b>Balance at 31 December 2019 (US\$ 000's)</b>		<b>803,839</b>	<b>1,380,610</b>	<b>997,605</b>	<b>267,948</b>	<b>12,738</b>	<b>34,000</b>	<b>(88)</b>	<b>(966)</b>	<b>(5,964)</b>	<b>6,769</b>	<b>1,367,499</b>	<b>4,863,990</b>	<b>337,662</b>	<b>5,201,652</b>

(Continued on page 12)

The notes and other explanatory information on pages 12 to 126 form an integral part of these consolidated financial statements.

**BANK MUSCAT SAOG****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

	Notes	Attributable to equity holders of parent											Total RO 000's	Perpetual Tier I capital RO 000's	Total RO 000's
		Share capital RO 000's	Share premium RO 000's	General reserve RO 000's	Legal reserve RO 000's	Revaluation reserve RO 000's	Subordina ted loan reserve RO 000's	Cash flow hedge reserve RO 000's	Cumulative changes in fair value RO 000's	Foreign currency translation reserve RO 000's	Impairment reserve / restructured loan reserve RO 000's	Retained profit RO 000's			
2018															
Balance at 1 January 2018		270,936	509,377	288,898	90,312	5,770	82,090	(186)	16,813	(1,323)	5,100	420,546	1,688,333	130,000	1,818,333
Impact of adopting IFRS 9 at 1 January 2018		-	-	-	-	-	-	-	(11,425)	-	-	8,059	(3,366)	-	(3,366)
Restated Balance as at 1 January 2018		270,936	509,377	288,898	90,312	5,770	82,090	(186)	5,388	(1,323)	5,100	428,605	1,684,967	130,000	1,814,967
Profit for the year		-	-	-	-	-	-	-	-	-	-	179,633	179,633	-	179,633
Transfer from restructured loan reserve to retained profit		-	-	-	-	-	-	-	-	-	(477)	477	-	-	-
Transfer within equity upon disposal of FVOCI equity instruments	20	-	-	-	-	-	-	-	310	-	-	(310)	-	-	-
Other comprehensive (expense) income		-	-	-	-	-	-	623	(10,721)	(745)	-	-	(10,843)	-	(10,843)
Total comprehensive income		-	-	-	-	-	-	623	(10,411)	(745)	(477)	179,800	168,790	-	168,790
Dividends paid	26	-	-	-	-	-	-	-	-	-	-	(81,281)	(81,281)	-	(81,281)
Issue of bonus shares		13,547	-	-	-	-	-	-	-	-	-	(13,547)	-	-	-
Transfer to legal reserve	24	-	-	-	7,935	-	-	-	-	-	-	(7,935)	-	-	-
Conversion of mandatory convertible bonds	18	10,258	22,158	-	-	-	-	-	-	-	-	-	32,416	-	32,416
Transfer from subordinated loan reserve	24	-	-	82,090	-	-	(82,090)	-	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	24	-	-	-	-	-	13,090	-	-	-	-	(13,090)	-	-	-
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-	-	-	-	-	(7,150)	(7,150)	-	(7,150)
Balance at 31 December 2018		294,741	531,535	370,988	98,247	5,770	13,090	437	(5,023)	(2,068)	4,623	485,402	1,797,742	130,000	1,927,742
Balance at 31 December 2018 (US\$ 000's)		765,561	1,380,610	963,605	255,187	14,987	34,000	1,135	(13,047)	(5,371)	12,008	1,260,784	4,669,459	337,662	5,007,121

The notes and other explanatory information on pages 12 to 126 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 6.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

2018 US\$ 000's	2019 US\$ 000's	Note	2019 RO 000's	2018 RO 000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
553,640	<b>571,724</b>		<b>220,113</b>	213,151
34,699	<b>53,686</b>	11	<b>20,669</b>	13,359
112,317	<b>145,784</b>	42	<b>56,127</b>	43,242
-	<b>65</b>	11	<b>25</b>	-
5,429	<b>(7,675)</b>	32	<b>(2,955)</b>	2,090
(18,190)	<b>(17,088)</b>	32	<b>(6,579)</b>	(7,003)
687,895	<b>746,496</b>		<b>287,400</b>	264,839
(17,613)	<b>(123,940)</b>		<b>(47,717)</b>	(6,781)
(1,230,691)	<b>234,208</b>		<b>90,170</b>	(473,816)
(373,218)	<b>(155,605)</b>		<b>(59,908)</b>	(143,689)
(83,970)	<b>(30,887)</b>		<b>(11,891)</b>	(32,328)
(184,361)	<b>(26,906)</b>		<b>(10,359)</b>	(70,979)
2,713,790	<b>(1,280,398)</b>		<b>(492,953)</b>	1,044,809
(3,730)	<b>192,036</b>		<b>73,934</b>	(1,436)
-	<b>118,434</b>		<b>45,597</b>	-
58,947	<b>104,324</b>		<b>40,165</b>	22,695
1,567,049	<b>(222,238)</b>		<b>(85,562)</b>	603,314
(88,930)	<b>(80,327)</b>		<b>(30,926)</b>	(34,238)
1,478,119	<b>(302,565)</b>		<b>(116,488)</b>	569,076
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
18,190	<b>17,088</b>		<b>6,579</b>	7,003
(409,789)	<b>(618,588)</b>		<b>(238,156)</b>	(157,769)
55,151	<b>91,612</b>		<b>35,271</b>	21,233
(27,894)	<b>(22,044)</b>	11	<b>(8,487)</b>	(10,739)
-	<b>57</b>	11	<b>22</b>	-
(364,342)	<b>(531,875)</b>		<b>(204,771)</b>	(140,272)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
(211,119)	<b>(267,945)</b>		<b>(103,159)</b>	(81,281)
(18,571)	<b>(18,571)</b>		<b>(7,150)</b>	(7,150)
(213,221)	<b>(34,000)</b>		<b>(13,090)</b>	(82,090)
(442,911)	<b>(320,516)</b>		<b>(123,399)</b>	(170,521)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>				
670,866	<b>(1,154,956)</b>		<b>(444,658)</b>	258,283
3,035,220	<b>3,706,086</b>		<b>1,426,843</b>	1,168,560
3,706,086	<b>2,551,130</b>	34	<b>982,185</b>	1,426,843

The notes and other explanatory information on pages 12 to 126 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 6.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019****1. Legal status and principal activities**

bank muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 169 branches (2018 - 169 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Iran. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in 6 countries (2018 - 6 countries) and employed 3,818 employees as of 31 December 2019 (2018: 3,779).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes and undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2019, Meethaq has 20 branches (2018 - 20 branches) in the Sultanate of Oman.

**2. Basis of preparation****2.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the applicable regulations of the CBO, the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting for financial reporting differences, if any, between AAOIFI and IFRS.

**2.2 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis, modified to include the application of fair value measurements that are required or allowed by relevant accounting standards. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

For the ease of users, relevant balances of Meethaq are separately presented in these consolidated financial statements wherever applicable. A complete set of carve out financial statements of Meethaq, prepared under AAOIFI, is included in the Group's annual report.

Capital Market Authority (CMA) of the Sultanate of Oman requires all Public Joint Stock Companies to disclose the financials of the Parent Company in a separate column in the consolidated financial statements vide Circular E/2/2007 dated 21 January 2007. The Group has one subsidiary, Muscat Capital Company, which has been consolidated for the years ended 31 December 2019 and 31 December 2018. Details of subsidiary are given in note 10.

The size, operations, and financial statements of the subsidiary are not material to the financial statements of the Group. Hence, financials statements of the Parent Company has not been provided in a separate column in the consolidated financial statements.

**2.3 Functional and presentation currency**

These consolidated financial statements are presented in Rial Omani, which is the entity's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**2. Basis of preparation (continued)**

**2.4 New Standards, implementations and amendments in existing standards**

*(a) New and amended standards and interpretations to IFRS relevant to the Group*

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

The following new standards and amendments became effective as of 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.
- Definition of Material – Amendments to IAS 1 and IAS 8.

Group also elected to adopt the following amendments early:

- Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but has not restated comparatives for the 2018 reporting period. This is disclosed in note 3.18. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**IFRS 16 Leases**

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 3.18.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

***Adjustments recognized on adoption of IFRS 16***

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.0%.

***(i) Practical expedients applied***

In applying IFRS 16 for the first time, the Group has used the following permitted practical expedients:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying IAS 17 and Interpretation 4 determining whether an arrangement contains a lease.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**2. Basis of preparation (continued)**

**2.4 New Standards, implementations and amendments in existing standards (continued)**

**(a) New and amended standards and interpretations to IFRS relevant to the Group (continued)**

**Adjustments recognized on adoption of IFRS 16 (continued)**

**(ii) Measurement of lease liabilities**

	RO 000's	US\$ 000's
Operating lease commitments as at 31 December 2018	18,006	46,769
(Less): short-term leases not recognized as a liability	(3,301)	(8,574)
<b>Gross lease liability as at 1 January 2019</b>	<b>14,705</b>	<b>38,195</b>
Discounted Lease liability as at 1 January 2019	13,118	34,073
Less: Prepayments	(3,111)	(8,081)
<b>Discounted Lease liability (net of prepayments)</b>	<b>10,007</b>	<b>25,992</b>
Of which are :		
Current lease liabilities	2,563	6,657
Non-current lease liabilities	7,444	19,335

**(iii) Measurement of right-of-use assets**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

**(iv) Adjustments recognised in the balance sheet on 1 January 2019**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019,

- Right-of-use assets – increase by RO 44,996 thousand
  - Leases previously classified as operating leases of RO 13,118 thousand
  - Leases previously classified as finance leases of RO 31,878 thousand reclassified on transition from property, equipment and software.
- Lease liabilities – increase by RO 51,641 thousand
  - Leases previously classified as operating leases of RO 13,118 thousand
  - Leases previously classified as finance leases of RO 38,523 thousand reclassified on transition from Finance lease liabilities.
- There was no impact on opening retained earnings.

**Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7**

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. This is expected to impact current risk management strategy and possibly accounting for certain financial instruments. There is currently uncertainty around the timing and precise nature of these changes.

The Group has Loans and Advances and Due from Banks of RO 2,031 million, Due to Banks of RO 953 million, Subordinated liabilities of RO 26 million, Interest rate swaps of RO 229 million which are exposed to the impact of LIBOR.

The Group has early adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019. The amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The relief provided by the amendments that apply to the Group are:



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**2. Basis of preparation (continued)**

**2.4 New Standards, implementations and amendments in existing standards (continued)**

**(a) New and amended standards and interpretations to IFRS relevant to the Group (continued)**

**Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 (continued)**

- When considering the 'highly probable' requirement, the Group has assumed that the USD LIBOR interest rate on which hedged debts are based does not change as a result of reform.
- In assessing the hedge effectiveness on a forward-looking basis, it has assumed that USD LIBOR interest rate on which the cash flows of the hedged asset / liability and the interest rate swap that hedges it are based are not altered by the reform.
- It will not discontinue hedge accounting during the period of uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range.
- It has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

Disclosures related to the derivatives held for hedging purposes and its carrying amount, notional amount and notional amounts by term to maturity are given in Note 38.

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**2.5 Consolidation**

*(a) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee that significantly affect their returns)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****2. Basis of preparation (continued)****2.5 Consolidation (continued)***(a) Basis of consolidation (continued)*

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive
- income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

*(b) Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the Group in transactions where the non-controlling interests are acquired or sold without loss of control.

When the Group ceases to have control or significant influence, any retained interest in the entity is measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

*(c) Investment in an associate*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**2. Basis of preparation (continued)**

**2.5 Consolidation (continued)**

*(c) Investment in an associate (continued)*

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment is recognised in the profit or loss.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

**3. Significant accounting policies**

**3.1 Application of accounting policies**

Except for note 3.18, the Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

**3.2 Revenue from Contracts with Customers**

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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Specifically, the standard introduces a 5 step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The products and services of the Group covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

<b>Products and services</b>	<b>Nature, timing of satisfaction of performance obligations and significant payment terms</b>	<b>Revenue Recognition</b>
Transactional services	The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.	The Group recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3. Significant accounting policies (continued)**

**3.2 Revenue from Contracts with Customers (continued)**

<b>Products and services (continued)</b>	<b>Nature, timing of satisfaction of performance obligations and significant payment terms</b>	<b>Revenue Recognition</b>
Trade services	The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions. Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Income is recognised on service completion basis or time proportionate basis over the period of contract.
Syndication and other loan related services	The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	The Group recognises revenue on completion of service basis or on time proportion basis.
Advisory and asset management services	Advisory services include advising for debt syndications, fund raising, financial structuring etc. This also includes business restructuring services like advising for mergers and acquisitions, joint ventures, bid process etc. Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract. Asset management services cover: <ul style="list-style-type: none"> <li>a) portfolio management services including managing investment portfolios primarily for institutional clients for investing into local, regional and international listed equities, fixed income securities, commodities, currencies, derivatives, structured products</li> <li>b) Fund Management includes structuring, setting up and ongoing management of fund and its investments either in Oman or in other jurisdictions as per business requirements and activities</li> <li>c) Ancilliary services including custody services, trade executions etc.</li> </ul> Private Equity business cover structuring of funds, mobilization of capital for Funds and investment management of funds. Fees for asset management services and private equity are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Advisory income is recognised on satisfaction of performance obligation at a point in time or over a period of time or on achievement of agreed milestones as per contract. Asset management income is recognised on time proportion basis or on completion of performance obligations as per the terms of the contract.

**3.3 Foreign currency translation**

- (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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3. Significant accounting policies (continued)**

**3.3 Foreign currency translation (continued)**

- (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 FVOCI, are included in other comprehensive income.
- (iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**3.4 Revenue and expense recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**3.4.1 Interest**

***Effective interest rate (EIR)***

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

***Amortised cost and gross carrying amount***

The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured on 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 expected credit loss allowance or impairment allowance.

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

***Calculation of interest income and expense***

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3. Significant accounting policies (continued)****3.4 Revenue and expense recognition (continued)****3.4.1 Interest (continued)**

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.6.

***Presentation***

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

**3.4.2 Fees and commission**

Fees integral to the effective interest rate (EIR) are included in the EIR calculation, and are recognised over the life of the financial instrument. This include fees integral to the origination of a financial instrument (fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability) and commitment fees (if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination). The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis or based on a right to receive. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

**3.4.3 Dividends**

Dividend income is recognised in the consolidated statement of comprehensive income in 'Other operating income', when the Group's right to receive the dividend is established.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3. Significant accounting policies (continued)****3.4.4 Provisions**

A provision is recognised if, as a result of past event, the Group 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.

**3.5 Financial assets and liabilities****3.5.1 Recognition and initial measurement**

The Group 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 trade date, which is the date on which the Group 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.

Transaction cost of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

**3.5.2 Classification**

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost (AC).

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

- the asset is held within 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 at 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 Group 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 Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3. Significant accounting policies (continued)**

**3.5 Financial assets and liabilities (continued)**

**3.5.2 Classification (continued)**

***Business model assessment***

The Group 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 Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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).

***(a) Loans and advances***

'Loans and advances' captions in the statement of financial position include:

- loans and advances 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 mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group 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 Group's financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3. Significant accounting policies (continued)**

**3.5 Financial assets and liabilities (continued)**

**3.5.2 Classification (continued)**

*(b) Investment securities*

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

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

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

- interest revenue using the effective interest method;
- 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 Group 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 Group changes its business model for managing financial assets.

**3.5.3 Derivative financial instruments and hedging activities**

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 Group designates certain derivatives as either:

- (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (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 Group makes use of derivative instruments to manage exposures to interest rate, foreign currency risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3. Significant accounting policies (continued)**

**3.5 Financial assets and liabilities (continued)**

**3.5.3 Derivative financial instruments and hedging activities (continued)**

*(a) Hedge documentation, effectiveness assessment, and discontinuation*

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which the Group wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

**3.5.4 Recognition**

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

**3.5.5 Derecognition**

**(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
- The Group 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 Group has transferred substantially all the risks and rewards of the asset; or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group’s continuing involvement in the asset. In that case, the Group 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 Group 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 Group could be required to repay.

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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

**(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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3. Significant accounting policies (continued)****3.5.6 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 Group 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 are modified, the Group 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.

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.

**3.5.7 Offsetting**

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 Group 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.

**3.5.8 Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**3.5.9 Fair value measurement**

A number of the Group'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. Details are set out in note 43.

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

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

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

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 Group 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3 Significant accounting policies (continued)****3.5 Financial assets and liabilities (continued)****3.5.9 Fair value measurement (continued)**

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 Group 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 Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Group also compares each of 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 Group 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.

***Investment in equity and debt securities***

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

***Fair value measurement of derivatives***

The fair value of forward contracts/options and others are estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate/cross currency swaps are arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instrument at measurement date.

The fair value of options is determined based on its intrinsic values, term to maturity and implied volatility.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3 Significant accounting policies (continued)**

**3.6 Identification and measurement of impairment of financial assets**

Loss allowances are recognised 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. Loss allowances are measured at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

See also Credit risk note 42.2

***Restructured financial assets***

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial 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 Group 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3 Significant accounting policies (continued)****3.6 Identification and measurement of impairment of financial assets (continued)**

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 Group on terms that the Group 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, any 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 under other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

***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 Group 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, certain financial assets that are technically written off and held through memorandum accounts could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

**3.7 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and bank balances, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**3.8 Due from banks**

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3 Significant accounting policies (continued)**

**3.9 Property, equipment and software**

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Computer software costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of 5-10 years. Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	20 - 50
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

**3.10 Collateral pending sale**

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the outstanding amount of the related loans and advances or the fair value of the collateral held. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

**3.11 Business combinations and Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3 Significant accounting policies (continued)****3.11 Business combinations and Goodwill (continued)**

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

**3.12 Deposits**

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

**3.13 Income tax**

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 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.

**3.14 Fiduciary assets**

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

**3.15 Acceptances**

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

**3.16 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 consolidated financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**3 Significant accounting policies (continued)**

**3.17 Trade and settlement date accounting**

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

**3.18 Leases**

**Policies applicable from 1 January 2019**

As explained in note 3 and 2.4 above, the Bank has changed its accounting policy for leases where the Bank is a lessee.

*(i) The Group's leasing activities and how these are accounted for*

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments are included in the measurement of the liability if the Group has enforceable rights and is reasonably certain to exercise extension options. The lease payments are discounted using the lessee's incremental borrowing, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The Group uses the rate which approximates to the risk free rate adjusted for its credit risk, lease tenure and collateral if any.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to profit or loss in other operating expenses as "finance charges on lease" over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

The right-of-use assets are depreciated over the lease term on a straight-line basis, unless the lease term is higher than the asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. The Group does not have any significant low-value assets as of the respective reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3 Significant accounting policies (continued)****3.18 Leases (continued)***(ii) Extension and termination options*

Extension and termination options are included in a number of leases across the Group. The majority of extension and termination options held are exercisable by the Group and by the respective lessor. Extension options are not included in the lease term only if the lease is reasonably certain to be extended (or not terminated). The Group considers several factors to determine the lease term, as mentioned in note 4 (d).

**Policies applicable before 1 January 2019**

Until the year 2018, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, were capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

**3.19 Employee end of service benefits**

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani end of service benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

**3.20 Earnings per share**

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

**3.21 Share Capital**

Ordinary shares with discretionary dividends and other eligible shares / instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****3 Significant accounting policies (continued)****3.22 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.

**3.23 Dividend on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the balance sheet date.

**3.24 Directors' remuneration**

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. These costs are recorded as expenses in the period in which they are incurred.

**4. Critical accounting estimates and judgements**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in this note. Specific fair value estimates are disclosed in note 43.

The Group's significant accounting estimates were on:

**(a) Measurement of expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 42.2.8.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**4. Critical accounting estimates and judgements (continued)**

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2019<sup>1</sup> based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates	At 31 December 2019		At 31 December 2018	
	ECL RO 000's	Impact on ECL RO 000's	ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired loans under IFRS9	128,703		157,252	
<b>Simulations</b>				
Upside case - 100% weighted	112,438	(16,265)	139,103	(18,149)
Base case - 100% weighted	128,569	(134)	158,116	864
Downside scenario - 100% weighted	145,146	16,443	174,248	16,996

For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% & 30% respectively. For further information on the key indicators, refer to note 42.2.8.

**(b) Fair value of derivatives and other financial instruments**

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

The sensitivity analysis of the fair value of derivatives and other financial instruments is shown in note 43, fair value information.

**(c) Taxes**

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. 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.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

A table showing the impact of change in tax is as follows:

Sensitivity of assumptions used in the tax calculations	At 31 December 2019		At 31 December 2018	
	% of change (+/-)	Change (+/-) RO 000's	% of change (+/-)	Change (+/-) RO 000's
Change in tax expense	5%	1,728	5%	1,676

Accordingly, the table showing the impact of change in deferred tax by 5 per cent is as follows:

Deferred tax asset/ liability (net)	At 31 December 2019		At 31 December 2018	
	% of change (+/-)	Change (+/-) RO 000's	% of change (+/-)	Change (+/-) RO 000's
Impact of change	5%	258	5%	387

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**4 Critical accounting estimates and judgements (continued)**

**(d) Determination of lease term**

In determining the lease term, the Group considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Group may contain an extension option, where the Group has not considered extension options after analysing above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the financial year, the Group has not revised its assessment of lease term as no significant events or changes occurred.

**5. Cash and balances with Central Banks**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
405,626	<b>431,499</b>	Cash	<b>166,127</b>	156,166
1,299	<b>1,299</b>	Capital deposit with Central Banks	<b>500</b>	500
2,009,044	<b>348,517</b>	Certificate of deposits with Central Banks	<b>134,179</b>	773,482
978,203	<b>1,249,218</b>	Other balances with Central Banks	<b>480,949</b>	376,608
<u>3,394,172</u>	<u><b>2,030,533</b></u>		<u><b>781,755</b></u>	<u>1,306,756</u>

The capital deposit with the Central Banks cannot be withdrawn without the approval of the respective Central Bank. During 2019, the average minimum balance to be kept with Central Banks as statutory reserves was RO 272.1 million (2018: RO 256.0 million).

**6. Due from banks**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
		<b>At Amortised cost / FVOCI</b>		
294,800	<b>301,618</b>	Nostro balances	<b>116,123</b>	113,498
737,966	<b>1,580,057</b>	Inter-bank placements	<b>608,322</b>	284,117
155,392	<b>252,909</b>	Loans to banks	<b>97,370</b>	59,826
<u>1,188,158</u>	<u><b>2,134,584</b></u>		<u><b>821,815</b></u>	<u>457,441</u>
(1,683)	<b>(1,990)</b>	Less: impairment loss allowance	<b>(766)</b>	(648)
<u>1,186,475</u>	<u><b>2,132,594</b></u>		<u><b>821,049</b></u>	<u>456,793</u>
		<b>At FVTPL</b>		
50,000	<b>126,636</b>	Inter-bank placements	<b>48,755</b>	19,250
<u>1,236,475</u>	<u><b>2,259,230</b></u>		<u><b>869,804</b></u>	<u>476,043</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**6. Due from banks (continued)**

The movement in impairment loss allowance is analysed below:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
6,622	<b>1,683</b>	At 1 January	<b>648</b>	2,550
622	-	Remeasurement on transition to IFRS9	-	239
7,244	<b>1,683</b>	At 1 January (post transition)	<b>648</b>	2,789
(5,561)	<b>304</b>	Provided (reversed) during the year	<b>117</b>	(2,141)
-	<b>3</b>	Others	<b>1</b>	-
<b>1,683</b>	<b>1,990</b>	At 31 December	<b>766</b>	648

**7. Loans and advances/ Islamic financing receivables**

Loans and advances - conventional

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
18,781,167	<b>18,393,927</b>	Loans	<b>7,081,662</b>	7,230,749
726,317	<b>810,569</b>	Overdrafts and credit cards	<b>312,069</b>	279,632
570,171	<b>483,210</b>	Loans against trust receipts	<b>186,036</b>	219,516
162,875	<b>242,366</b>	Bills purchased and discounted	<b>93,311</b>	62,707
892,501	<b>851,473</b>	Other advances	<b>327,817</b>	343,613
21,133,031	<b>20,781,545</b>		<b>8,000,895</b>	8,136,217
(799,304)	<b>(749,875)</b>	Less: impairment loss allowance	<b>(288,702)</b>	(307,732)
<b>20,333,727</b>	<b>20,031,670</b>		<b>7,712,193</b>	7,828,485

Islamic financing receivables

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
1,258,974	<b>1,272,834</b>	Housing finance	<b>490,041</b>	484,705
113,506	<b>115,462</b>	Consumer finance	<b>44,453</b>	43,700
1,567,283	<b>1,707,631</b>	Corporate finance	<b>657,438</b>	603,404
2,939,763	<b>3,095,927</b>		<b>1,191,932</b>	1,131,809
(55,530)	<b>(67,751)</b>	Less: impairment loss allowance	<b>(26,084)</b>	(21,379)
<b>2,884,233</b>	<b>3,028,176</b>		<b>1,165,848</b>	1,110,430

The movement in impairment loss allowance is analysed below:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
851,387	<b>854,834</b>	At 1 January	<b>329,111</b>	327,784
(85,317)	-	Remeasurement on transition to IFRS 9	-	(32,847)
766,070	<b>854,834</b>	At 1 January (post transition)	<b>329,111</b>	294,937
204,842	<b>176,179</b>	Impairment for credit losses	<b>67,829</b>	78,864
26,130	<b>41,148</b>	Interest reserved during the year	<b>15,842</b>	10,060
(95,340)	<b>(93,366)</b>	Recoveries from impairment for credit losses	<b>(35,946)</b>	(36,706)
(14,481)	<b>(12,764)</b>	Reserve interest recovered during the year	<b>(4,914)</b>	(5,575)
(19,778)	<b>(6,293)</b>	Written off during the year	<b>(2,423)</b>	(7,614)
(12,171)	<b>(142,078)</b>	Transfer to memorandum portfolio	<b>(54,700)</b>	(4,686)
(75)	<b>21</b>	Foreign currency translation difference	<b>8</b>	(29)
(49)	-	Transfer to collateral pending sale	-	(19)
(314)	<b>(55)</b>	Other movements	<b>(21)</b>	(121)
<b>854,834</b>	<b>817,626</b>	At 31 December	<b>314,786</b>	329,111

As of 31 December 2019, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 298.5 million (2018: RO 286.8 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**8. Other assets**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
279,190	<b>320,681</b>	Acceptances (note 19)	<b>123,462</b>	107,488
(236)	<b>(377)</b>	Less: impairment loss allowance	<b>(145)</b>	(91)
278,954	<b>320,304</b>	Net Acceptances	<b>123,317</b>	107,397
97,425	<b>115,747</b>	Other debtors and prepaid expenses	<b>44,563</b>	37,509
47,873	<b>57,855</b>	Positive fair value of derivatives (note 38)	<b>22,274</b>	18,431
88,413	<b>94,291</b>	Accrued interest	<b>36,302</b>	34,039
20,086	<b>15,644</b>	Deferred tax asset (note 20)	<b>6,023</b>	7,733
52,787	<b>6,247</b>	Others	<b>2,405</b>	20,323
4,701	<b>4,701</b>	Collateral pending sale (net)	<b>1,810</b>	1,810
<b>590,239</b>	<b>614,789</b>		<b>236,694</b>	<b>227,242</b>

During 2019, the Parent company has not acquired any collateral towards loan settlement. No collateral has been disposed during the year (2018: RO 5.59 million). In accordance with the CBO requirements, the bank has retained the existing impairment provision of RO 4.84 million (2018: RO 4.84 million) till all the properties are disposed.

**9. Investment securities**

As at 31 Dec 2019	FVTPL RO 000's	FVOCI RO 000's	Amortised Cost RO 000's	Total RO 000's
<b>Quoted Equities:</b>				
Foreign securities	<b>7,518</b>	<b>65,761</b>	-	<b>73,279</b>
Other services sector	-	<b>7,616</b>	-	<b>7,616</b>
Unit funds	<b>9,014</b>	-	-	<b>9,014</b>
Financial services sector	<b>608</b>	<b>6,451</b>	-	<b>7,059</b>
Industrial sector	-	<b>1,369</b>	-	<b>1,369</b>
<b>Unquoted Equities:</b>				
Foreign securities	<b>870</b>	<b>1,672</b>	-	<b>2,542</b>
Local securities	<b>7,533</b>	<b>1,855</b>	-	<b>9,388</b>
Unit funds	<b>391</b>	-	-	<b>391</b>
<b>Equity investments</b>	<b>25,934</b>	<b>84,724</b>	-	<b>110,658</b>
<b>Quoted Debt:</b>				
Government Bonds	-	-	<b>702,652</b>	<b>702,652</b>
Foreign Bonds	-	<b>32,811</b>	<b>5,012</b>	<b>37,823</b>
Local Bonds	-	<b>22,503</b>	<b>91,415</b>	<b>113,918</b>
<b>Unquoted Debt:</b>				
Treasury Bills	-	-	<b>461,819</b>	<b>461,819</b>
Local Bonds	-	<b>5,475</b>	<b>14,100</b>	<b>19,575</b>
<b>Gross debt investments</b>	-	<b>60,789</b>	<b>1,274,998</b>	<b>1,335,787</b>
Less: impairment loss allowance	-	<b>(1,311)</b>	<b>(302)</b>	<b>(1,613)</b>
<b>Debt investments</b>	-	<b>59,478</b>	<b>1,274,696</b>	<b>1,334,174</b>
<b>Investments securities</b>	<b>25,934</b>	<b>144,202</b>	<b>1,274,696</b>	<b>1,444,832</b>
<b>US\$'000</b>	<b>67,361</b>	<b>374,551</b>	<b>3,310,899</b>	<b>3,752,811</b>

The Group has designated some investments in equity instruments at FVOCI as these are investments that the Group plans to hold in the long-term for strategic reasons.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**9. Investment securities (continued)**

As at 31 Dec 2018	FVTPL RO 000's	FVOCI RO 000's	Amortised Cost RO 000's	Total RO 000's
<b>Quoted Equities:</b>				
Foreign securities	9,347	61,977	-	71,324
Other services sector	-	10,293	-	10,293
Unit funds	11,350	-	-	11,350
Financial services sector	610	7,408	-	8,018
Industrial sector	-	2,069	-	2,069
<b>Unquoted Equities:</b>				
Foreign securities	1,155	1,615	-	2,770
Local securities	7,232	9,147	-	16,379
Unit funds	425	-	-	425
Equity investments	<u>30,119</u>	<u>92,509</u>	<u>-</u>	<u>122,628</u>
<b>Quoted Debt:</b>				
Government Bonds	-	-	501,241	501,241
Foreign Bonds	-	34,036	2,018	36,054
Local Bonds	-	20,143	71,896	92,039
<b>Unquoted Debt:</b>				
Treasury Bills	-	-	495,677	495,677
Local Bonds	-	8,700	14,356	23,056
Gross debt investments	-	62,879	1,085,188	1,148,067
Less: impairment loss allowance	-	(932)	(181)	(1,113)
Debt investments	<u>-</u>	<u>61,947</u>	<u>1,085,007</u>	<u>1,146,954</u>
Investments securities	<u>30,119</u>	<u>154,456</u>	<u>1,085,007</u>	<u>1,269,582</u>
US\$'000	<u>78,231</u>	<u>401,184</u>	<u>2,818,200</u>	<u>3,297,615</u>

The movement in impairment of debt investments is summarised as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
38,891	<b>2,891</b>	At 1 January	<b>1,113</b>	14,973
(34,408)	-	Reclassification on transition to IFRS 9	-	(13,247)
4,483	<b>2,891</b>	At 1 January (post transition)	<b>1,113</b>	1,726
(1,592)	<b>1,299</b>	Provided /(reversed) during the year	<b>500</b>	(613)
2,891	<b>4,190</b>	At 31 December	<b>1,613</b>	1,113



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**9. Investment securities (continued)**

The movements in investment securities are summarised as follows:

	<b>FVOCI Debt instruments RO 000's</b>	<b>FVOCI Equity investments RO 000's</b>	<b>Amortised cost RO 000's</b>	<b>FVTPL RO 000's</b>	<b>Total RO 000's</b>
At 1 January 2019	61,947	92,509	1,085,007	30,119	1,269,582
Exchange differences	40	(234)	3,413	(7)	3,212
Additions	4,587	8,942	3,936,843	1,839	3,952,211
Disposals and redemption	(11,361)	(14,938)	(3,749,820)	(8,972)	(3,785,091)
Gain from change in fair value	4,779	1,879	-	1,589	8,247
Provision for impairment losses	(379)	-	(121)	-	(500)
Amortisation of discount / premium	(118)	-	(626)	-	(744)
Realised gains/(loss) on sale	(17)	(3,434)	-	1,366	(2,085)
<b>At 31 December 2019</b>	<b>59,478</b>	<b>84,724</b>	<b>1,274,696</b>	<b>25,934</b>	<b>1,444,832</b>
<b>US\$'000</b>	<b>154,489</b>	<b>220,062</b>	<b>3,310,899</b>	<b>67,361</b>	<b>3,752,811</b>

	<b>FVOCI Debt instruments RO 000's</b>	<b>FVOCI Equity investments RO 000's</b>	<b>Amortised cost RO 000's</b>	<b>FVTPL RO 000's</b>	<b>Total RO 000's</b>
At 1 January 2018	253,404	114,822	607,955	50,995	1,027,176
Reclassification on transition to IFRS 9	(207,734)	(28,836)	256,838	(23,149)	(2,881)
At 1 January	45,670	85,986	864,793	27,846	1,024,295
Exchange differences	(1)	(727)	(6,367)	(36)	(7,131)
Additions	26,987	18,137	3,361,494	16,615	3,423,233
Disposals and redemption	(8,685)	(332)	(3,135,128)	(12,216)	(3,156,361)
Loss from change in fair value	(2,143)	(10,245)	-	(2,159)	(14,547)
Reversal of impairment losses	162	-	451	-	613
Amortisation of discount / premium	(43)	-	(236)	-	(279)
Realised gain (loss) on sale	-	(310)	-	69	(241)
<b>At 31 December 2018</b>	<b>61,947</b>	<b>92,509</b>	<b>1,085,007</b>	<b>30,119</b>	<b>1,269,582</b>
<b>US\$'000</b>	<b>160,901</b>	<b>240,283</b>	<b>2,818,200</b>	<b>78,231</b>	<b>3,297,615</b>

**10. Investment in a subsidiary**

Details regarding the Parent company's investment in a significant subsidiary are set out below:

<b>Company name</b>	<b>Country of incorporation</b>	<b>Proportion held</b>	
		<b>2019</b>	<b>2018</b>
Muscat Capital Company	Kingdom of Saudi Arabia (KSA)	<b>100%</b>	100%

The key balance sheet and income statement items of the subsidiary are as follows:

<b>2018</b>	<b>2019</b>		<b>2019</b>	<b>2018</b>
<b>US\$ 000's</b>	<b>US\$ 000's</b>		<b>RO 000's</b>	<b>RO 000's</b>
30,797	<b>30,486</b>	Total assets	<b>11,737</b>	11,857
10,751	<b>9,075</b>	Total liabilities	<b>3,494</b>	4,139
16,000	<b>16,000</b>	Authorised & issued share capital	<b>6,160</b>	6,160
6,608	<b>5,278</b>	Operating income	<b>2,032</b>	2,544
5,000	<b>3,995</b>	Total expenses	<b>1,538</b>	1,925
1,608	<b>1,283</b>	Net profit after tax	<b>494</b>	619

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**11. Property, equipment and software**

	<b>Property, equipment and software RO 000's</b>	<b>Right-of-use assets (note 12) RO 000's</b>	<b>Total RO 000's</b>
<b>At 31 December 2019</b>			
Gross Book value	168,314	60,387	228,701
Accumulated Depreciation	(134,812)	(14,407)	(149,219)
<b>Net book value</b>	<b>33,502</b>	<b>45,980</b>	<b>79,482</b>
<b>Net book value (US\$ 000's)</b>	<b>87,018</b>	<b>119,429</b>	<b>206,447</b>
Depreciation charge for the year	12,561	8,108	20,669

**Property, equipment and software**

	<b>Land and buildings RO 000's</b>	<b>Furniture, fixtures and equipment RO 000's</b>	<b>Motor vehicles RO 000's</b>	<b>Total RO 000's</b>
<b>Cost or valuation:</b>				
At 1 January 2019	50,455	149,370	1,194	201,019
Reclassification on transition to IFRS 16	(38,177)	-	-	(38,177)
Transfer	(549)	549	-	-
Additions during the year	28	8,409	50	8,487
Disposals	(964)	(2,052)	-	(3,016)
Translation adjustment	-	1	-	1
At 31 December 2019	<b>10,793</b>	<b>156,277</b>	<b>1,244</b>	<b>168,314</b>
<b>Accumulated depreciation:</b>				
At 1 January 2019	12,776	117,790	952	131,518
Reclassification on transition to IFRS 16	(6,299)	-	-	(6,299)
Transfer	(517)	517	-	-
Charge for the year	21	12,420	120	12,561
Relating to disposals	(949)	(2,020)	-	(2,969)
Translation adjustment	-	1	-	1
At 31 December 2019	<b>5,032</b>	<b>128,708</b>	<b>1,072</b>	<b>134,812</b>
<b>Net book value:</b>				
<b>At 31 December 2019</b>	<b>5,761</b>	<b>27,569</b>	<b>172</b>	<b>33,502</b>
<b>At 31 December 2019 (US\$ 000's)</b>	<b>14,963</b>	<b>71,608</b>	<b>447</b>	<b>87,018</b>

	<b>Land and buildings RO 000's</b>	<b>Furniture, fixtures and equipment RO 000's</b>	<b>Motor vehicles RO 000's</b>	<b>Total RO 000's</b>
<b>Cost or valuation:</b>				
At 1 January 2018	50,452	138,802	1,173	190,427
Additions during the year	4	10,714	21	10,739
Disposals	-	(142)	-	(142)
Translation adjustment	(1)	(4)	-	(5)
At 31 December 2018	<b>50,455</b>	<b>149,370</b>	<b>1,194</b>	<b>201,019</b>
<b>Accumulated depreciation:</b>				
At 1 January 2018	11,992	105,498	818	118,308
Charge for the year	785	12,440	134	13,359
Relating to disposals	-	(142)	-	(142)
Translation adjustment	(1)	(6)	-	(7)
At 31 December 2018	<b>12,776</b>	<b>117,790</b>	<b>952</b>	<b>131,518</b>
<b>Net book value:</b>				
At 31 December 2018	<b>37,679</b>	<b>31,580</b>	<b>242</b>	<b>69,501</b>
At 31 December 2018 (US\$ 000's)	<b>97,867</b>	<b>82,026</b>	<b>629</b>	<b>180,522</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**11. Property, equipment and software (continued)**

Cost of furniture, fixtures and equipment above includes acquired software of RO 61.264 million (2018: RO 56.666 million). Accumulated depreciation of the same is RO 44.322 million (2018: RO 37.948 million).

The Bank has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the bank's policy, the owned land and buildings were revalued during 2017 by independent professional valuers on an open market basis. Had the freehold land and buildings been carried at cost less depreciation, the carrying amount would have been RO 2.862 million (2018: RO 2.891 million). The revaluation reserve is not available for distribution until the related asset is disposed.

In 2019, the Parent Company has recognised cumulative deferred tax liability on the outstanding balance of revaluation reserve of RO 0.866 million in other comprehensive income.

**12. Right of use assets**

	<b>Land and buildings RO 000's</b>	<b>Furniture, fixtures and equipment RO 000's</b>	<b>Motor vehicles RO 000's</b>	<b>Total RO 000's</b>
<b>Cost or valuation :</b>				
At 1 January 2019	-	-	-	-
Transition impact of IFRS 16	9,008	3,722	388	13,118
Reclassification on transition to IFRS 16	38,177	-	-	38,177
Additions during the year	7,650	322	1,120	9,092
At 31 December 2019	<u>54,835</u>	<u>4,044</u>	<u>1,508</u>	<u>60,387</u>
<b>Accumulated depreciation:</b>				
At 1 January 2019	-	-	-	-
Transition impact of IFRS 16	-	-	-	-
Reclassification on transition to IFRS 16	6,299	-	-	6,299
Charge for the year	6,541	1,070	497	8,108
At 31 December 2019	<u>12,840</u>	<u>1,070</u>	<u>497</u>	<u>14,407</u>
<b>Net book value :</b>				
At 31 December 2019	<u>41,995</u>	<u>2,974</u>	<u>1,011</u>	<u>45,980</u>
At 31 December 2019 (US\$ 000's)	<u>109,078</u>	<u>7,725</u>	<u>2,626</u>	<u>119,429</u>

**13. Lease Liabilities**

On transition to IFRS 16, the lease liabilities are presented as below:

	<b>2019 RO 000's</b>
Transition impact of IFRS 16	13,118
Reclassification from other liabilities on transition to IFRS 16 on 1 January 2019	38,523
Additions during the year	8,981
Finance charges on lease (note 33)	3,651
Lease payments	<u>(10,491)</u>
At 31 December 2019	53,782
Less: Prepaid expenses	<u>(3,377)</u>
Lease liabilities (note 19)	<u>50,405</u>
<b>Lease liabilities</b>	
Current	3,296
Non current	<u>47,109</u>
	<u>50,405</u>
Expense relating to short-term leases	837

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**13. Lease Liabilities (continued)**

The following table shows the maturity analysis of lease liabilities:

	Less than 1 year RO 000's	Between 1 and 2 years RO 000's	Between 2 and 5 years RO 000's	More than 5 years RO 000's	Total RO 000's
<b>As at 31 December 2019</b>					
Total minimum lease payments	10,017	6,855	12,064	119,665	148,601
Less: Amounts representing finance charges	(3,344)	(3,087)	(8,661)	(79,727)	(94,819)
<b>Lease liabilities</b>	<b>6,673</b>	<b>3,768</b>	<b>3,403</b>	<b>39,938</b>	<b>53,782</b>
<b>US\$ 000's</b>	<b>17,332</b>	<b>9,787</b>	<b>8,839</b>	<b>103,735</b>	<b>139,693</b>

**Finance lease liabilities (applicable upto 2018)**

The Group had entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to this the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

The minimum lease payments and total liability in respect of these leases relating to future periods as at 31 December 2018 are as follows:

2018 US\$ 000's		2018 RO 000's
(148)	Current	(57)
100,208	Non-current	38,580
100,060	Total (note 19)	38,523
	Represented by:	
349,961	Gross finance lease payment due	134,735
(249,901)	Less: future finance charges	(96,212)
100,060	Net lease liability/ present value recognised as property	38,523

The following table shows the maturity analysis of finance lease payable:

	Less than 1 year RO 000's	Between 1 and 2 years RO 000's	Between 2 and 5 years RO 000's	More than 5 years RO 000's	Total RO 000's
<b>As at 31 December 2018</b>					
Total minimum lease payments	2,697	2,697	8,091	121,250	134,735
Less: Amounts representing finance charges	(2,754)	(2,758)	(8,303)	(82,397)	(96,212)
<b>Finance lease liability</b>	<b>(57)</b>	<b>(61)</b>	<b>(212)</b>	<b>38,853</b>	<b>38,523</b>
<b>US\$ 000's</b>	<b>(148)</b>	<b>(159)</b>	<b>(550)</b>	<b>100,917</b>	<b>100,060</b>

**14. Deposits from banks**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
1,654,915	2,301,522	Inter bank borrowings	886,086	637,142
292,496	201,475	Vostro balances	77,568	112,611
525,000	545,000	Other money market deposits	209,825	202,125
2,472,411	3,047,997		1,173,479	951,878

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**15. Customers' deposits**

**Customers' deposits - Conventional**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
8,005,352	<b>6,216,195</b>	Deposit accounts	<b>2,393,235</b>	3,082,061
6,322,094	<b>6,702,579</b>	Savings accounts	<b>2,580,493</b>	2,434,006
4,286,756	<b>4,326,491</b>	Current accounts	<b>1,665,699</b>	1,650,401
732,584	<b>816,104</b>	Call accounts	<b>314,200</b>	282,045
144,691	<b>149,712</b>	Margin accounts	<b>57,639</b>	55,706
<b>19,491,477</b>	<b>18,211,081</b>		<b>7,011,266</b>	7,504,219

**Customers' deposits - Islamic**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
1,534,377	<b>1,631,797</b>	Deposit accounts	<b>628,242</b>	590,735
377,756	<b>560,099</b>	Savings accounts	<b>215,638</b>	145,436
258,865	<b>289,553</b>	Current accounts	<b>111,478</b>	99,663
-	<b>96</b>	Call accounts	<b>37</b>	-
318,525	<b>200,013</b>	Margin accounts	<b>77,005</b>	122,632
<b>2,489,523</b>	<b>2,681,558</b>		<b>1,032,400</b>	958,466

**16. Sukuk**

In June 2017, the Parent Company issued Sukuk Al Musharaka Certificates. A special purpose vehicle (SPV) was formed for this purpose (Meethaq Sukuk Company LLC) which is the issuer and trustee of Sukuk program.

As part of the program, the first series of certificates was issued in June 2017 amounting to RO 44.6 Million (face value RO 1.000 per certificate) and has a tenor of five years through a sharia'a compliant financing arrangement. The second series of certificates was issued in May 2019 amounting to RO 45.6 million (face value RO 1.000 per certificate) and has a tenor of five years. The profit on Sukuk is payable bi-annually and it is listed in Muscat Securities Market.

Details of Sukuk issuance is as follows:

Particulars	Expected Annual Profit rate	Maturity	2019 RO 000's	2018 RO 000's
First Issuance	5.00%	June-2022	<b>44,608</b>	44,608
Second Issuance	5.50%	May-2024	<b>45,597</b>	-
			<b>90,205</b>	44,608
(US\$ 000's)			<b>234,299</b>	115,865

**17. Euro medium term notes**

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Irish stock exchange. During 2018, notes amounting to RO 192.5 million were issued and RO 192.5 million matured. The Parent Company has entered into interest rate swaps, which is designated as fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**18. Mandatory convertible bonds**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
84,198	-	At 1 January	-	32,416
(84,198)	-	Conversion during the year	-	(32,416)
-	-	At 31 December	-	-

During March 2018, the Bank converted a portion of its mandatory convertible bonds (MCBs) issued in 2015 into share capital as per the terms of MCBs. The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

Based on the terms of prospectus, conversion price was calculated at RO 0.316 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2018. The Bank issued 102,582,789 shares on account of conversion.

**19. Other liabilities**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
357,583	<b>424,192</b>	Other liabilities and accrued expenses	<b>163,314</b>	137,670
279,190	<b>320,681</b>	Acceptances (note 8)	<b>123,462</b>	107,488
77,455	<b>140,629</b>	Impairment on financial guarantees	<b>54,142</b>	29,820
		Impairment on undrawn commitments and unutilised limits	<b>10,745</b>	10,219
26,543	<b>27,909</b>	Accrued interest	<b>84,493</b>	73,961
192,105	<b>219,462</b>	Finance lease (note 13)	-	38,523
100,060	<b>130,922</b>	Lease liabilities (note 13)	<b>50,405</b>	-
-	<b>48,506</b>	Negative fair value of derivatives (note 38)	<b>18,675</b>	19,456
50,535	<b>22,743</b>	Unearned discount and interest	<b>8,756</b>	9,636
25,029	<b>18,197</b>	Employees' end of service benefits	<b>7,006</b>	6,576
17,081	<b>2,249</b>	Deferred tax liability (note 20)	<b>866</b>	-
-				-
<b>1,125,581</b>	<b>1,355,490</b>		<b>521,864</b>	<b>433,349</b>

The charge for the year and amounts paid in respect of employee end of service benefits were RO 1.120 million (2018: RO 1.058 million) and RO 0.690 million (2018: RO 0.470 million), respectively.

The movements in impairment loss allowance on financial guarantees / undrawn commitments and unutilised limits are analysed below:

**Impairment on financial guarantees**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
-	<b>77,455</b>	At 1 January	<b>29,820</b>	-
52,450	-	Remeasurement on transition to IFRS9	-	20,193
52,450	<b>77,455</b>	At 1 January (post transition)	<b>29,820</b>	20,193
25,010	<b>63,164</b>	Provided during the year	<b>24,318</b>	9,629
(5)	<b>10</b>	Exchange differences	<b>4</b>	(2)
<b>77,455</b>	<b>140,629</b>	At 31 December	<b>54,142</b>	<b>29,820</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**19. Other liabilities (continued)**

**Undrawn commitments and utilised limits**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
-	<b>26,543</b>	At 1 January	<b>10,219</b>	-
33,343	-	Remeasurement on transition to IFRS9	-	12,837
33,343	<b>26,543</b>	At 1 January (post transition)	<b>10,219</b>	12,837
(6,800)	<b>1,366</b>	Provided (reversed) during the year	<b>526</b>	(2,618)
26,543	<b>27,909</b>	At 31 December	<b>10,745</b>	10,219

**20. Taxation**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
91,028	<b>90,073</b>	Current liability:	<b>34,678</b>	35,046
21,977	<b>32,441</b>	Current year	<b>12,490</b>	8,461
113,005	<b>122,514</b>	Prior years	<b>47,168</b>	43,507

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
91,029	<b>90,073</b>	Consolidated statement of comprehensive income:	<b>34,678</b>	35,046
(1,023)	-	Current year	-	(394)
90,006	<b>90,073</b>	Prior years	<b>34,678</b>	34,652
(2,946)	<b>(299)</b>	Relating to origination and reversal of temporary differences	<b>(115)</b>	(1,134)
87,060	<b>89,774</b>		<b>34,563</b>	33,518

(i) The tax rate applicable to the Parent Company is 15% (2018: 15%). For the purpose of determining the tax expense for the year, the accounting profit 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 15.70% (2018: 15.73%).

The difference between the applicable tax rate of 15% (2018: 15%) and effective tax rate of 15.70 % (2018: 15.73%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 220.113 million (2018: RO 213.151 million) and the taxation charge in the consolidated financial statements is as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
83,047	<b>85,758</b>	Tax charge at 15% (2018:15%) on accounting profit before tax	<b>33,017</b>	31,973
(511)	<b>(1,376)</b>	<b>Add tax effect of:</b>	<b>(530)</b>	(197)
7,849	<b>5,174</b>	Income not taxable	<b>1,992</b>	3,022
514	<b>236</b>	Expenses not deductible or deferred	<b>91</b>	198
130	<b>281</b>	Foreign taxes on foreign-sourced income	<b>108</b>	50
(2,946)	<b>(299)</b>	Tax relating to subsidiary	<b>(115)</b>	(1,134)
(1,023)	-	Relating to origination and reversal of temporary differences	-	(394)
87,060	<b>89,774</b>	Reversal of provision for prior years	<b>34,563</b>	33,518
		Tax charge as per consolidated statement of comprehensive income		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**20. Taxation (continued)**

(iii) The deferred tax asset / liability has been recognised at the effective tax rate of 15% (2018 - 15%).

Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, change in fair value of FVOCI investment, accelerated depreciation and changes in fair value hedge.

**Deferred Tax Asset**

	At 1 January 2019 RO 000's	Reversal/ (charged) to consolidated statement of comprehensive income RO 000's	Reversal/ (charged) to consolidated statement of other comprehensive income RO 000's	31 December 2019 RO 000's
<b>Asset:</b>				
Tax effect of provisions	3,105	(214)	-	2,891
Tax effect of right-of-use assets	-	142	-	142
Change in fair value of investments	6,213	-	(1,907)	4,306
Change in fair value of hedge	(77)	-	83	6
<b>Liability:</b>				
Tax effect of accelerated tax depreciation	(1,508)	186	-	(1,322)
	<u>7,733</u>	<u>114</u>	<u>(1,824)</u>	<u>6,023</u>

	At 1 January 2018 RO 000's	Reversal/ (charged) to consolidated statement of comprehensive income RO 000's	Reversal/ (charged) to consolidated statement of other comprehensive income RO 000's	31 December 2018 RO 000's
<b>Asset:</b>				
Tax effect of provisions	1,713	1,392	-	3,105
Change in fair value of investments	5,613	-	600	6,213
Change in fair value of hedge	32	-	(109)	(77)
<b>Liability:</b>				
Tax effect of accelerated tax depreciation	(1,250)	(258)	-	(1,508)
	<u>6,108</u>	<u>1,134</u>	<u>491</u>	<u>7,733</u>

During the year, the Group credited deferred tax asset through comprehensive income of RO 0.028 million (2018: RO 1.134 million ) relating to provisions, right-of-use assets and depreciation. The deferred tax (charge) / reversal is disclosed under comprehensive income.

During the year, the Group credited deferred tax asset through other comprehensive income of RO 1.824 million (2018: RO 0.491 million ) relating to fair value changes of FVOCI investments and changes in fair value of hedge. The deferred tax charged / (reversal) is disclosed under other comprehensive income.

	1 January 2019 RO 000's	Tax (charge)/ credit RO 000's	31 December 2019 RO 000's	1 January 2018 RO 000's	Tax (charge)/ credit RO 000's	31 December 2018 RO 000's
<b>Deferred Tax Liability</b>						
Revaluation reserve	-	866	866	-	-	-
Change in fair value of investments				1,345	(1,345)	-
	<u>-</u>	<u>866</u>	<u>866</u>	<u>1,345</u>	<u>(1,345)</u>	<u>-</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**20. Taxation (continued)**

Deferred Tax Liability	1 January	Tax	31	1 January	Tax	31
	2019	(charge)/	December	2018	(charge)/	December
	US\$ 000's	credit	2019	US\$ 000's	credit	2018
		US\$ 000's	US\$ 000's		US\$ 000's	US\$ 000's
Revaluation reserve	-	2,249	2,249	-	-	-
Change in fair value of investments				3,494	(3,494)	-
	-	2,249	2,249	3,494	(3,494)	-

During the year, the Group charged deferred tax liability of RO 0.866 million (2018: RO 1.345 million tax credit) relating to revaluation reserve, which may be taxable in the future. The deferred tax charge is disclosed under other comprehensive income.

The tax (charge) / credit relating to components of other comprehensive income is as follows:

	31 December 2019			31 December 2018		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Translation of net investments in foreign operations	(228)	-	(228)	(745)	-	(745)
Change in fair value of hedge	(554)	83	(471)	732	(109)	623
Change in fair value of investments	6,558	(1,907)	4,651	(9,976)	(435)	(10,411)
Impact of revaluation reserve	-	(866)	(866)	-	-	-
Realised gain or loss on FVOCI equity investments	(3,433)	-	(3,433)	(310)	-	(310)
Total	2,343	(2,690)	(347)	(10,299)	(544)	(10,843)

	31 December 2019			31 December 2018		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's
Translation of net investments in foreign operations	(592)	-	(592)	(1,935)	-	(1,935)
Change in fair value of hedge	(1,439)	216	(1,223)	1,901	(283)	1,618
Change in fair value of investments	17,034	(4,953)	12,081	(25,911)	(1,130)	(27,041)
Impact of revaluation reserve	-	(2,249)	(2,249)	-	-	-
Realised gain or loss on FVOCI equity investments	(8,917)	-	(8,917)	(805)	-	(805)
Total	6,086	(6,986)	(900)	(26,750)	(1,413)	(28,163)

The Group's tax assessments have been completed by the tax authorities up to tax year 2014.

**21. Subordinated liabilities**

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

2018	2019		2019	2018
US\$ 000's	US\$ 000's		RO 000's	RO 000's
315,221	102,000	At 1 January	39,270	121,360
(213,221)	(34,000)	Less: Matured during the year	(13,090)	(82,090)
102,000	68,000		26,180	39,270

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**22. Share capital**

**Share capital**

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2018: 3,500,000,000 of RO 0.100 each). At 31 December 2019, 3,094,783,371 shares of RO 0.100 each (2018: 2,947,412,735 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed in Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

During March 2018, the bank converted the mandatory convertible bonds issued in 2015 into shares (note 18).

**Significant shareholders**

The following shareholders held 10 percent or more of the Parent Company's capital, either individually or together with other Group companies:

2018			2019	
No.of shares	% holding		No.of shares	% holding
696,343,070	23.63%	Royal Court Affairs	<b>731,160,223</b>	<b>23.63%</b>
346,807,639	11.77%	Dubai Financial Group	<b>364,148,020</b>	<b>11.77%</b>

**23. Share Premium**

During March 2018, the Bank converted a portion of its mandatory convertible bonds issued in 2015 into shares. (note 18). The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

**24. Legal and general reserves**

**(i) Legal reserve**

In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10 percent of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 4.913 million (2018: RO 7.935 million) was transferred from profits to the legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

**(ii) General reserve**

The general reserve is established to support the operations and the capital structure of the Group.

**(iii) Impairment reserve / reserve for restructured loans**

**a) Impairment Reserve:**

As per the CBO circular BM 1149, in the year of adoption, if IFRS 9 based provision for impairment is lower than the provision for impairment as per regulatory guidelines, the excess, shall be transferred as an appropriation from net profit after taxes to a regulatory reserve "Impairment reserve" under Parent Company's equity. In subsequent years, if IFRS 9 based provision for impairment (i.e. charge to the profit and loss) is lower than provision for impairment as per regulatory guidelines, the excess, shall be transferred as an appropriation from net profit after taxes to aforementioned Impairment reserve.

The regulatory impairment reserve cannot be used by the bank for capital adequacy calculation or for declaration of any dividends. Utilization of the Impairment reserve created above would require prior approval of the Central Bank of Oman.

**b) Reserve for restructured loans:**

The Parent Company has created a reserve for restructured accounts in accordance with the regulations of the Central Bank of Oman (CBO). This reserve represents provisions on performing but restructured. This reserve is not available for regulatory capital or distribution of dividends. The reserve will be released to retained earnings on satisfactory performance of these accounts as per regulatory guidelines.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****24. Legal and general reserves (continued)****(iv) Subordinated loan reserve**

The subordinated loan reserve is created in accordance with the guidelines given by the BIS and the Central Bank of Oman. During the year, the Parent Company transferred RO 13.090 million (2018: RO 13.090 million) to subordinated loan reserve from retained profit.

A subordinated loan of RO 13.090 million was repaid during the year (2018: RO 82.090 million). On maturity, the reserve of RO 13.090 million (2018: RO 82.090 million) related to this loan was thus transferred to general reserve.

**25. Perpetual Tier I Capital**

In April 2017, the Bank issued Additional Equity Tier 1 (AET1) capital deposit amounting to RO 130 million. The AET1 capital constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AET 1 capital do not have a fixed or final redemption date. They are first callable by the Bank after a minimum of 5 years from the instrument date and thereafter in accordance with the terms of the agreement and subject to prior approval of Central Bank of Oman.

The AET1 capital bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 5.5 percent. Thereafter the interest rate will be reset as per the terms of the agreement. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest will be paid exclusively out of the distributable profits of the Bank, and shall not be cumulative, and any interest which is not paid will not accumulate or compound. The depositor will have no right to receive such unpaid interest in the future, even if interest is paid in respect of any subsequent period. The Instrument meets all the requirements of AET 1 issuance as mandated by Basel and Central Bank of Oman norms.

**26. Proposed dividends**

For 2019, the Board of Directors has proposed a dividend of 40%, 35% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 108.317 million on Bank's existing share capital. In addition, they would receive bonus shares in the proportion of 1 share for every 20 ordinary shares aggregating to 154,739,168 shares of RO 0.100 each amounting to RO 15.474 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For 2018, the Board of Directors had proposed a dividend of 40%, 35% in the form of cash and 5% in the form of bonus shares which was approved by the Parent Company shareholders in its Annual General Meeting held on 25 March 2019. Thus shareholders received cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 103.159 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 147,370,636 shares of RO 0.100 each amounting to RO 14.737 million.

**27. Net assets per share**

The calculation of net assets per share is based on net assets as at 31 December 2019 attributable to ordinary shareholders of RO 1,872.636 million (2018: RO 1,797.742 million) and on 3,094,783,371 ordinary shares (2018 - 2,947,412,735 ordinary shares) being the number of shares outstanding as at 31 December 2019.

**28. Contingent liabilities and commitments****(a) Legal proceedings**

There were a number of legal proceedings outstanding against the Parent Company at 31 December 2019. Management is of the view that these claims are not probable or material..

**(b) Credit related commitments**

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Parent Company's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**28. Contingent liabilities and commitments (continued)**

Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash obligations.

Standby letters of credit and guarantees commit the Parent Company to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Irrevocable commitments to extend credit at the reporting date amounted to RO 323.2 million (2018: RO 561.9 million).

As of the reporting date, commitments on behalf of customers, for which there were corresponding customer liabilities consisted of the following:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
1,035,193	892,917	Letters of credit	343,773	398,549
5,916,587	5,140,738	Guarantees	1,979,184	2,277,886
<u>6,951,780</u>	<u>6,033,655</u>		<u>2,322,957</u>	<u>2,676,435</u>

**(c) Capital commitments**

As of the reporting date, capital commitments were as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
2,499	2,678	Purchase of property and equipment	1,031	962

(d) As of the reporting date, the Group has not pledged any of its assets as security (2018: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid investments in shares held by the Group was RO 3.8 million (2018: RO 1.8 million).

**29. Interest income / income from Islamic financing / investments**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
975,801	1,043,323	Loans and advances	401,679	375,683
50,187	51,894	Due from banks	19,979	19,322
65,018	78,855	Investments	30,359	25,032
<u>1,091,006</u>	<u>1,174,072</u>		<u>452,017</u>	<u>420,037</u>
143,231	160,977	Islamic financing receivables	61,976	55,144
2,242	3,358	Islamic due from banks	1,293	863
6,756	7,304	Islamic investment	2,812	2,601
<u>152,229</u>	<u>171,639</u>		<u>66,081</u>	<u>58,608</u>
<u>1,243,235</u>	<u>1,345,711</u>		<u>518,098</u>	<u>478,645</u>

Effective annual rates on yielding assets are provided in note 42.4.4.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**30. Interest expense / distribution to depositors**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
247,609	<b>304,315</b>	Customers' deposits	<b>117,161</b>	95,329
17,332	<b>4,860</b>	Subordinated liabilities	<b>1,871</b>	6,673
58,031	<b>63,010</b>	Bank borrowings	<b>24,259</b>	22,342
49,257	<b>46,353</b>	Euro medium term notes	<b>17,846</b>	18,964
<b>372,229</b>	<b>418,538</b>		<b>161,137</b>	143,308
65,735	<b>76,704</b>	Islamic customers' deposits	<b>29,531</b>	25,308
6,018	<b>10,112</b>	Sukuk	<b>3,893</b>	2,317
8,891	<b>17,052</b>	Islamic bank borrowings	<b>6,565</b>	3,423
<b>80,644</b>	<b>103,868</b>		<b>39,989</b>	31,048
<b>452,873</b>	<b>522,406</b>		<b>201,126</b>	174,356

Interest expense on customers deposits include cost of prize schemes of RO 10 million (2018: RO 10 million) offered by the Bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

**31. Commission and fee income (net)**

The commission and fee income shown in the statement of consolidated comprehensive income is net of commission and fee paid of RO 1.113 million (2018: RO 1.277 million).

**32. Other operating income**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
93,366	<b>103,205</b>	Foreign exchange	<b>39,734</b>	35,946
(5,608)	<b>4,127</b>	Changes in fair value of financial assets	<b>1,589</b>	(2,159)
179	<b>3,548</b>	Net realised gain on sale of fair value investments	<b>1,366</b>	69
18,190	<b>17,088</b>	Dividend income	<b>6,579</b>	7,003
13,294	<b>9,473</b>	Other income	<b>3,647</b>	5,118
<b>119,421</b>	<b>137,441</b>		<b>52,915</b>	45,977

Dividend income recognised on FVOCI investments during the year ended 31 December 2019 is RO 5.341 million (2018: RO 5.845 million), out of which RO 688 thousand (2018: RO 17 thousand) pertains to investments sold during the year

**33. Other operating expenses**

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
174,838	<b>177,008</b>	Employees' salaries	<b>68,148</b>	67,313
77,857	<b>77,917</b>	Other staff costs	<b>29,998</b>	29,975
14,151	<b>14,499</b>	Contribution to social insurance schemes	<b>5,582</b>	5,448
2,748	<b>2,909</b>	Employees end of service benefits	<b>1,120</b>	1,058
<b>269,594</b>	<b>272,333</b>		<b>104,848</b>	103,794
144,660	<b>155,152</b>	Administrative expenses	<b>59,734</b>	55,694
44,925	<b>17,738</b>	Occupancy costs	<b>6,829</b>	17,296
-	<b>9,483</b>	Finance charges on lease (note 13)	<b>3,651</b>	-
519	<b>519</b>	Directors' remuneration	<b>200</b>	200
<b>459,698</b>	<b>455,225</b>		<b>175,262</b>	176,984

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**34. Cash and cash equivalents**

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
685,197	<b>1,584,317</b>	Due from banks	<b>609,962</b>	263,801
3,392,873	<b>2,029,234</b>	Cash and balances with Central Banks	<b>781,255</b>	1,306,256
1,287,473	<b>1,199,530</b>	Treasury bills	<b>461,819</b>	495,677
(1,659,457)	<b>(2,261,951)</b>	Deposits from banks	<b>(870,851)</b>	(638,891)
<b>3,706,086</b>	<b>2,551,130</b>		<b>982,185</b>	1,426,843

**35. Earnings per share**

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2019	2018
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	<b>185,550</b>	179,633
Interest on convertible bonds, net of taxation (RO 000's)	-	206
	<b>185,550</b>	179,839
Weighted average number of ordinary shares adjusted for effect of dilution (in 000's)	<b>3,094,784</b>	3,072,581
Basic earnings per share (RO)	<b>0.060</b>	0.059
Basic earnings per share (US\$)	<b>0.16</b>	0.15

There are no instruments that are dilutive in nature, hence the basic and diluted earnings per share are same for both the years.

**The weighted number of ordinary shares (in 000's) have been calculated as follows:**

	2019	2018
At 1 January	<b>2,947,413</b>	2,709,362
Effect of shares issued in conversion of convertible bonds	-	80,380
Effect of bonus shares issued in 2019	<b>147,371</b>	147,371
Effect of bonus shares issued in 2018	-	135,468
Weighted average number of ordinary shares	<b>3,094,784</b>	3,072,581

**36. Related party transactions**

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The Group engages in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management. The balances in respect of related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
		<b>a) Directors and senior management</b>		
6,642	<b>7,177</b>	Loans and advances	<b>2,763</b>	2,557
4,374	<b>2,530</b>	Current, deposit and other accounts	<b>974</b>	1,684
		<b>b) Major shareholders and others</b>		
171,491	<b>200,904</b>	Loans and advances	<b>77,348</b>	66,024
147,392	<b>70,740</b>	Current, deposit and other accounts	<b>27,235</b>	56,746
		Customers' liabilities under documentary credits, guarantees and other commitments	<b>7,685</b>	7,037
18,278	<b>19,961</b>			

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**36. Related party transactions (continued)**

The income and expenses in respect of the related parties included in the consolidated financial statements are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
		<b>a) Directors and senior management</b>		
387	<b>338</b>	Interest income	<b>130</b>	149
52	<b>112</b>	Interest expense	<b>43</b>	20
299	<b>317</b>	Directors' remuneration	<b>122</b>	115
221	<b>203</b>	Directors' sitting fees	<b>78</b>	85
		<b>b) Major shareholders and others</b>		
7,112	<b>8,665</b>	Interest income	<b>3,336</b>	2,738
4,447	<b>2,618</b>	Interest expenditure	<b>1,008</b>	1,712

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10 percent or more of Banks shares, or their family members, less all provisions and write-offs, are further analysed as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
102,473	<b>109,120</b>	Royal Court Affairs	<b>42,011</b>	39,452
		H.E.Sheikh Mustahail Ahmed Al Mashani		
87,403	<b>112,135</b>	group companies	<b>43,172</b>	33,650
6,535	<b>6,787</b>	Others	<b>2,613</b>	2,516
<u>196,411</u>	<u><b>228,042</b></u>		<u><b>87,796</b></u>	<u>75,618</u>

During 2017, the Group entered into a settlement agreement with its related party Dubai Group LLC ('the borrower') on their exposure with the bank. As on 31 December 2017, the Group carried 100% provision towards this exposure. Under the agreement, the Group received RO 2.520 million as full and final settlement from the borrower in March 2018 against an exposure of RO 8.755 million. The settlement and the balance write-off is approved by the Board of directors and has necessary regulatory approval. Accordingly, in 2018, the Group has recovered RO 2.520 million and has written off RO 6.235 million in the books of account.

**Interest expense incurred on deposits:**

Items of expense which were paid to related parties or holders of 10 percent or more of the Bank's shares, or their family members, during the year can be further analysed as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
2,839	<b>1,070</b>	Royal Court Affairs	<b>412</b>	1,093
		H.E. Sheikh Mustahail Ahmed Al Mashani		
1,608	<b>1,574</b>	group companies	<b>606</b>	619
52	<b>86</b>	Others	<b>33</b>	20
<u>4,499</u>	<u><b>2,730</b></u>		<u><b>1,051</b></u>	<u>1,732</u>

**Key management compensation**

Key management comprises of 7 members (2018 : 5 member) of the management executive committee in the year 2019. The Bank considers the members of Management Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

In the ordinary course of business, the Group conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
2,714	<b>3,229</b>	Loans and advances	<b>1,243</b>	1,045
3,260	<b>2,465</b>	Current, deposit and other accounts	<b>949</b>	1,255

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**36. Related party transactions (continued)**

The income and expenses in respect of these related parties included in the consolidated financial statements are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
234	135	Interest income	52	90
44	112	Interest expenditure	43	17
15,044	10,117	Salaries and other short-term benefits	3,895	5,792
143	151	Post-employment benefits	58	55

The amounts disclosed in the table are the amounts accrued / paid recognised as an expense during the reporting period related to key management personnel. Certain components of key management compensation are on deferral basis and are disclosed accordingly. The previous year figures are revised considering the actual payment wherever applicable.

**37. Fiduciary activities**

The Group's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
2,897,286	3,074,694	Funds under management	1,183,757	1,115,455

**Involvement with unconsolidated structured entities**

The Group's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals.

The following table describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
335,132	402,665	Funds under management	155,026	129,026

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
35,644	29,909	Carrying amount of funds invested	11,515	13,723

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The following table sets out information in respect of structured entities that the Group sponsors, but in which the Group does not have an interest.

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
471,748	377,722	Funds under management	145,423	181,623
1,532	1,478	Commission and fees	569	590



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****38. Derivatives**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains and losses are either recognised in profit and loss or in other comprehensive income. The Group uses the following derivative financial instruments:

**Derivative product types**

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

**Derivatives held or issued for hedging purposes**

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Parent Company has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk movement on Euro medium term notes and certain of its customer deposits. Further, the Group has also entered into interest rate swaps that are designated as cash flow hedges for hedging the cash flow volatility risk on its subordinated liabilities. The cumulative change in the fair value of the hedged liabilities attributable to the risk hedged is recorded as part of their respective carrying values and are accordingly presented in statement of financial position.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**38. Derivatives (continued)**

31 December 2019	Positive fair value (note 8)	Negative Fair value (note 19)	Notional amount total	RO 000's		
				Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
Fair value hedges	410	16	202,333	9,833	-	192,500
Cash flow hedges	-	40	26,180	-	-	26,180
Interest rate swaps	9,907	9,773	840,428	-	198,749	641,679
Commodities purchase contracts	4,695	1,605	119,427	70,261	46,598	2,568
Commodities sale contracts	1,694	4,569	119,426	70,260	46,598	2,568
Forward purchase contracts	848	1,144	1,749,425	945,799	633,216	170,410
Forward sales contracts	4,720	1,528	1,742,584	943,912	630,008	168,664
Total	22,274	18,675	4,799,803	2,040,065	1,555,169	1,204,569
Total US\$ 000's	57,855	48,506	12,467,021	5,298,870	4,039,400	3,128,751

31 December 2018	Positive fair value (note 8)	Negative Fair value (note 19)	Notional amount total	RO 000's		
				Notional amounts by term to maturity		
				within 3 months	4-12 months	> 12 months
Fair value hedges	-	301	29,637	-	-	29,637
Cash flow hedges	514	-	39,270	-	-	39,270
Interest rate swaps	6,553	6,533	701,597	8,767	-	692,830
Currency options bought	3	-	321	321	-	-
Currency options sold	-	3	321	321	-	-
Commodities purchase contracts	758	5,187	115,315	64,965	45,905	4,445
Commodities sale contracts	5,333	738	115,315	64,965	45,905	4,445
Forward purchase contracts	434	1,830	1,661,242	1,058,525	491,319	111,398
Forward sales contracts	4,836	4,864	1,658,214	1,060,506	487,200	110,508
Total	18,431	19,456	4,321,232	2,258,370	1,070,329	992,533
Total US\$ 000's	47,873	50,535	11,223,979	5,865,896	2,780,075	2,578,008

**39. Repurchase agreements**

The Group did not have any repurchase transactions outstanding as of the reporting date (2018: nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**40. Geographical distribution of assets and liabilities**

The geographical distribution of assets and liabilities was as follows:

<b>At 31 December 2019</b>	<b>Sultanate of Oman RO000's</b>	<b>Other GCC countries RO000's</b>	<b>Europe RO000's</b>	<b>United States of America RO000's</b>	<b>Others RO000's</b>	<b>Total RO000's</b>
Cash and balances with Central Banks	639,341	142,414	-	-	-	781,755
Due from banks	86,323	569,399	39,774	60,538	113,770	869,804
Loans and advances	8,561,277	263,061	103	-	53,600	8,878,041
Investments	965,517	111,713	1,502	415	365,685	1,444,832
Property and equipment and other assets	290,344	25,832	-	-	-	316,176
<b>Total assets</b>	<b>10,542,802</b>	<b>1,112,419</b>	<b>41,379</b>	<b>60,953</b>	<b>533,055</b>	<b>12,290,608</b>
Deposits from banks	60,630	611,090	244,351	3,850	253,558	1,173,479
Customers' deposits	7,524,601	484,075	1,944	955	32,091	8,043,666
Euro medium term notes/ Sukuk	90,205	-	385,410	-	-	475,615
Other liabilities and taxation	517,806	51,200	10	-	16	569,032
Subordinated liabilities	-	-	-	26,180	-	26,180
Shareholders' funds	2,002,636	-	-	-	-	2,002,636
<b>Total liabilities and equity</b>	<b>10,195,878</b>	<b>1,146,365</b>	<b>631,715</b>	<b>30,985</b>	<b>285,665</b>	<b>12,290,608</b>

<b>At 31 December 2019</b>	<b>Sultanate of Oman US\$ 000's</b>	<b>Other GCC countries US\$ 000's</b>	<b>Europe US\$ 000's</b>	<b>United States of America US\$ 000's</b>	<b>Others US\$ 000's</b>	<b>Total US\$ 000's</b>
Cash and balances with Central Banks	1,660,627	369,906	-	-	-	2,030,533
Placements with banks	224,215	1,478,958	103,309	157,242	295,506	2,259,230
Loans and advances	22,237,083	683,274	268	-	139,221	23,059,846
Investments	2,507,837	290,164	3,901	1,078	949,831	3,752,811
Property and equipment and other assets	754,140	67,096	-	-	-	821,236
<b>Total assets</b>	<b>27,383,902</b>	<b>2,889,398</b>	<b>107,478</b>	<b>158,320</b>	<b>1,384,558</b>	<b>31,923,656</b>
Deposits from banks	157,480	1,587,247	634,678	10,000	658,592	3,047,997
Customers' deposits	19,544,418	1,257,338	5,049	2,481	83,353	20,892,639
Euro medium term notes and Sukuk	234,299	-	1,001,065	-	-	1,235,364
Other liabilities and taxation	1,344,949	132,987	26	-	42	1,478,004
Subordinated liabilities	-	-	-	68,000	-	68,000
Shareholders' funds	5,201,652	-	-	-	-	5,201,652
<b>Total liabilities and equity</b>	<b>26,482,798</b>	<b>2,977,572</b>	<b>1,640,818</b>	<b>80,481</b>	<b>741,987</b>	<b>31,923,656</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**40. Geographical distribution of assets and liabilities (continued)**

At 31 December 2018	Sultanate of Oman RO 000's	Other GCC countries RO 000's	Europe RO 000's	United States of America RO 000's	Others RO 000's	Total RO 000's
Cash and balances with						
Central Banks	1,207,473	99,283	-	-	-	1,306,756
Due from banks	5,497	154,140	124,240	57,742	134,424	476,043
Loans and advances	8,484,035	403,619	2,701	-	48,560	8,938,915
Investments	759,478	128,827	114,139	-	267,138	1,269,582
Property and equipment and other assets	287,401	9,342	-	-	-	296,743
<b>Total assets</b>	<b>10,743,884</b>	<b>795,211</b>	<b>241,080</b>	<b>57,742</b>	<b>450,122</b>	<b>12,288,039</b>
Deposits from banks	19,421	485,502	48,608	7	398,340	951,878
Customers' deposits	7,884,400	549,985	1,888	971	25,441	8,462,685
Euro medium term notes/ Sukuk	44,608	-	385,000	-	-	429,608
Other liabilities and taxation	455,201	21,578	-	-	77	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	1,927,742	-	-	-	-	1,927,742
<b>Total liabilities and equity</b>	<b>10,331,372</b>	<b>1,057,065</b>	<b>435,496</b>	<b>40,248</b>	<b>423,858</b>	<b>12,288,039</b>

At 31 December 2018	Sultanate of Oman US\$ 000's	Other GCC countries US\$ 000's	Europe US\$ 000's	United States of America US\$ 000's	Others US\$ 000's	Total US\$ 000's
Cash and balances with						
Central Banks	3,136,294	257,878	-	-	-	3,394,172
Due from banks	14,278	400,364	322,701	149,979	349,153	1,236,475
Loans and advances	22,036,454	1,048,360	7,016	-	126,130	23,217,960
Investments	1,972,669	334,616	296,465	-	693,865	3,297,615
Property and equipment and other assets	746,496	24,265	-	-	-	770,761
<b>Total assets</b>	<b>27,906,191</b>	<b>2,065,483</b>	<b>626,182</b>	<b>149,979</b>	<b>1,169,148</b>	<b>31,916,983</b>
Deposits from banks	50,445	1,261,044	126,255	18	1,034,649	2,472,411
Customers' deposits	20,478,961	1,428,532	4,904	2,522	66,081	21,981,000
Euro medium term notes/ Sukuk	115,865	-	1,000,000	-	-	1,115,865
Other liabilities and taxation	1,182,339	56,047	-	-	200	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	5,007,121	-	-	-	-	5,007,121
<b>Total liabilities and equity</b>	<b>26,834,731</b>	<b>2,745,623</b>	<b>1,131,159</b>	<b>104,540</b>	<b>1,100,930</b>	<b>31,916,983</b>

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 41. Segmental information

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking, as all of these business lines are located in Oman. Segment information in respect of geographical locations is as follows:

#### For the year ended 31 December 2019:

Total US\$ 000's	International US\$ 000's	Oman US\$ 000's		Oman RO 000's	International RO 000's	Total RO 000's
1,174,072	49,013	1,125,059	Interest income	433,147	18,870	452,017
(418,538)	(26,990)	(391,548)	Interest expense	(150,746)	(10,391)	(161,137)
171,639	-	171,639	Income from Islamic financing / investments	66,081	-	66,081
(103,868)	-	(103,868)	Distribution to depositor's	(39,989)	-	(39,989)
265,673	12,665	253,008	Commission and fee income (net)	97,408	4,876	102,284
137,441	4,979	132,462	Other operating income	50,998	1,917	52,915
<b>1,226,419</b>	<b>39,667</b>	<b>1,186,752</b>	<b>Operating income</b>	<b>456,899</b>	<b>15,272</b>	<b>472,171</b>
(455,225)	(17,048)	(438,177)	Other operating expenses	(168,699)	(6,563)	(175,262)
(53,686)	(1,311)	(52,375)	Depreciation	(20,164)	(505)	(20,669)
(145,784)	(55,153)	(90,631)	Net impairment losses on financial assets	(34,893)	(21,234)	(56,127)
(89,774)	(518)	(89,256)	Tax expense	(34,364)	(199)	(34,563)
(744,469)	(74,030)	(670,439)	Total	(258,120)	(28,501)	(286,621)
<b>481,950</b>	<b>(34,363)</b>	<b>516,313</b>	<b>Profit / (loss) for the year</b>	<b>198,779</b>	<b>(13,229)</b>	<b>185,550</b>
31,923,656	1,259,590	30,664,066	Total assets	11,805,666	484,942	12,290,608
22,044	618	21,426	Capital expenses	8,249	238	8,487

# **BANK MUSCAT SAOG**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

### **41. Segmental information (continued)**

For the year ended 31 December 2018:

Total US\$ 000's	International US\$ 000's	Oman US\$ 000's		Oman RO 000's	International RO 000's	Total RO 000's
1,091,006	51,662	1,039,344	Interest income	400,147	19,890	420,037
(372,229)	(29,366)	(342,863)	Interest expense	(132,002)	(11,306)	(143,308)
152,229	-	152,229	Income from Islamic financing	58,608	-	58,608
(80,644)	-	(80,644)	Distribution to depositors	(31,048)	-	(31,048)
250,571	16,694	233,877	Commission and fee income (net)	90,043	6,427	96,470
119,421	8,301	111,120	Other operating income	42,781	3,196	45,977
1,160,354	47,291	1,113,063		428,529	18,207	446,736
(459,698)	(21,372)	(438,326)	Other operating expenses	(168,756)	(8,228)	(176,984)
(34,699)	(656)	(34,043)	Depreciation	(13,106)	(253)	(13,359)
(112,317)	(44,538)	(67,779)	Net impairment losses on financial assets	(26,095)	(17,147)	(43,242)
(87,060)	(131)	(86,929)	Tax expense	(33,468)	(50)	(33,518)
(693,774)	(66,697)	(627,077)		(241,425)	(25,678)	(267,103)
466,580	(19,406)	485,986	Profit / (loss) for the year	187,104	(7,471)	179,633
31,916,983	1,428,855	30,488,128	Total assets	11,737,930	550,109	12,288,039
27,894	364	27,530	Capital expenses	10,599	140	10,739

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 41. Segmental information (continued)

The Group reports the segment information by the following business segments viz. Corporate, Consumer, Wholesale, International and Islamic Banking. The following table shows the distribution of the Group's operating income, profit and total assets by business segments:

- Corporate banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposit taking, trade finance, foreign exchange, transaction banking, cash management and other related services;
- Consumer banking provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposit accounts including saving deposits, foreign exchange, e-banking, remittances, bancassurance and other branch-related services;
- Wholesale Banking includes treasury, financial institutions, investments, advisory, asset management and private banking services;
- International banking includes activities of overseas branches, representative offices, subsidiary and strategic investment outside Oman. International banking includes overseas operations and cost allocations from Oman operations.
- Islamic banking represents the banking activities of the bank's Islamic window in Oman.

31 December 2019	-----Conventional banking -----					Islamic Banking RO 000's	Total RO 000's
	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Subtotal RO 000's		
Net interest income	123,714	134,206	24,363	8,597	290,880	-	290,880
Net income from Islamic financing	-	-	-	-	-	26,092	26,092
Commission, fees and other income (net)	21,270	73,214	50,015	6,864	151,363	3,836	155,199
<b>Operating income</b>	<b>144,984</b>	<b>207,420</b>	<b>74,378</b>	<b>15,461</b>	<b>442,243</b>	<b>29,928</b>	<b>472,171</b>
Operating expenses (incl. depreciation)	(30,907)	(124,766)	(18,205)	(8,902)	(182,780)	(13,151)	(195,931)
Net impairment losses on financial assets	(20,949)	(8,933)	(519)	(21,234)	(51,635)	(4,492)	(56,127)
Tax expense	(13,924)	(11,041)	(8,010)	(122)	(33,097)	(1,466)	(34,563)
	(65,780)	(144,740)	(26,734)	(30,258)	(267,512)	(19,109)	(286,621)
<b>Profit (loss) for the year</b>	<b>79,204</b>	<b>62,680</b>	<b>47,644</b>	<b>(14,797)</b>	<b>174,731</b>	<b>10,819</b>	<b>185,550</b>
Total assets	4,324,501	3,442,401	2,563,169	518,644	10,848,715	1,441,893	12,290,608
Operating income (US \$ 000's)	376,583	538,753	193,190	40,158	1,148,684	77,735	1,226,419
Profit (loss) for the year (US \$ 000's)	205,726	162,806	123,751	(38,434)	453,849	28,101	481,950
Total assets (US \$ 000's)	11,232,469	8,941,301	6,657,582	1,347,127	28,178,479	3,745,177	31,923,656

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 41. Segmental information (continued)

As at 31 December 2018	-----Conventional banking-----					Islamic banking RO 000's	Total RO 000's
	Corporate banking RO 000's	Consumer banking RO 000's	Wholesale banking RO 000's	International banking RO 000's	Subtotal RO 000's		
Net interest income	117,833	124,709	25,520	8,667	276,729	-	276,729
Net income from Islamic financing	-	-	-	-	-	27,560	27,560
Commission, fees and other income (net)	25,616	63,589	40,747	9,683	139,635	2,812	142,447
Operating income	143,449	188,298	66,267	18,350	416,364	30,372	446,736
Operating expenses (including depreciation)	(29,974)	(118,992)	(17,428)	(10,411)	(176,805)	(13,538)	(190,343)
Net impairment losses on financial assets	(19,925)	(4,898)	2,771	(17,147)	(39,199)	(4,043)	(43,242)
Tax expense	(14,099)	(9,702)	(7,551)	(120)	(31,472)	(2,046)	(33,518)
	(63,998)	(133,592)	(22,208)	(27,678)	(247,476)	(19,627)	(267,103)
Profit/ (loss) for the year	79,451	54,706	44,059	(9,328)	168,888	10,745	179,633
Total assets	4,464,602	3,292,808	2,570,947	584,098	10,912,455	1,375,584	12,288,039
Operating income (US \$ 000's)	372,596	489,086	172,122	47,662	1,081,466	78,888	1,160,354
Profit/ (loss) for the year (US \$ 000's)	206,367	142,094	114,439	(24,229)	438,671	27,909	466,580
Total assets (US \$ 000's)	11,596,368	8,552,748	6,677,784	1,517,138	28,344,038	3,572,945	31,916,983



# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 41. Segmental information (continued)

#### Disaggregated revenues 2019

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) and other operating income into contract revenues and non-contract revenues within Group's reportable segments. Contract revenue is further segregated based on the products and services:

Commission and fee income (net) and other operating income	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Subtotal RO 000's	Islamic Banking RO 000's	Total RO 000's
<b>Contract revenue</b>							
Transactional income	2,591	61,826	1,181	174	65,772	1,416	67,188
Trade income	9,321	498	4,576	2,427	16,822	270	17,092
Syndication and other loan related income	6,577	1,190	1,234	521	9,522	377	9,899
Advisory, asset management and private equity services related income	54	213	8,999	1,869	11,135	134	11,269
<b>Total contract revenue</b>	<b>18,543</b>	<b>63,727</b>	<b>15,990</b>	<b>4,991</b>	<b>103,251</b>	<b>2,197</b>	<b>105,448</b>
<b>Non contract revenue</b>	<b>2,727</b>	<b>9,487</b>	<b>34,025</b>	<b>1,873</b>	<b>48,112</b>	<b>1,639</b>	<b>49,751</b>
<b>Total</b>	<b>21,270</b>	<b>73,214</b>	<b>50,015</b>	<b>6,864</b>	<b>151,363</b>	<b>3,836</b>	<b>155,199</b>
(US \$ 000's)	<b>55,246</b>	<b>190,166</b>	<b>129,909</b>	<b>17,829</b>	<b>393,150</b>	<b>9,964</b>	<b>403,114</b>

Commission and fee income (net) and other operating income	Corporate Banking RO 000's	Consumer banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Subtotal RO 000's	Islamic Banking RO 000's	Total RO 000's
<b>Contract revenue</b>							
Transactional income	4,142	54,190	1,048	113	59,493	875	60,368
Trade income	11,518	-	3,754	3,264	18,536	439	18,975
Syndication and other loan related income	8,104	1,172	1,237	644	11,157	368	11,525
Advisory, Asset Management and Private Equity services related income	4	107	8,390	2,454	10,955	44	10,999
<b>Total contract revenue</b>	<b>23,768</b>	<b>55,469</b>	<b>14,429</b>	<b>6,475</b>	<b>100,141</b>	<b>1,726</b>	<b>101,867</b>
<b>Non contract revenue</b>	<b>1,848</b>	<b>8,120</b>	<b>26,318</b>	<b>3,208</b>	<b>39,494</b>	<b>1,086</b>	<b>40,580</b>
<b>Total</b>	<b>25,616</b>	<b>63,589</b>	<b>40,747</b>	<b>9,683</b>	<b>139,635</b>	<b>2,812</b>	<b>142,447</b>
(US \$ 000's)	<b>66,535</b>	<b>165,166</b>	<b>105,836</b>	<b>25,151</b>	<b>362,688</b>	<b>7,304</b>	<b>369,992</b>

The group has contract assets and contract liabilities amounting to RO 4.187 million (2018: RO 4.213 million) and RO 3.721 million (2018: RO 4.430 million) respectively.

No impairment losses have been recognised relating to the contract assets. Further, the contracts do not have a significant financing component.

The contract liabilities primarily relate to the non-refundable fees received from customers where revenue is recognised over a period of time as mentioned in note 3.2. The amount of RO 1.189 million (2018: RO 1.193 million) recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019. Management expects that 26% (2018: 22%) of revenue for the remaining performance obligations will be recognised every year for the next three years.

The revenue from contracts with customers does not include revenue recognised from performance obligations satisfied in previous periods.

## **BANK MUSCAT SAOG**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

#### **42. Financial risk management**

##### **42.1 Introduction and overview**

Risk Management is a process by which the Group identifies key risks by applying consistent risk measurement techniques, recommends which risks to accept or reject or mitigate, by what means and establishes procedures to monitor and report the resulting risk position for necessary action.

The objective of risk management is to ensure that the Group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. In the Group, risk is defined as the potential for loss or an undesirable outcome in relation to expected earnings, capital adequacy or liquidity, leading to volatility in earnings. The Bank has exposure to the following core risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk management is the overall responsibility of the Group's Board of Directors and managed through the Board Risk Committee (BRC). The Board of Directors reviews and approves the risk management strategy and defines the risk appetite of the Group. To facilitate achievement of the Group's strategic objectives within the Board approved risk appetite, the Group has established a Management Risk Committee (MRC). The Management Risk Committee provides recommendations to the Board of Directors through BRC on the risk-reward strategy, risk appetite, policies and framework for managing various risks. For the purpose of day-to-day management of risks, the Group has established an independent Risk Management Department (RMD), which objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters set by the Board of Directors. The Risk Management Department acts independently of the business with direct reporting to the Board of Directors.

The risk appetite in various business areas is defined and communicated through a well-established Enterprise-wide risk policy. Enterprise wide risks are managed with the objective of maximising risk adjusted returns through a well-defined risk management framework. The Group's risk policy, approved by the Board of Directors, analyses and sets risk limits/thresholds for Credit, Market, Liquidity, Operational and other risks. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels is reported on a regular basis. This ensures prudent management of risks assumed by the Group in its normal course of business. The risk policy is updated regularly, based on changes in Group's strategy/ organisational goals, regulatory guidelines, analysis of the economic trends and the operating environment in the countries where the Group operates.

The Group's risk management processes have proven to be effective throughout the year and remains well supported by a strong risk culture. The Group's Board has remained closely involved with key risk management initiatives, ensuring effective management of the Group's risks, maintenance of appropriate levels of liquidity and capital in line with the evolving requirements.

The Group recognises risk management process as a key to achieve its objective of enhancing shareholder value and as an area of core competence. It continues to invest in enhancing its risk management capabilities, to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

##### **42.2 Credit risk**

###### **42.2.1 Management of credit risk**

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Sovereign/ Country risk
- Counterparty Risk
- Settlement risk

The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Group's risk exposure.

## **BANK MUSCAT SAOG**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

#### **42. Financial risk management (continued)**

##### **42.2 Credit risk (continued)**

##### **42.2.1 Management of credit risk (continued)**

##### **Risk limit control and mitigation policies**

The credit risk management process in the Group begins with the risk policy, which defines indicators to address different dimensions of credit risk including credit concentration risk, single borrower limit etc. For each of the indicator, the Group has set for itself, clear and well-defined limit and trigger point. Compliance with the various indicators is monitored and reported on a regular basis and exceptions, if any are escalated to enable remedial actions.

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off – all are governed by the Group’s credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate ‘Lending Authority Limits’.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related Group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group’s risk policy.
- The analysis of large customers at group level is conducted on a regular basis. The lending division undertakes account updates, monitoring and management of exposures on a continuous basis. Industry and sectoral analysis, benchmark reports are analysed as a part of credit risk management process to understand the trends in industry.
- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.
- Retail portfolio is rated using an application score card.

A robust collateral management system is in place to mitigate any credit risk. The Group has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collateral. While securities such as listed equities are valued regularly, credit policy mandates securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

The Group executes Credit Support annex to the International Swaps and Derivatives Association (ISDA) document with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

# **BANK MUSCAT SAOG**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

### **42. Financial risk management (continued)**

#### **42.2 Credit risk (continued)**

##### **42.2.2 Credit quality analysis**

All loans and advances of the Group are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

As required under IFRS 9, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: Financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified as Stage 1. When a Credit Facility is first recognised, the Group recognises a loss allowance based on 12 month ECL.
- Stage 2: Financial instruments having Significant Increase in Credit Risk ("SICR") since origination will be classified under Stage 2 (if not impaired). When a Credit Facility has shown a significant increase in credit risk since origination, the Group records a loss allowance for the life time (LT) ECL; and
- Stage 3: All credit facilities that are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or interest is overdue by more than 89 days. Besides quantitative and qualitative criteria are also applied for assigning Stage 3. In such cases, the Group records a loss allowance for the LTECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.2 Credit quality analysis (continued)

31 December 2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Gross exposure</b>				
Central Bank balances	134,179	-	-	134,179
Due from Banks	821,428	387	-	821,815
Loans and advances	7,017,732	1,876,548	298,547	9,192,827
Investment securities at FVOCI	52,486	8,303	-	60,789
Investment securities at amortized cost	1,266,969	8,029	-	1,274,998
<b>Total</b>	<b>9,292,794</b>	<b>1,893,267</b>	<b>298,547</b>	<b>11,484,608</b>
Financial guarantee contracts	1,414,473	859,937	48,547	2,322,957
Acceptances	77,457	45,984	21	123,462
Loan commitment/unutilised limits	1,347,493	698,640	-	2,046,133
<b>Total</b>	<b>2,839,423</b>	<b>1,604,561</b>	<b>48,568</b>	<b>4,492,552</b>
<b>Total gross exposure</b>	<b>12,132,217</b>	<b>3,497,828</b>	<b>347,115</b>	<b>15,977,160</b>
US\$'000	<u>31,512,252</u>	<u>9,085,268</u>	<u>901,597</u>	<u>41,499,117</u>
<b>Impairment</b>				
Central Bank balances	-	-	-	-
Due from Banks	751	15	-	766
Loans and advances	18,203	77,751	218,832	314,786
Investment securities at FVOCI	140	1,171	-	1,311
Investment securities at amortised cost	267	35	-	302
<b>Total</b>	<b>19,361</b>	<b>78,972</b>	<b>218,832</b>	<b>317,165</b>
Financial guarantee contracts	1,947	17,533	34,662	54,142
Acceptances	45	100	-	145
Loan commitment/unutilised limits	2,460	8,285	-	10,745
<b>Total</b>	<b>4,452</b>	<b>25,918</b>	<b>34,662</b>	<b>65,032</b>
<b>Total impairment</b>	<b>23,813</b>	<b>104,890</b>	<b>253,494</b>	<b>382,197</b>
US\$'000	<u>61,852</u>	<u>272,442</u>	<u>658,426</u>	<u>992,720</u>
<b>Net exposure</b>				
Central Bank balances	134,179	-	-	134,179
Due from Banks	820,677	372	-	821,049
Loans and advances	6,999,529	1,798,797	79,715	8,878,041
Investment securities at FVOCI	52,346	7,132	-	59,478
Investment securities at amortized cost	1,266,702	7,994	-	1,274,696
<b>Total</b>	<b>9,273,433</b>	<b>1,814,295</b>	<b>79,715</b>	<b>11,167,443</b>
Financial guarantee contracts	1,412,526	842,404	13,885	2,268,815
Acceptances	77,412	45,884	21	123,317
Loan commitment/unutilised limits	1,345,033	690,355	-	2,035,388
<b>Total</b>	<b>2,834,971</b>	<b>1,578,643</b>	<b>13,906</b>	<b>4,427,520</b>
<b>Total net exposure</b>	<b>12,108,404</b>	<b>3,392,938</b>	<b>93,621</b>	<b>15,594,963</b>
US\$'000	<u>31,450,400</u>	<u>8,812,826</u>	<u>243,171</u>	<u>40,506,397</u>

Stage 1: 75.9% of gross exposure is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 21.9% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9.

Stage 3: 2.2% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.2 Credit quality analysis (continued)

31 December 2018

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Gross exposure</b>				
Central Bank balances	773,482	-	-	773,482
Due from banks	457,106	335	-	457,441
Loans and advances	6,595,413	2,385,829	286,784	9,268,026
Investment securities at FVOCI	51,440	11,439	-	62,879
Investment securities at amortised cost	1,076,278	8,910	-	1,085,188
<b>Total</b>	<b>8,953,719</b>	<b>2,406,513</b>	<b>286,784</b>	<b>11,647,016</b>
Financial guarantee contracts	1,694,294	967,009	15,132	2,676,435
Acceptances	42,871	64,561	56	107,488
Loan commitment/unutilised limits	1,212,384	1,088,437	-	2,300,821
<b>Total</b>	<b>2,949,549</b>	<b>2,120,007</b>	<b>15,188</b>	<b>5,084,744</b>
<b>Total gross exposure</b>	<b>11,903,268</b>	<b>4,526,520</b>	<b>301,972</b>	<b>16,731,760</b>
<b>(US\$'000)</b>	<b>30,917,579</b>	<b>11,757,195</b>	<b>784,343</b>	<b>43,459,117</b>
<b>Impairment</b>				
Central Bank balances	-	-	-	-
Due from Banks	645	3	-	648
Loans and advances	14,942	107,679	206,490	329,111
Investment securities at FVOCI	84	848	-	932
Investment securities at amortised cost	89	92	-	181
<b>Total</b>	<b>15,760</b>	<b>108,622</b>	<b>206,490</b>	<b>330,872</b>
Financial guarantee contracts	1,330	21,257	7,233	29,820
Acceptances	16	48	27	91
Loan commitment/unutilised limits	2,246	7,973	-	10,219
<b>Total</b>	<b>3,592</b>	<b>29,278</b>	<b>7,260</b>	<b>40,130</b>
<b>Total impairment</b>	<b>19,352</b>	<b>137,900</b>	<b>213,750</b>	<b>371,002</b>
<b>(US\$'000)</b>	<b>50,265</b>	<b>358,182</b>	<b>555,195</b>	<b>963,642</b>
<b>Net exposure</b>				
Central Bank balances	773,482	-	-	773,482
Due from Banks	456,461	332	-	456,793
Loans and advances	6,580,471	2,278,150	80,294	8,938,915
Investment securities at FVOCI	51,356	10,591	-	61,947
Investment securities at amortised cost	1,076,189	8,818	-	1,085,007
<b>Total</b>	<b>8,937,959</b>	<b>2,297,891</b>	<b>80,294</b>	<b>11,316,144</b>
Financial guarantee contracts	1,692,964	945,752	7,899	2,646,615
Acceptances	42,855	64,513	29	107,397
Loan commitment/unutilised limits	1,210,138	1,080,464	-	2,290,602
<b>Total</b>	<b>2,945,957</b>	<b>2,090,729</b>	<b>7,928</b>	<b>5,044,614</b>
<b>Total net exposure</b>	<b>11,883,916</b>	<b>4,388,620</b>	<b>88,222</b>	<b>16,360,758</b>
<b>(US\$'000)</b>	<b>30,867,314</b>	<b>11,399,013</b>	<b>229,148</b>	<b>42,495,475</b>

Stage 1: 71.1% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 27.1% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9.

Stage 3: 1.8% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 42. Financial risk management (continued)

#### 42.2 Credit risk (continued)

##### 42.2.2 Credit quality analysis (continued)

#### Net impairment losses on financial assets

Details of net impairment losses on financial assets charged in income statement is set out as follows :

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
		<u>(Impairment) / reversal of impairment for credit losses:</u>		
5,561	(304)	Due from banks	(117)	2,141
(204,842)	(176,179)	Loans and advances to customers	(67,829)	(78,864)
(25,010)	(63,164)	Financial guarantees	(24,318)	(9,629)
(73)	(140)	Acceptances	(54)	(28)
6,800	(1,366)	Loan commitments/ unutilised limits	(526)	2,618
1,592	(1,299)	Investments	(500)	613
(215,972)	(242,452)		(93,344)	(83,149)
95,341	93,367	Recoveries from impairment for credit losses	35,946	36,706
8,314	3,301	Recoveries from loans previously written off	1,271	3,201
103,655	96,668		37,217	39,907
(112,317)	(145,784)		(56,127)	(43,242)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk equivalents relating to off-balance sheet items calculated as per Basel III guidelines are as follows:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
1,156,041	1,005,148	Financial guarantees	386,982	445,076
2,746,162	2,407,854	Other credit related liabilities	927,024	1,057,272
386,769	233,907	Loan commitments	90,054	148,906
4,288,972	3,646,909		1,404,060	1,651,254

The above table represents a worst case scenario of credit risk exposure as of 31 December 2019 and 2018, without taking into account of any collateral held or other credit enhancements attached.

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 42. Financial risk management (continued)

#### 42.2 Credit risk (continued)

##### 42.2.3 Impaired loans and securities

Impaired loans and securities are those for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as sub-standard, doubtful or loss in the internal credit risk system and as Stage 3 under IFRS 9.

##### 42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

##### 42.2.5 Allowances for impairment

Refer note 42.2.8.

##### 42.2.6 Write-off policy

The Group writes off a loan or security and any related allowances for impairment when the Group determines that the loan or security is uncollectible. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. For smaller balance standardised loans, charge off decisions generally based on a product specific past due status and borrower's capacity to repay the loan.

##### 42.2.7 Analysis of impairment and collateral

- (a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances and Islamic financing to customers			Loans and advances and Islamic financing to customers	
2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
		<b>Against individually impaired</b>		
520,896	<b>572,740</b>	Property	<b>220,505</b>	200,545
86	<b>17,356</b>	Equities	<b>6,682</b>	33
1,049	<b>8,756</b>	Others	<b>3,371</b>	404
<b>522,031</b>	<b>598,852</b>		<b>230,558</b>	200,982
		<b>Against past due but not impaired</b>		
727,460	<b>1,300,665</b>	Property	<b>500,756</b>	280,072
272,870	<b>71,613</b>	Equities	<b>27,571</b>	105,055
68,348	<b>43,618</b>	Others	<b>16,793</b>	26,314
<b>1,068,678</b>	<b>1,415,896</b>		<b>545,120</b>	411,441
		<b>Against neither past due nor impaired</b>		
10,959,639	<b>11,892,392</b>	Property	<b>4,578,571</b>	4,219,461
1,926,182	<b>1,556,590</b>	Equities	<b>599,287</b>	741,580
545,036	<b>496,429</b>	Others	<b>191,125</b>	209,839
<b>13,430,857</b>	<b>13,945,411</b>		<b>5,368,983</b>	5,170,880
<b>15,021,566</b>	<b>15,960,159</b>	<b>Total</b>	<b>6,144,661</b>	5,783,303



# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 42. Financial risk management (continued)

#### 42.2 Credit risk (continued)

##### 42.2.7 Analysis of impairment and collateral (continued)

###### (b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2019 is as follows:

	Carrying Amount	
	2019 RO 000's	2018 RO 000's
Nature of assets		
Residential / commercial property	1,810	1,810
US\$ 000's	4,701	4,701

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

##### 42.2.8 Exposures and ECL of financial assets

###### Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.6.

###### Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort is considered. This includes both quantitative and qualitative information and analysis, based on the historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

###### Credit risk grades

Each exposure is allocated to a rating scale for individual risk assessment based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Further, a master scale is employed across all different rating scales used by the Group. Its main purpose is to make risk assessment comparable across various segments or products.

A master scale is a scale of credit risk grades, typically denominated by a combination of numbers, letters or both, which represent the relative credit risk assigned to each class or grade. It typically composed of a quantitative and a qualitative component that are indicative of risk of default.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the periodic review of customers' files, status of the industry, press articles, economic condition, changes in external credit ratings, and other internal and external information.

## **BANK MUSCAT SAOG**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

#### **42. Financial risk management (continued)**

##### **42.2 Credit risk (continued)**

##### **42.2.8 Exposures and ECL of financial assets (continued)**

###### **Generating the term structure of PD**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Performance and default information about its credit risk exposures is collected and analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. Statistical models are employed to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP, unemployment rate, oil prices, equity index, etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

###### **Determining whether credit risk has increased significantly**

###### **Significant Increase in Credit Risk (SICR) Criteria**

Under IFRS 9, Stage 2 consists of facilities that have undergone SICR since initial recognition (unless they are classified under low credit risk at reporting date). For these exposures, Lifetime ECL is recognised.

###### **Non-Retail Portfolio**

###### *Qualitative Criteria*

- Individual Assessment of any Non Retail exposure belonging to list of Top 20 borrowers.
- Special Mention accounts, contracts having specific provision and not in Stage 3 & contracts having interest in suspense and not in Stage 3.
- Qualitative criteria as prescribed by Central Bank of Oman vide circular BM1149 dated 13 April 2017.

###### *Quantitative Criteria*

- Rating Degradation based: Rating downgrade that remains within investment grade requires a drop of at least 4 rating grades. Rating degradation that transitions to sub investment grade from investment grade or degradation within sub investment grade requires a drop of at least 1 rating grade. Highest risk rating grades require fewer than 4 notches to trigger SICR.
- Days past due based: Any facility which has been more than 30 days delinquent & restructured accounts would be assigned to Stage 2.

###### **Retail Portfolio**

Any facility which has been more than 30 days delinquent would be assigned to Stage 2.

###### **Modified financial assets**

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 42. Financial risk management (continued)

##### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Loans to customers in financial difficulties are renegotiated to maximise collection opportunities and minimise the risk of default. Loan modification is granted on a selective basis, if the debtor is currently in default on its debt, or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The policy applies to retail and corporate portfolios. The Audit Committee regularly reviews reports on modification activities.

For financial assets modified as part of policy, the estimate of PD reflects whether the modification has improved or restored ability to collect interest and principal and the Group's previous experience of similar modification action. As part of this process, the borrower's payment performance is evaluated against the modified contractual terms and considers various behavioural indicators.

Generally, modification is a qualitative indicator of a significant increase in credit risk and an expectation of modification may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

#### Definition of default

A financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 89 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, indicators like the following are considered:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for regulatory capital purposes.

#### Incorporation of forward-looking information

Forward-looking information is incorporated into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios is formulated. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities in the countries where the Group operates, supranational organisations, and selected private-sector and academic forecasters.

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 42. Financial risk management (continued)

##### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% and 30% respectively. The economic scenarios includes the following ranges of key indicators for Oman, Saudi Arabia and Kuwait.

	Units of Measurement	2020	2021
As at 31 December 2019			
Brent Crude Oil Price	(USD per bbl)	65.24	66.21
Unemployment Rate	(%)	3.17	3.17
Private Consumption Expenditure	(RO Bn)	11.63	11.75
Overnight Interbank Lending Rate	(%)	1.41	1.41
Oman Gross Domestic Product	(RO Bn)	31.00	31.33
Oman Share Price Index	Index	65.05	71.15
Saudi Arabia Gross Domestic Product	(SAR Bn)	2,712.98	2,762.64
Saudi Arabia Share Price Index	Index	8,777.89	9,607.66
Kuwait Share Price Index	Index	90.56	93.59

	Units of Measurement	2019	2020
As at 31 December 2018			
Brent Crude Oil Price	(USD per bbl)	67.74	64.09
Unemployment Rate	(%)	16.46	16.33
Private Consumption Expenditure	(RO Bn)	9.37	9.53
Overnight Interbank Lending Rate	(%)	3.13	2.99
Oman Gross Domestic Product	(RO Bn)	30.35	30.72
Oman Share Price Index	Index	172.37	173.98
Saudi Arabia Gross Domestic Product	(SAR Bn)	2,672.23	2,727.53
Saudi Arabia Share Price Index	Index	8,133.35	9,156.05
Kuwait Share Price Index	Index	97.87	99.03

Unemployment rate and Oman Share price index are not comparable with the prior year due to a change in the scale.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

#### Measurement of ECL

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

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

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 42. Financial risk management (continued)

##### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure to the counterparty and potential changes to the current amount 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 includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, ECL is measured considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, a longer period is considered. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, ECL is measured over a period based on behavioural pattern of the portfolio which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- Loan to value (LTV) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 42. Financial risk management (continued)

##### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

#### Methodology for Computation of Expected Credit Losses

IFRS 9 requires 12 month expected credit loss provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

#### 12 Month Expected Credit Loss

12 month credit loss refer to the portion of expected credit loss resulting from possible default events within 12 months after reporting date.

#### Lifetime Expected Credit Loss

Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date. The lifetime refers to the loan tenure of the financial instrument.

Calculating expected credit losses is a multi-step process. The process followed for Non retail and Retail exposures is given below:

#### Non-Retail Exposure:

The following is the broad methodology for calculation of ECL for non retail exposures:

1. Inputs in ECL calculation include contractual terms, cash flows, EIR, Country and Industry risk factors, correlation to systemic risks and Moody's equivalent Through the cycle (TTC) ratings on origination and reporting dates
2. TTC Moody's Rating are converted to Point in time (PIT) Unconditional PD term structure using Moody's EDF9 model that incorporates country and industry factors.
3. Moody's RiskCalc model was adapted to Group's non-retail portfolio to calculate Unconditional PIT LGD.
4. Using Moody's GCorr model, 3 macroeconomic scenarios (Baseline, Upside and Downside) and the weight for each scenario are specified. The weights assigned are 40%, 30% & 30% for Baseline, Upside and Downside respectively. The macro variables used for Bank Muscat are Oil price, Oman Equity, KSA Equity, Kuwait Equity and KSA GDP.
5. PIT Unconditional PD is converted into 12 month and lifetime Conditional PIT PD and PIT Unconditional LGD is converted into PIT Conditional LGD using GCorr Macro model for each scenario mentioned above.
6. Using the scenario weights mentioned above, scenario-weighted average Conditional PIT PD is calculated. Scenario-weighted average conditional PIT PD is then converted to an equivalent credit rating using Moody's implied rating process.
7. Instrument-level contractual terms are used to generate cash flow which are discounted at the contractual rate to get exposure at default (EAD). Some instruments have irregular cash flows and hence custom cash flows are input directly in to the tool.
8. ECL Calculation  

$$12 \text{ month ECL} = 12 \text{ month PD} \times \text{LGD} \times \text{Discounted EAD}$$

$$\text{Lifetime ECL} = \text{Lifetime PD} \times \text{LGD} \times \text{Discounted EAD}$$
9. Final ECL  
 For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above  
 For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 42. Financial risk management (continued)

##### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

##### Retail Exposures:

The following is the broad methodology for calculation of ECL for retail exposures:

1. Individual and loan characteristics are used to develop PD models for each retail portfolio.
2. Historical portfolio write-off information is used to build LGD models for each retail portfolio.
3. Detailed payment schedules are used for EAD computation. In case payment detailed schedules are not available, linear amortization to the maturity date is used to compute the exposure at a particular forecast date.

##### 4. ECL Calculation

12 month ECL = 12 month PD X LGD X Discounted EAD

Lifetime ECL = Lifetime PD X LGD X Discounted EAD

##### 5. Final ECL

For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above.

For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above.

IFRS 9 requires 12 month ECL provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, upside case, and a downside case) and these scenarios are based on the combination of PD and LGD. Both 12 month ECL and life time ECL amount would be the weighted average of the ECL amounts calculated using the three macroeconomic scenario.

The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk.

##### ECL Calculation

12 month ECL = 12 month PD X LGD X Discounted EAD

Lifetime ECL = Lifetime PD X LGD X Discounted EAD

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

An analysis of credit quality of gross exposures as at 31 December and changes in gross exposure balances from 1 January to 31 December is set out in the following tables by class of financial assets:

## Due from banks at amortised cost/FVOCI

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	592,969	13	-	592,982
Standard Grade (Ba1 to Ba2)	155,001	-	-	155,001
Satisfactory Grade (Ba3 to Caa3)	73,458	374	-	73,832
<b>Total</b>	<b>821,428</b>	<b>387</b>	<b>-</b>	<b>821,815</b>
<b>Total (US\$'000)</b>	<b>2,133,579</b>	<b>1,005</b>	<b>-</b>	<b>2,134,584</b>
2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>457,106</b>	<b>335</b>	<b>-</b>	<b>457,441</b>
Transfer between stages				
- Transfer to Stage 1	28	(28)	-	-
- Transfer to Stage 2	(147)	147	-	-
Re-measurement of outstanding	4,228	(67)	-	4,161
Financial assets originated during the period	706,131	-	-	706,131
Financial assets matured during the period	(345,918)	-	-	(345,918)
<b>Balance at 31 December</b>	<b>821,428</b>	<b>387</b>	<b>-</b>	<b>821,815</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	362,867	28	-	362,895
Standard Grade (Ba1 to Ba2)	49,821	-	-	49,821
Satisfactory Grade (Ba3 to Caa3)	44,418	307	-	44,725
<b>Total</b>	<b>457,106</b>	<b>335</b>	<b>-</b>	<b>457,441</b>
<b>Total (US\$'000)</b>	<b>1,187,288</b>	<b>870</b>	<b>-</b>	<b>1,188,158</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>594,507</b>	<b>69</b>	<b>-</b>	<b>594,576</b>
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(236)	236	-	-
Re-measurement of outstanding	(36,049)	30	-	(36,019)
Financial assets originated during the period	355,950	-	-	355,950
Financial assets matured during the period	(457,066)	-	-	(457,066)
<b>Balance at 31 December</b>	<b>457,106</b>	<b>335</b>	<b>-</b>	<b>457,441</b>



## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Loans and advances / Islamic financing receivables at Amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	2,824,151	290,321	-	3,114,472
Standard Grade (Ba1 to Ba2)	3,748,683	775,331	-	4,524,014
Satisfactory Grade (Ba3 to Caa3)	444,898	810,896	-	1,255,794
Sub Standard	-	-	38,447	38,447
Doubtful	-	-	49,424	49,424
Loss	-	-	210,676	210,676
<b>Total</b>	<b>7,017,732</b>	<b>1,876,548</b>	<b>298,547</b>	<b>9,192,827</b>
<b>Total (US\$'000)</b>	<b>18,227,875</b>	<b>4,874,151</b>	<b>775,446</b>	<b>23,877,472</b>
<b>2019</b>	<b>Stage 1 RO 000's</b>	<b>Stage 2 RO 000's</b>	<b>Stage 3 RO 000's</b>	<b>Total RO 000's</b>
<b>Balance at 1 January</b>	<b>6,595,413</b>	<b>2,385,829</b>	<b>286,784</b>	<b>9,268,026</b>
Transfer between stages				
- Transfer to Stage 1	151,442	(142,295)	(9,147)	-
- Transfer to Stage 2	(1,199,371)	1,204,624	(5,253)	-
- Transfer to Stage 3	(65,700)	(41,692)	107,392	-
Re-measurement of outstanding	(409,212)	(171,203)	14,391	(566,024)
Financial assets originated during the period	4,044,983	-	-	4,044,983
Financial assets matured during the period	(2,099,823)	(1,358,715)	(38,497)	(3,497,035)
Write off	-	-	(2,423)	(2,423)
Transfer from / (to) Memorandum portfolio	-	-	(54,700)	(54,700)
<b>Balance at 31 December</b>	<b>7,017,732</b>	<b>1,876,548</b>	<b>298,547</b>	<b>9,192,827</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	2,814,834	593,963	-	3,408,797
Standard Grade (Ba1 to Ba2)	3,220,845	1,083,254	-	4,304,099
Satisfactory Grade (Ba3 to Caa3)	559,734	708,612	-	1,268,346
Sub Standard	-	-	36,224	36,224
Doubtful	-	-	48,070	48,070
Loss	-	-	202,490	202,490
<b>Total</b>	<b>6,595,413</b>	<b>2,385,829</b>	<b>286,784</b>	<b>9,268,026</b>
<b>Total (US\$'000)</b>	<b>17,130,943</b>	<b>6,196,958</b>	<b>744,893</b>	<b>24,072,794</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>6,658,301</b>	<b>1,738,733</b>	<b>259,466</b>	<b>8,656,500</b>
Transfer between stages				
- Transfer to Stage 1	389,910	(379,852)	(10,058)	-
- Transfer to Stage 2	(1,846,315)	1,850,138	(3,823)	-
- Transfer to Stage 3	(55,958)	(32,637)	88,595	-
Re-measurement of outstanding	(344,735)	(154,946)	11,157	(488,524)
Financial assets originated during the period	3,942,623	-	-	3,942,623
Financial assets matured during the period	(2,148,413)	(635,607)	(46,253)	(2,830,273)
Write off	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
<b>Balance at 31 December</b>	<b>6,595,413</b>	<b>2,385,829</b>	<b>286,784</b>	<b>9,268,026</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Retail Loans and advances / Islamic financing receivables at amortised cost\*

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	1,118,142	160	-	1,118,302
Standard Grade (Ba1 to Ba2)	2,375,638	889	-	2,376,527
Satisfactory Grade (Ba3 to Caa3)	225,848	27,829	-	253,677
Sub Standard	-	-	9,528	9,528
Doubtful	-	-	13,671	13,671
Loss	-	-	60,325	60,325
<b>Total</b>	<b>3,719,628</b>	<b>28,878</b>	<b>83,524</b>	<b>3,832,030</b>
<b>Total (US\$'000)</b>	<b>9,661,371</b>	<b>75,008</b>	<b>216,945</b>	<b>9,953,324</b>

\* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>3,594,336</b>	<b>30,653</b>	<b>74,995</b>	<b>3,699,984</b>
Transfer between stages				
- Transfer to Stage 1	22,548	(14,578)	(7,970)	-
- Transfer to Stage 2	(23,864)	25,272	(1,408)	-
- Transfer to Stage 3	(27,275)	(6,861)	34,136	-
Re-measurement of outstanding	(279,031)	(1,909)	566	(280,374)
Financial assets originated during the period	905,829	-	-	905,829
Financial assets matured during the period	(472,915)	(3,699)	(17,262)	(493,876)
Write off	-	-	(688)	(688)
Transfer from / (to) Memorandum portfolio	-	-	1,155	1,155
<b>Balance at 31 December</b>	<b>3,719,628</b>	<b>28,878</b>	<b>83,524</b>	<b>3,832,030</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	1,150,806	790	-	1,151,596
Standard Grade (Ba1 to Ba2)	2,221,105	1,775	-	2,222,880
Satisfactory Grade (Ba3 to Caa3)	222,425	28,088	-	250,513
Sub Standard	-	-	10,396	10,396
Doubtful	-	-	14,130	14,130
Loss	-	-	50,469	50,469
<b>Total</b>	<b>3,594,336</b>	<b>30,653</b>	<b>74,995</b>	<b>3,699,984</b>
<b>Total (US\$'000)</b>	<b>9,335,938</b>	<b>79,618</b>	<b>194,792</b>	<b>9,610,348</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>3,452,684</b>	<b>29,080</b>	<b>65,759</b>	<b>3,547,523</b>
Transfer between stages				
- Transfer to Stage 1	21,314	(12,752)	(8,562)	-
- Transfer to Stage 2	(25,664)	28,069	(2,405)	-
- Transfer to Stage 3	(27,970)	(7,342)	35,312	-
Re-measurement of outstanding	(243,125)	(2,232)	299	(245,058)
Financial assets originated during the period	854,020	-	-	854,020
Financial assets matured during the period	(436,923)	(4,170)	(16,588)	(457,681)
Write off	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
<b>Balance at 31 December</b>	<b>3,594,336</b>	<b>30,653</b>	<b>74,995</b>	<b>3,699,984</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Corporate and other Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	1,706,009	290,161	-	1,996,170
Standard Grade (Ba1 to Ba2)	1,373,045	774,442	-	2,147,487
Satisfactory Grade (Ba3 to Caa3)	219,050	783,067	-	1,002,117
Sub Standard	-	-	28,919	28,919
Doubtful	-	-	35,753	35,753
Loss	-	-	150,351	150,351
<b>Total</b>	<b>3,298,104</b>	<b>1,847,670</b>	<b>215,023</b>	<b>5,360,797</b>
<b>Total (US\$'000)</b>	<b>8,566,504</b>	<b>4,799,143</b>	<b>558,501</b>	<b>13,924,148</b>
2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>3,001,077</b>	<b>2,355,176</b>	<b>211,789</b>	<b>5,568,042</b>
Transfer between stages				
- Transfer to Stage 1	128,894	(127,717)	(1,177)	-
- Transfer to Stage 2	(1,175,507)	1,179,352	(3,845)	-
- Transfer to Stage 3	(38,425)	(34,831)	73,256	-
Re-measurement of outstanding	(130,181)	(169,294)	13,825	(285,650)
Financial assets originated during the period	3,139,154	-	-	3,139,154
Financial assets matured during the period	(1,626,908)	(1,355,016)	(21,235)	(3,003,159)
Write off	-	-	(1,735)	(1,735)
Transfer from / (to) Memorandum portfolio	-	-	(55,855)	(55,855)
<b>Balance at 31 December</b>	<b>3,298,104</b>	<b>1,847,670</b>	<b>215,023</b>	<b>5,360,797</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	1,664,028	593,173	-	2,257,201
Standard Grade (Ba1 to Ba2)	999,740	1,081,479	-	2,081,219
Satisfactory Grade (Ba3 to Caa3)	337,309	680,524	-	1,017,833
Sub Standard	-	-	25,828	25,828
Doubtful	-	-	33,940	33,940
Loss	-	-	152,021	152,021
<b>Total</b>	<b>3,001,077</b>	<b>2,355,176</b>	<b>211,789</b>	<b>5,568,042</b>
<b>Total (US\$'000)</b>	<b>7,795,005</b>	<b>6,117,340</b>	<b>550,101</b>	<b>14,462,446</b>
2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>3,205,617</b>	<b>1,709,653</b>	<b>193,707</b>	<b>5,108,977</b>
Transfer between stages				
- Transfer to Stage 1	368,596	(367,100)	(1,496)	-
- Transfer to Stage 2	(1,820,651)	1,822,069	(1,418)	-
- Transfer to Stage 3	(27,988)	(25,295)	53,283	-
Re-measurement of outstanding	(101,610)	(152,714)	10,858	(243,466)
Financial assets originated during the period	3,088,603	-	-	3,088,603
Financial assets matured during the period	(1,711,490)	(631,437)	(29,665)	(2,372,592)
Write off	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
<b>Balance at 31 December</b>	<b>3,001,077</b>	<b>2,355,176</b>	<b>211,789</b>	<b>5,568,042</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

Debt investment securities at FVOCI  
2019

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	43,111	-	-	43,111
Standard Grade (Ba1 to Ba2)	4,879	1,794	-	6,673
Satisfactory Grade (Ba3 to Caa3)	4,496	6,509	-	11,005
<b>Total</b>	<b>52,486</b>	<b>8,303</b>	<b>-</b>	<b>60,789</b>
<b>Total (US\$'000)</b>	<b>136,327</b>	<b>21,566</b>	<b>-</b>	<b>157,893</b>

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>51,440</b>	<b>11,439</b>	<b>-</b>	<b>62,879</b>
Transfer between stages				
- Transfer to Stage 1	1,045	(1,045)	-	-
- Transfer to Stage 2	(981)	981	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(782)	162	-	(620)
Financial assets originated during the period	1,514	-	-	1,514
Financial assets matured during the period	(4,569)	(3,234)	-	(7,803)
Foreign exchange movements	40	-	-	40
Gain from change in fair value	4,779	-	-	4,779
<b>Balance at 31 December</b>	<b>52,486</b>	<b>8,303</b>	<b>-</b>	<b>60,789</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	43,663	1,020	-	44,683
Standard Grade (Ba1 to Ba2)	2,737	3,314	-	6,051
Satisfactory Grade (Ba3 to Caa3)	5,040	7,105	-	12,145
<b>Total</b>	<b>51,440</b>	<b>11,439</b>	<b>-</b>	<b>62,879</b>
<b>Total (US\$'000)</b>	<b>133,610</b>	<b>29,712</b>	<b>-</b>	<b>163,322</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>29,733</b>	<b>15,937</b>	<b>-</b>	<b>45,670</b>
Transfer between stages				
- Transfer to Stage 1	1,982	(1,982)	-	-
- Transfer to Stage 2	(32)	32	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(1,297)	(534)	-	(1,831)
Financial assets originated during the period	29,889	-	-	29,889
Financial assets matured during the period	(6,691)	(2,014)	-	(8,705)
Foreign exchange movements	(1)	-	-	(1)
Loss from change in fair value	(2,143)	-	-	(2,143)
<b>Balance at 31 December</b>	<b>51,440</b>	<b>11,439</b>	<b>-</b>	<b>62,879</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Debt investment securities at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	420,882	-	-	420,882
Standard Grade (Ba1 to Ba2)	339,426	8,028	-	347,454
Satisfactory Grade (Ba3 to Caa3)	506,661	1	-	506,662
<b>Total</b>	<b>1,266,969</b>	<b>8,029</b>	<b>-</b>	<b>1,274,998</b>
<b>Total (US\$'000)</b>	<b>3,290,829</b>	<b>20,855</b>	<b>-</b>	<b>3,311,684</b>

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>1,076,278</b>	<b>8,910</b>	<b>-</b>	<b>1,085,188</b>
Transfer between stages				
- Transfer to Stage 1	1,128	(1,128)	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(4,974)	247	-	(4,727)
Financial assets originated during the period	676,653	-	-	676,653
Financial assets matured during the period	(485,529)	-	-	(485,529)
Foreign exchange and other movements	3,413	-	-	3,413
<b>Balance at 31 December</b>	<b>1,266,969</b>	<b>8,029</b>	<b>-</b>	<b>1,274,998</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	1,021,113	-	-	1,021,113
Standard Grade (Ba1 to Ba2)	45,165	1,128	-	46,293
Satisfactory Grade (Ba3 to Caa3)	10,000	7,782	-	17,782
<b>Total</b>	<b>1,076,278</b>	<b>8,910</b>	<b>-</b>	<b>1,085,188</b>
<b>Total (US\$'000)</b>	<b>2,795,527</b>	<b>23,143</b>	<b>-</b>	<b>2,818,670</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>591,500</b>	<b>273,293</b>	<b>-</b>	<b>864,793</b>
Transfer between stages				
- Transfer to Stage 1	262,144	(262,144)	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(1,652)	(2,239)	-	(3,891)
Financial assets originated during the period	565,440	-	-	565,440
Financial assets matured during the period	(334,787)	-	-	(334,787)
Foreign exchange and other movements	(6,367)	-	-	(6,367)
<b>Balance at 31 December</b>	<b>1,076,278</b>	<b>8,910</b>	<b>-</b>	<b>1,085,188</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Financial guarantee contracts at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	861,061	100,379	-	961,440
Standard Grade (Ba1 to Ba2)	454,607	433,947	-	888,554
Satisfactory Grade (Ba3 to Caa3)	98,805	325,611	-	424,416
Sub Standard	-	-	12,016	12,016
Doubtful	-	-	18,530	18,530
Loss	-	-	18,001	18,001
<b>Total</b>	<b>1,414,473</b>	<b>859,937</b>	<b>48,547</b>	<b>2,322,957</b>
<b>Total (US\$'000)</b>	<b>3,673,956</b>	<b>2,233,603</b>	<b>126,096</b>	<b>6,033,655</b>

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>1,694,294</b>	<b>967,009</b>	<b>15,132</b>	<b>2,676,435</b>
Transfer between stages				
- Transfer to Stage 1	159,342	(159,016)	(326)	-
- Transfer to Stage 2	(548,959)	549,299	(340)	-
- Transfer to Stage 3	(8,610)	(37,261)	45,871	-
Re-measurement of outstanding	(123,063)	(147,417)	(4,303)	(274,783)
Financial assets originated during the period	850,381	-	-	850,381
Financial assets matured during the period	(608,912)	(312,677)	(7,487)	(929,076)
<b>Balance at 31 December 2019</b>	<b>1,414,473</b>	<b>859,937</b>	<b>48,547</b>	<b>2,322,957</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	888,464	155,661	-	1,044,125
Standard Grade (Ba1 to Ba2)	629,921	555,083	-	1,185,004
Satisfactory Grade (Ba3 to Caa3)	175,909	256,265	-	432,174
Sub Standard	-	-	7,974	7,974
Doubtful	-	-	4,072	4,072
Loss	-	-	3,086	3,086
<b>Total</b>	<b>1,694,294</b>	<b>967,009</b>	<b>15,132</b>	<b>2,676,435</b>
<b>Total (US\$'000)</b>	<b>4,400,764</b>	<b>2,511,712</b>	<b>39,304</b>	<b>6,951,780</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	2,240,129	607,846	12,095	2,860,070
Transfer between stages				
- Transfer to Stage 1	108,185	(108,163)	(22)	-
- Transfer to Stage 2	(784,628)	784,718	(90)	-
- Transfer to Stage 3	(5,872)	(532)	6,404	-
Re-measurement of outstanding	(265,309)	(99,651)	(67)	(365,027)
Financial assets originated during the period	1,131,748	-	-	1,131,748
Financial assets matured during the period	(729,959)	(217,209)	(3,188)	(950,356)
<b>Balance at 31 December</b>	<b>1,694,294</b>	<b>967,009</b>	<b>15,132</b>	<b>2,676,435</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Acceptances at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	36,129	4,314	-	40,443
Standard Grade (Ba1 to Ba2)	41,206	34,752	-	75,958
Satisfactory Grade (Ba3 to Caa3)	122	6,918	-	7,040
Sub Standard	-	-	21	21
<b>Total</b>	<b>77,457</b>	<b>45,984</b>	<b>21</b>	<b>123,462</b>
<b>Total (US\$'000)</b>	<b>201,187</b>	<b>119,439</b>	<b>55</b>	<b>320,681</b>

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>42,871</b>	<b>64,561</b>	<b>56</b>	<b>107,488</b>
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(45,984)	45,984	-	-
- Transfer to Stage 3	(21)	-	21	-
Re-measurement of outstanding	-	-	-	-
Financial assets originated during the period	123,441	-	-	123,441
Financial assets matured during the period	(42,850)	(64,561)	(56)	(107,467)
<b>Balance at 31 December</b>	<b>77,457</b>	<b>45,984</b>	<b>21</b>	<b>123,462</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	36,465	18,992	-	55,457
Standard Grade (Ba1 to Ba2)	5,916	41,959	-	47,875
Satisfactory Grade (Ba3 to Caa3)	490	3,610	-	4,100
Sub Standard	-	-	56	56
<b>Total</b>	<b>42,871</b>	<b>64,561</b>	<b>56</b>	<b>107,488</b>
<b>Total (US\$'000)</b>	<b>111,354</b>	<b>167,691</b>	<b>145</b>	<b>279,190</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	52,959	34,875	27	87,861
Transfer between stages				
- Transfer to Stage 1	85	(85)	-	-
- Transfer to Stage 2	(64,386)	64,386	-	-
- Transfer to Stage 3	(56)	-	56	-
Re-measurement of outstanding	(50)	(10)	-	(60)
Financial assets originated during the period	105,845	-	-	105,845
Financial assets matured during the period	(51,526)	(34,605)	(27)	(86,158)
<b>Balance at 31 December</b>	<b>42,871</b>	<b>64,561</b>	<b>56</b>	<b>107,488</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Loan commitment/unutilised limits at amortised cost

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	755,890	243,797	-	999,687
Standard Grade (Ba1 to Ba2)	565,309	403,529	-	968,838
Satisfactory Grade (Ba3 to Caa3)	26,294	51,314	-	77,608
<b>Total</b>	<b>1,347,493</b>	<b>698,640</b>	<b>-</b>	<b>2,046,133</b>
<b>Total (US\$'000)</b>	<b>3,499,982</b>	<b>1,814,649</b>	<b>-</b>	<b>5,314,631</b>

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>1,212,384</b>	<b>1,088,437</b>	<b>-</b>	<b>2,300,821</b>
Transfer between stages				
- Transfer to Stage 1	425,277	(425,277)	-	-
- Transfer to Stage 2	(210,682)	210,682	-	-
- Transfer to Stage 3	(892)	(2,289)	3,181	-
Re-measurement of outstanding	(57,014)	(68,447)	(3,181)	(128,642)
Financial assets originated during the period	201,913	-	-	201,913
Financial assets matured during the period	(223,493)	(104,466)	-	(327,959)
<b>Balance at 31 December</b>	<b>1,347,493</b>	<b>698,640</b>	<b>-</b>	<b>2,046,133</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
High Grade (Aaa to Baa3)	701,144	542,911	-	1,244,055
Standard Grade (Ba1 to Ba2)	348,279	485,826	-	834,105
Satisfactory Grade (Ba3 to Caa3)	162,961	59,700	-	222,661
<b>Total</b>	<b>1,212,384</b>	<b>1,088,437</b>	<b>-</b>	<b>2,300,821</b>
<b>Total (US\$'000)</b>	<b>3,149,049</b>	<b>2,827,109</b>	<b>-</b>	<b>5,976,158</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	1,861,398	408,297	-	2,269,695
Transfer between stages				
- Transfer to Stage 1	108,278	(108,278)	-	-
- Transfer to Stage 2	(729,030)	729,030	-	-
- Transfer to Stage 3	(728)	(715)	1,443	-
Re-measurement of outstanding	(165,340)	77,937	(1,443)	(88,846)
Financial assets originated during the period	386,262	-	-	386,262
Financial assets matured during the period	(248,456)	(17,834)	-	(266,290)
<b>Balance at 31 December</b>	<b>1,212,384</b>	<b>1,088,437</b>	<b>-</b>	<b>2,300,821</b>



## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Impairment loss allowances

An analysis of changes in the impairment loss allowances is set out in the following tables by class of financial assets.

## Due from banks at amortised cost/FVOCI

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	645	3	-	648
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(1)	1	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged to income statement for:	<u>106</u>	<u>11</u>	<u>-</u>	<u>117</u>
- Re-measurement of impairment allowances	(34)	11	-	(23)
- Financial assets originated during the period	621	-	-	621
- Financial assets matured during the period	(481)	-	-	(481)
Foreign exchange and other movements	1	-	-	1
Balance at 31 December	<u>751</u>	<u>15</u>	<u>-</u>	<u>766</u>
<b>Balance at 31 December (US\$'000)</b>	<b>1,951</b>	<b>39</b>	<b>-</b>	<b>1,990</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost/FVOCI				
Balance at 1 January	2,788	1	-	2,789
Transfer between stages:				
- Transfer to Stage 1	(1)	1	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	<u>(2,142)</u>	<u>1</u>	<u>-</u>	<u>(2,141)</u>
- Re-measurement of impairment allowances	(1,860)	1	-	(1,859)
- Financial assets originated during the period	488	-	-	488
- Financial assets matured during the period	(770)	-	-	(770)
Balance at 31 December	<u>645</u>	<u>3</u>	<u>-</u>	<u>648</u>
Balance at 31 December (US\$'000)	<u>1,675</u>	<u>8</u>	<u>-</u>	<u>1,683</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>14,942</b>	<b>107,679</b>	<b>206,490</b>	<b>329,111</b>
Transfer between stages:				
- Transfer to Stage 1	2,816	(2,816)	-	-
- Transfer to Stage 2	(21,030)	21,030	-	-
- Transfer to Stage 3	(200)	(23,792)	23,992	-
Impairment charged / (credited) to income statement for:	<u>21,675</u>	<u>(22,134)</u>	<u>68,288</u>	<u>67,829</u>
- <i>Re-measurement of impairment allowances</i>	(1,990)	(8,260)	68,288	58,038
- <i>Financial assets originated during the period</i>	27,186	-	-	27,186
- <i>Financial assets matured during the period</i>	(3,521)	(13,874)	-	(17,395)
Recoveries from impairment for credit losses	-	-	(35,946)	(35,946)
Interest reserve charged to interest income	-	(2,216)	18,058	15,842
Recoveries of reserved interest in interest income	-	-	(4,914)	(4,914)
Write off of impairment allowances	-	-	(2,423)	(2,423)
Transfer from / (to) Memorandum portfolio	-	-	(54,700)	(54,700)
Foreign exchange and other movements	-	-	(13)	(13)
<b>Balance at 31 December</b>	<b>18,203</b>	<b>77,751</b>	<b>218,832</b>	<b>314,786</b>
<b>Balance at 31 December (US\$'000)</b>	<b>47,280</b>	<b>201,951</b>	<b>568,395</b>	<b>817,626</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	15,911	94,912	184,114	294,937
Transfer between stages:				
- Transfer to Stage 1	17,645	(17,645)	-	-
- Transfer to Stage 2	(22,157)	22,157	-	-
- Transfer to Stage 3	(201)	(4,783)	4,984	-
Impairment charged to income statement for:	<u>3,744</u>	<u>11,049</u>	<u>64,071</u>	<u>78,864</u>
- <i>Re-measurement of impairment allowances</i>	(18,045)	19,557	64,071	65,583
- <i>Financial assets originated during the period</i>	25,605	-	-	25,605
- <i>Financial assets matured during the period</i>	(3,816)	(8,508)	-	(12,324)
Recoveries from impairment for credit losses	-	-	(36,706)	(36,706)
Interest reserve charged to interest income	-	1,989	8,071	10,060
Recoveries of reserved interest in interest income	-	-	(5,575)	(5,575)
Write off of impairment allowances	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
Foreign exchange and other movements	-	-	(169)	(169)
Balance at 31 December	<u>14,942</u>	<u>107,679</u>	<u>206,490</u>	<u>329,111</u>
Balance at 31 December (US\$'000)	<u>38,810</u>	<u>279,686</u>	<u>536,338</u>	<u>854,834</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Retail Loans and advances / Islamic financing receivables at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>10,213</b>	<b>4,791</b>	<b>61,739</b>	<b>76,743</b>
Transfer between stages:				
- Transfer to Stage 1	1,659	(1,659)	-	-
- Transfer to Stage 2	(1,240)	1,240	-	-
- Transfer to Stage 3	(181)	(1,549)	1,730	-
Impairment charged to income statement for:	<u>205</u>	<u>2,287</u>	<u>22,474</u>	<u>24,966</u>
- <i>Re-measurement of impairment allowances</i>	(1,893)	2,944	22,474	23,525
- <i>Financial assets originated during the period</i>	3,727	-	-	3,727
- <i>Financial assets matured during the period</i>	(1,629)	(657)	-	(2,286)
Recoveries from impairment for credit losses	-	-	(17,920)	(17,920)
Interest reserve charged to interest income	-	-	2,992	2,992
Recoveries of reserved interest in interest income	-	-	(1,323)	(1,323)
Write off of impairment allowances	-	-	(688)	(688)
Transfer from / (to) Memorandum portfolio	-	-	1,156	1,156
<b>Balance at 31 December</b>	<b><u>10,656</u></b>	<b><u>5,110</u></b>	<b><u>70,160</u></b>	<b><u>85,926</u></b>
<b>Balance at 31 December (US\$'000)</b>	<b><u>27,677</u></b>	<b><u>13,273</u></b>	<b><u>182,232</u></b>	<b><u>223,182</u></b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>11,123</b>	<b>5,230</b>	<b>53,000</b>	<b>69,353</b>
Transfer between stages:				
- Transfer to Stage 1	1,637	(1,637)	-	-
- Transfer to Stage 2	(1,120)	1,120	-	-
- Transfer to Stage 3	(186)	(1,851)	2,037	-
Impairment charged to income statement for:	<u>(1,241)</u>	<u>1,929</u>	<u>21,121</u>	<u>21,809</u>
- <i>Re-measurement of impairment allowances</i>	(2,489)	2,910	21,121	21,542
- <i>Financial assets originated during the period</i>	3,333	-	-	3,333
- <i>Financial assets matured during the period</i>	(2,085)	(981)	-	(3,066)
Recoveries from impairment for credit losses	-	-	(19,129)	(19,129)
Interest reserve charged to interest income	-	-	5,260	5,260
Recoveries of reserved interest in interest income	-	-	(1,730)	(1,730)
Write off of impairment allowances	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
<b>Balance at 31 December</b>	<b><u>10,213</u></b>	<b><u>4,791</u></b>	<b><u>61,739</u></b>	<b><u>76,743</u></b>
<b>Balance at 31 December (US\$'000)</b>	<b><u>26,527</u></b>	<b><u>12,444</u></b>	<b><u>160,361</u></b>	<b><u>199,332</u></b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Corporate and other Loans and advances / Islamic financing receivables at Amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>4,729</b>	<b>102,888</b>	<b>144,751</b>	<b>252,368</b>
Transfer between stages:				
- Transfer to Stage 1	1,157	(1,157)	-	-
- Transfer to Stage 2	(19,790)	19,790	-	-
- Transfer to Stage 3	(19)	(22,243)	22,262	-
Impairment charged / (credited) to income statement for:	<u>21,470</u>	<u>(24,421)</u>	<u>45,814</u>	<u>42,863</u>
- Re-measurement of impairment allowances	(97)	(11,204)	45,814	34,513
- Financial assets originated during the period	23,459	-	-	23,459
- Financial assets matured during the period	(1,892)	(13,217)	-	(15,109)
Recoveries from impairment for credit losses	-	-	(18,026)	(18,026)
Interest reserve charged to interest income	-	(2,216)	15,066	12,850
Recoveries of reserved interest in interest income	-	-	(3,591)	(3,591)
Write off of impairment allowances	-	-	(1,735)	(1,735)
Transfer from / (to) Memorandum portfolio	-	-	(55,856)	(55,856)
Foreign exchange and other movements	-	-	(13)	(13)
<b>Balance at 31 December</b>	<b><u>7,547</u></b>	<b><u>72,641</u></b>	<b><u>148,672</u></b>	<b><u>228,860</u></b>
<b>Balance at 31 December (US\$'000)</b>	<b><u>19,603</u></b>	<b><u>188,678</u></b>	<b><u>386,163</u></b>	<b><u>594,444</u></b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	4,788	89,682	131,114	225,584
Transfer between stages:				
- Transfer to Stage 1	16,008	(16,008)	-	-
- Transfer to Stage 2	(21,037)	21,037	-	-
- Transfer to Stage 3	(15)	(2,932)	2,947	-
Impairment charged to income statement for:	<u>4,985</u>	<u>9,120</u>	<u>42,950</u>	<u>57,055</u>
- Re-measurement of impairment allowances	(15,556)	16,647	42,950	44,041
- Financial assets originated during the period	22,272	-	-	22,272
- Financial assets matured during the period	(1,731)	(7,527)	-	(9,258)
Recoveries from impairment for credit losses	-	-	(17,577)	(17,577)
Interest reserve charged to interest income	-	1,989	2,811	4,800
Recoveries of reserved interest in interest income	-	-	(3,845)	(3,845)
Write off of impairment allowances	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
Foreign exchange and other movements	-	-	(169)	(169)
Balance at 31 December	<u>4,729</u>	<u>102,888</u>	<u>144,751</u>	<u>252,368</u>
Balance at 31 December (US\$'000)	<u>12,283</u>	<u>267,242</u>	<u>375,977</u>	<u>655,502</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Debt investment securities at FVOCI

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>84</b>	<b>848</b>	<b>-</b>	<b>932</b>
Transfer between stages:				
- Transfer to Stage 1	51	(51)	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	<u>6</u>	<u>373</u>	<u>-</u>	<u>379</u>
- <i>Re-measurement of impairment allowances</i>	9	373	-	382
- <i>Financial assets originated during the period</i>	5	-	-	5
- <i>Financial assets matured during the period</i>	(8)	-	-	(8)
<b>Balance at 31 December</b>	<b>140</b>	<b>1,171</b>	<b>-</b>	<b>1,311</b>
<b>Balance at 31 December (US\$'000)</b>	<b>364</b>	<b>3,041</b>	<b>-</b>	<b>3,405</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	109	985	-	1,094
Transfer between stages:				
- Transfer to Stage 1	91	(91)	-	-
- Transfer to Stage 2	(1)	1	-	-
Reversal of impairment to income statement for:	<u>(115)</u>	<u>(47)</u>	<u>-</u>	<u>(162)</u>
- <i>Re-measurement of impairment allowances</i>	(131)	(42)	-	(173)
- <i>Financial assets originated during the period</i>	27	-	-	27
- <i>Financial assets matured during the period</i>	(11)	(5)	-	(16)
Balance at 31 December	84	848	-	932
Balance at 31 December (US\$'000)	218	2,203	-	2,421

Debt investment securities at amortised cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>89</b>	<b>92</b>	<b>-</b>	<b>181</b>
Transfer between stages:				
- Transfer to Stage 1	16	(16)	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged / (credited) to income statement for:	<u>162</u>	<u>(41)</u>	<u>-</u>	<u>121</u>
- <i>Re-measurement of impairment allowances</i>	136	(41)	-	95
- <i>Financial assets originated during the period</i>	31	-	-	31
- <i>Financial assets matured during the period</i>	(5)	-	-	(5)
<b>Balance at 31 December</b>	<b>267</b>	<b>35</b>	<b>-</b>	<b>302</b>
<b>Balance at 31 December (US\$'000)</b>	<b>694</b>	<b>91</b>	<b>-</b>	<b>785</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	79	553	-	632
Transfer between stages:				
- Transfer to Stage 1	43	(43)	-	-
- Transfer to Stage 2	-	-	-	-
Reversal of impairment to income statement for:	<u>(33)</u>	<u>(418)</u>	<u>-</u>	<u>(451)</u>
- <i>Re-measurement of impairment allowances</i>	(44)	(418)	-	(462)
- <i>Financial assets originated during the period</i>	75	-	-	75
- <i>Financial assets matured during the period</i>	(64)	-	-	(64)
Balance at 31 December	89	92	-	181
Balance at 31 December (US\$'000)	231	239	-	470

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Financial guarantee contracts at amortised Cost

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>1,330</b>	<b>21,257</b>	<b>7,233</b>	<b>29,820</b>
Transfer between stages:				
- Transfer to Stage 1	1,052	(1,052)	-	-
- Transfer to Stage 2	(3,756)	3,756	-	-
- Transfer to Stage 3	-	(7,593)	7,593	-
Impairment charged to income statement for:	<u>3,321</u>	<u>1,165</u>	<u>19,832</u>	<u>24,318</u>
- <i>Re-measurement of impairment allowances</i>	(290)	8,446	19,832	27,988
- <i>Financial assets originated during the period</i>	3,949	-	-	3,949
- <i>Financial assets matured during the period</i>	(338)	(7,281)	-	(7,619)
Foreign exchange and other movements	-	-	4	4
<b>Balance at 31 December</b>	<b><u>1,947</u></b>	<b><u>17,533</u></b>	<b><u>34,662</u></b>	<b><u>54,142</u></b>
<b>Balance at 31 December (US\$'000)</b>	<b><u>5,056</u></b>	<b><u>45,540</u></b>	<b><u>90,031</u></b>	<b><u>140,629</u></b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	1,681	17,895	617	20,193
Transfer between stages:				
- Transfer to Stage 1	744	(744)	-	-
- Transfer to Stage 2	(3,460)	3,460	-	-
- Transfer to Stage 3	(2)	(16)	18	-
Impairment charged to income statement for:	<u>2,367</u>	<u>661</u>	<u>6,601</u>	<u>9,629</u>
- <i>Re-measurement of impairment allowances</i>	(800)	6,867	6,601	12,668
- <i>Financial assets originated during the period</i>	3,521	-	-	3,521
- <i>Financial assets matured during the period</i>	(354)	(6,206)	-	(6,560)
Foreign exchange and other movements	-	1	(3)	(2)
Balance at 31 December	<u>1,330</u>	<u>21,257</u>	<u>7,233</u>	<u>29,820</u>
Balance at 31 December (US\$'000)	<u>3,455</u>	<u>55,213</u>	<u>18,787</u>	<u>77,455</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Acceptances at Amortised Cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>16</b>	<b>48</b>	<b>27</b>	<b>91</b>
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(100)	100	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged / (credited) to income statement	<u>129</u>	<u>(48)</u>	<u>(27)</u>	<u>54</u>
for:				
- Re-measurement of impairment allowances	-	-	(27)	(27)
- Financial assets originated during the period	144	-	-	144
- Financial assets matured during the period	<u>(15)</u>	<u>(48)</u>	<u>-</u>	<u>(63)</u>
<b>Balance at 31 December</b>	<b><u>45</u></b>	<b><u>100</u></b>	<b><u>-</u></b>	<b><u>145</u></b>
<b>Balance at 31 December (US\$'000)</b>	<b><u>117</u></b>	<b><u>260</u></b>	<b><u>-</u></b>	<b><u>377</u></b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	24	39	-	63
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(47)	47	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged to income statement for:	<u>39</u>	<u>(38)</u>	<u>27</u>	<u>28</u>
- Re-measurement of impairment allowances	-	-	27	27
- Financial assets originated during the period	59	-	-	59
- Financial assets matured during the period	<u>(20)</u>	<u>(38)</u>	<u>-</u>	<u>(58)</u>
Balance at 31 December	<u>16</u>	<u>48</u>	<u>27</u>	<u>91</u>
Balance at 31 December (US\$'000)	<u>42</u>	<u>124</u>	<u>70</u>	<u>236</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

## Loan Commitment / Unutilised limits at Amortised Cost

2019	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
<b>Balance at 1 January</b>	<b>2,246</b>	<b>7,973</b>	<b>-</b>	<b>10,219</b>
Transfer between stages:				
- Transfer to Stage 1	1,485	(1,485)	-	-
- Transfer to Stage 2	(4,128)	4,128	-	-
- Transfer to Stage 3	(1)	(314)	315	-
Impairment charged / (credited) to income statement for:	<u>2,858</u>	<u>(2,017)</u>	<u>(315)</u>	<u>526</u>
- Re-measurement of impairment allowances	(442)	164	(315)	(593)
- Financial assets originated during the period	4,204	-	-	4,204
- Financial assets matured during the period	(904)	(2,181)	-	(3,085)
<b>Balance at 31 December</b>	<b>2,460</b>	<b>8,285</b>	<b>-</b>	<b>10,745</b>
<b>Balance at 31 December (US\$'000)</b>	<b>6,390</b>	<b>21,519</b>	<b>-</b>	<b>27,909</b>

2018	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	4,928	7,909	-	12,837
Transfer between stages:				
- Transfer to Stage 1	3,162	(3,162)	-	-
- Transfer to Stage 2	(2,612)	2,612	-	-
- Transfer to Stage 3	(1)	(3)	4	-
Impairment charged to income statement for:	<u>(3,231)</u>	<u>617</u>	<u>(4)</u>	<u>(2,618)</u>
- Re-measurement of impairment allowances	(4,540)	3,089	(4)	(1,455)
- Financial assets originated during the period	2,084	-	-	2,084
- Financial assets matured during the period	(775)	(2,472)	-	(3,247)
Balance at 31 December	<u>2,246</u>	<u>7,973</u>	<u>-</u>	<u>10,219</u>
Balance at 31 December (US\$'000)	<u>5,834</u>	<u>20,709</u>	<u>-</u>	<u>26,543</u>



## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

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

2019

Assets classification as per CBO Norms (1)	Assets classification as per IFRS 9 (2)	Gross amount RO 000's (3)	Provision as per CBO norms RO 000's (4)	Reserve interest as per CBO norms RO 000's (5)	Provision as per IFRS 9 RO 000's (6)	Difference RO 000's (7) = (4)+(5)-(6)	Net carrying amount RO 000's (8) = (3)-(6)	Interest recognised as per IFRS 9 RO 000's (9)
<b>Standard</b>	Stage 1	7,839,159	108,488	-	18,954	89,534	7,820,205	
	Stage 2	1,166,567	12,166	-	51,252	(39,086)	1,115,315	
	Stage 3	-	-	-	-	-	-	
		<b>9,005,726</b>	<b>120,654</b>	<b>-</b>	<b>70,206</b>	<b>50,448</b>	<b>8,935,520</b>	<b>-</b>
<b>Special mention</b>	Stage 1	-	-	-	-	-	-	
	Stage 2	710,369	12,419	-	26,515	(14,096)	683,854	
	Stage 3	-	-	-	-	-	-	
		<b>710,369</b>	<b>12,419</b>	<b>-</b>	<b>26,515</b>	<b>(14,096)</b>	<b>683,854</b>	<b>-</b>
<b>Substandard</b>	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	50,484	12,035	361	12,396	-	38,088	
		<b>50,484</b>	<b>12,035</b>	<b>361</b>	<b>12,396</b>	<b>-</b>	<b>38,088</b>	<b>-</b>
<b>Doubtful</b>	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	67,954	28,550	1,775	39,780	(9,455)	28,174	
		<b>67,954</b>	<b>28,550</b>	<b>1,775</b>	<b>39,780</b>	<b>(9,455)</b>	<b>28,174</b>	<b>-</b>
<b>Loss</b>	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	228,677	168,380	27,042	201,318	(5,896)	27,359	
		<b>228,677</b>	<b>168,380</b>	<b>27,042</b>	<b>201,318</b>	<b>(5,896)</b>	<b>27,359</b>	<b>-</b>
<b>Other items not covered under CBO circular BM 977 and related instructions</b>	Stage 1	4,293,058	-	-	4,859	(4,859)	4,288,199	
	Stage 2	1,620,892	-	-	27,123	(27,123)	1,593,769	
	Stage 3	-	-	-	-	-	-	
		<b>5,913,950</b>	<b>-</b>	<b>-</b>	<b>31,982</b>	<b>(31,982)</b>	<b>5,881,968</b>	<b>-</b>
<b>Total</b>	Stage 1	12,132,217	108,488	-	23,813	84,675	12,108,404	
	Stage 2	3,497,828	24,585	-	104,890	(80,305)	3,392,938	
	Stage 3	347,115	208,965	29,178	253,494	(15,351)	93,621	
		<b>15,977,160</b>	<b>342,038</b>	<b>29,178</b>	<b>382,197</b>	<b>(10,981)</b>	<b>15,594,963</b>	<b>-</b>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

2018								
Assets classification as per CBO Norms (1)	Assets classification as per IFRS 9 (2)	Gross amount RO 000's (3)	Provision as per CBO norms RO 000's (4)	Reserve interest as per CBO norms RO 000's (5)	Provision as per IFRS 9 RO 000's (6)	Difference RO 000's (7) = (4)+(5)-(6)	Net carrying amount RO 000's (8) = (3)-(6)	Interest recognised as per IFRS 9 RO 000's (9)
Standard	Stage 1	7,052,519	103,339	-	15,589	87,750	7,036,930	
	Stage 2	1,726,165	17,416	-	54,704	(37,288)	1,671,461	
	Stage 3	-	-	-	-	-	-	
		8,778,684	120,755	-	70,293	50,462	8,708,391	-
Special mention	Stage 1	-	-	-	-	-	-	
	Stage 2	660,024	30,023	-	52,977	(22,954)	607,047	
	Stage 3	-	-	-	-	-	-	
		660,024	30,023	-	52,977	(22,954)	607,047	-
Substandard	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	44,254	10,813	372	11,185	-	33,069	
		44,254	10,813	372	11,185	-	33,069	-
Doubtful	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	52,142	21,706	1,442	29,122	(5,974)	23,020	
		52,142	21,706	1,442	29,122	(5,974)	23,020	-
Loss	Stage 1	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	205,576	153,049	20,394	173,443	-	32,133	
		205,576	153,049	20,394	173,443	-	32,133	-
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	4,850,749	-	-	3,763	(3,763)	4,846,986	
	Stage 2	2,140,331	-	-	30,219	(30,219)	2,110,112	
	Stage 3	-	-	-	-	-	-	
		6,991,080	-	-	33,982	(33,982)	6,957,098	-
Total	Stage 1	11,903,268	103,339	-	19,352	83,987	11,883,916	
	Stage 2	4,526,520	47,439	-	137,900	(90,461)	4,388,620	
	Stage 3	301,972	185,568	22,208	213,750	(5,974)	88,222	
		16,731,760	336,346	22,208	371,002	(12,448)	16,360,758	-

# BANK MUSCAT SAOG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 42. Financial risk management (continued)

#### 42.2 Credit risk (continued)

##### 42.2.8 Exposures and ECL of financial assets (continued)

#### Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

#### Restructured accounts

2019

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO 000's	Provision required as per CBO Norms RO 000's	Reserve interest as per CBO norms RO 000's	Provisions held as per IFRS 9 RO 000's	Difference between CBO provision required and provision held RO 000's	Net carrying amount RO 000's	Interest recognised as per IFRS 9 RO 000's
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(4)+(5)-(6)	(8)=(3)-(6)	(9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	197,163	2,862	-	10,281	(7,419)	186,882	-
	Stage 3	-	-	-	-	-	-	-
		<u>197,163</u>	<u>2,862</u>	<u>-</u>	<u>10,281</u>	<u>(7,419)</u>	<u>186,882</u>	<u>-</u>
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	91,084	56,755	5,858	62,613	-	28,471	-
		<u>91,084</u>	<u>56,755</u>	<u>5,858</u>	<u>62,613</u>	<u>-</u>	<u>28,471</u>	<u>-</u>
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	197,163	2,862	-	10,281	(7,419)	186,882	-
	Stage 3	91,084	56,755	5,858	62,613	-	28,471	-
		<u>288,247</u>	<u>59,617</u>	<u>5,858</u>	<u>72,894</u>	<u>(7,419)</u>	<u>215,353</u>	<u>-</u>

## BANK MUSCAT SAOG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 42. Financial risk management (continued)

## 42.2 Credit risk (continued)

## 42.2.8 Exposures and ECL of financial assets (continued)

2018								
Assets classification as per CBO Norms (1)	Assets classification as per IFRS 9 (2)	Gross carrying amount RO 000's (3)	Provision required as per CBO Norms RO 000's (4)	Reserve interest as per CBO norms RO 000's (5)	Provisions held as per IFRS 9 RO 000's (6)	Difference between CBO provision required and provision held RO 000's (7)=(4)+(5)-(6)	Net carrying amount RO 000's (8)=(3)-(6)	Interest recognised as per IFRS 9 RO 000's (9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	64,964	8,663	-	13,060	(4,397)	51,904	-
	Stage 3	-	-	-	-	-	-	-
		<u>64,964</u>	<u>8,663</u>	<u>-</u>	<u>13,060</u>	<u>(4,397)</u>	<u>51,904</u>	<u>-</u>
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	89,751	62,289	6,735	70,902	(1,878)	18,849	-
		<u>89,751</u>	<u>62,289</u>	<u>6,735</u>	<u>70,902</u>	<u>(1,878)</u>	<u>18,849</u>	<u>-</u>
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	64,964	8,663	-	13,060	(4,397)	51,904	-
	Stage 3	89,751	62,289	6,735	70,902	(1,878)	18,849	-
		<u>154,715</u>	<u>70,952</u>	<u>6,735</u>	<u>83,962</u>	<u>(6,275)</u>	<u>70,753</u>	<u>-</u>

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.2 Credit risk (continued)**

**42.2.8 Exposures and ECL of financial assets (continued)**

**Impairment allowance**

<b>2019</b>	<b>As per CBO Norms RO 000's</b>	<b>As per IFRS 9 RO 000's</b>	<b>Difference RO 000's</b>
Impairment loss charged to profit and loss account (net of recoveries)	56,127	56,127	-
Provisions required as per CBO norms / held as per IFRS 9 <sup>1</sup>	371,216	382,197	(10,981)
Gross NPL ratio <sup>1</sup>	3.25%	3.25%	0.00%
Net NPL ratio <sup>1</sup>	0.98%	0.89%	0.09%

<b>2018</b>	<b>As per CBO Norms RO 000's</b>	<b>As per IFRS 9 RO 000's</b>	<b>Difference RO 000's</b>
Impairment loss charged to profit and loss account (net of recoveries)	44,468	44,468	-
Provisions required as per CBO norms / held as per IFRS 9 <sup>1</sup>	358,555	371,002	(12,448)
Gross NPL ratio <sup>1</sup>	3.09%	3.09%	0.00%
Net NPL ratio <sup>1</sup>	0.91%	0.89%	0.02%

<sup>1</sup> NPL ratios are calculated on the basis of funded non performing loans and funded exposures

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.2 Credit risk (continued)**

**42.2.9 Concentration of credit risk**

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Carrying amount								
<b>Concentration by sector</b>								
Corporate	-	-	4,834,547	4,951,772	17,670	99,652	1,450,956	1,669,961
Sovereign	-	-	42,047	39,400	1,164,471	957,682	2,740	107,065
Financial institutions	870,570	476,691	455,648	551,652	53,646	90,733	869,261	899,409
Retail	-	-	3,860,585	3,725,202	-	-	-	-
Total	870,570	476,691	9,192,827	9,268,026	1,335,787	1,148,067	2,322,957	2,676,435
US\$'000	2,261,220	1,238,158	23,877,472	24,072,794	3,469,576	2,981,992	6,033,655	6,951,780

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.2 Credit risk (continued)**

**42.2.9 Concentration of credit risk (continued)**

The table below analyses the concentration of gross exposures to customers by various sectors.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Agriculture/allied activity	-	-	26,644	30,482	-	-	11,530	14,243
Construction	-	-	333,557	346,634	-	-	519,509	521,071
Export trade	-	-	26,514	14,709	-	-	-	68
Financial institutions	870,570	476,691	455,648	551,652	53,646	90,733	869,261	1,089,725
Government	-	-	42,047	39,400	1,164,471	957,681	2,740	41,796
Import trade	-	-	360,067	396,726	-	-	103,605	123,061
Manufacturing	-	-	715,170	730,184	-	-	100,511	101,570
Mining and quarrying	-	-	513,586	420,448	8,699	8,730	142,873	126,562
Real estate	-	-	328,509	407,315	-	-	8,162	8,120
Services	-	-	817,215	717,160	61,931	44,018	404,876	472,401
Transport	-	-	760,578	856,217	-	-	65,095	56,182
Utilities	-	-	652,867	642,993	43,120	43,097	22,213	26,203
Wholesale and retail trade	-	-	194,600	229,637	-	-	39,011	41,933
Others	-	-	105,240	159,267	3,920	3,808	33,571	53,500
Personal and Housing Loans	-	-	3,860,585	3,725,202	-	-	-	-
<b>Total</b>	<b>870,570</b>	<b>476,691</b>	<b>9,192,827</b>	<b>9,268,026</b>	<b>1,335,787</b>	<b>1,148,067</b>	<b>2,322,957</b>	<b>2,676,435</b>
US\$'000	<b>2,261,220</b>	<b>1,238,158</b>	<b>23,877,472</b>	<b>24,072,794</b>	<b>3,469,576</b>	<b>2,981,991</b>	<b>6,033,655</b>	<b>6,951,780</b>

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.2 Credit risk (continued)**

**42.2.9 Concentration of credit risk (continued)**

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk by location at the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2019 RO 000's	2018 RO 000's	2019 RO 000's	2018 RO 000's	2019 RO 000's	2018 RO 000's	2019 RO 000's	2018 RO 000's
<b>Concentration by location</b>								
Sultanate of Oman	125,609	5,127	8,828,715	8,738,262	1,235,472	1,072,943	1,456,171	1,564,988
Other GCC Countries	269,851	94,683	309,908	478,514	38,961	57,920	260,377	529,988
Europe	30,741	31,451	486	2,701	-	-	312,993	321,664
United States of America	55,556	57,965	-	-	-	-	28,227	29,451
Others	388,813	287,465	53,718	48,549	61,354	17,204	265,189	230,344
<b>Total</b>	<b>870,570</b>	<b>476,691</b>	<b>9,192,827</b>	<b>9,268,026</b>	<b>1,335,787</b>	<b>1,148,067</b>	<b>2,322,957</b>	<b>2,676,435</b>
US\$'000	2,261,220	1,238,158	23,877,472	24,072,794	3,469,576	2,981,991	6,033,655	6,951,779



**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.2 Credit risk (continued)**

**42.2.9 Concentration of credit risk (continued)**

**Offsetting financial assets and financial liabilities**

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

**42.2.10 Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent, such as Continuous Linked Settlement (CLS), or having bilateral payment netting agreements.

**42.3 Liquidity risk**

Liquidity risk is the potential inability of the Group to meet its maturing obligations to counterparty.

**42.3.1 Management of liquidity risk**

Liquidity risk arises when the Group is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on Group deposits etc.

Asset Liability Committee (ALCO) of the Group manages the liquidity position of the Group. In order to ensure that the Group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the Group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The Group consciously diversifies its funding base to include deposits raised from inter-bank, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through Euro medium term notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The Group undertakes structural profiling based on the actual behavioral patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

The Group undertakes liquidity management through both cash flow approach and stock approach. Under the stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3 Liquidity risk (continued)**

**42.3.1 Management of liquidity risk (continued)**

The Group's statement on maturity of asset and liability is outlined in note 42.3.2 to the consolidated financial statements.

**42.3.2. Exposure to liquidity risk**

The key measures used by the Group for managing liquidity risk are the ratios of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and due from banks. The table below provides the ratios of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets		Liquid assets to total deposits	
	ratio		ratio	
	2019	2018	2019	2018
As at 31 December	<b>19.98%</b>	21.07%	<b>26.26%</b>	27.13%
Average for the period	<b>18.34%</b>	17.54%	<b>24.08%</b>	23.55%
Maximum for the period	<b>19.98%</b>	21.07%	<b>26.26%</b>	27.13%
Minimum for the period	<b>17.31%</b>	15.38%	<b>22.31%</b>	20.68%

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity Groupings based on the remaining period at the reporting date using the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3 Liquidity risk (continued)**

**42.3.2. Exposure to liquidity risk (continued)**

The Group's maturity position of on and off balance sheet assets and liabilities is as follows:

	On demand or within one month RO 000's	Two to three months RO 000's	Four months to 12 months RO 000's	One to five years RO 000's	More than five years RO 000's	Total RO 000's
<b>As at 31 December 2019</b>						
Cash and balances with Central Banks	534,769	28,616	55,706	114,450	48,214	781,755
Due from banks	250,868	359,094	204,018	30,824	25,000	869,804
Loans and advances	1,133,743	743,944	803,042	2,172,906	4,024,406	8,878,041
Investments	380,851	133,760	190,332	291,601	448,288	1,444,832
Property and equipment and other assets	90,995	62,737	73,643	9,720	79,081	316,176
<b>Total on balance sheet assets</b>	<b>2,391,226</b>	<b>1,328,151</b>	<b>1,326,741</b>	<b>2,619,501</b>	<b>4,624,989</b>	<b>12,290,608</b>
Irrevocable commitments to extend credit	-	-	-	147,434	175,746	323,180
Derivatives	660,241	373,704	648,481	186,426	-	1,868,852
<b>Total off balance sheet assets</b>	<b>660,241</b>	<b>373,704</b>	<b>648,481</b>	<b>333,860</b>	<b>175,746</b>	<b>2,192,032</b>
<b>Total assets</b>	<b>3,051,467</b>	<b>1,701,855</b>	<b>1,975,222</b>	<b>2,953,361</b>	<b>4,800,735</b>	<b>14,482,640</b>
Future interest cash inflows	33,057	75,987	329,530	1,148,635	855,332	2,442,541
Deposits from banks	482,120	388,731	63,928	238,700	-	1,173,479
Customers' deposits	704,616	844,144	1,672,796	3,409,315	1,412,795	8,043,666
Euro medium term notes	-	-	-	475,615	-	475,615
Other liabilities and taxation	192,285	144,864	218,709	12,244	930	569,032
Subordinated liabilities	-	-	-	26,180	-	26,180
Shareholders' funds	-	-	-	-	2,002,636	2,002,636
<b>Total liabilities and equity</b>	<b>1,379,021</b>	<b>1,377,739</b>	<b>1,955,433</b>	<b>4,162,054</b>	<b>3,416,361</b>	<b>12,290,608</b>
Irrevocable commitments to extend credit	28,909	88,982	133,376	71,913	-	323,180
Derivatives	658,779	372,543	645,389	185,299	-	1,862,010
<b>Total off balance sheet Liabilities</b>	<b>687,688</b>	<b>461,525</b>	<b>778,765</b>	<b>257,212</b>	<b>-</b>	<b>2,185,190</b>
<b>Total liabilities</b>	<b>2,066,709</b>	<b>1,839,264</b>	<b>2,734,198</b>	<b>4,419,266</b>	<b>3,416,361</b>	<b>14,475,798</b>
Future interest cash outflows	10,593	24,482	57,610	201,973	3,469	298,127
Gap (total assets - total liabilities)	984,758	(137,409)	(758,976)	(1,465,905)	1,384,374	6,842
Cumulative gap	984,758	847,349	88,373	(1,377,532)	6,842	

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3 Liquidity risk (continued)**

**42.3.2. Exposure to liquidity risk (continued)**

	On demand or within one month	Two to three months	Four months to 12 months	One to five years	More than five years	Total
	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's	US \$ 000's
Cash and balances with Central Banks	1,389,011	74,327	144,691	297,273	125,231	2,030,533
Due from banks	651,604	932,712	529,917	80,062	64,935	2,259,230
Loans and advances	2,944,787	1,932,321	2,085,823	5,643,912	10,453,003	23,059,846
Investments	989,224	347,429	494,369	757,405	1,164,384	3,752,811
Property and equipment and other assets	236,350	162,953	191,281	25,247	205,405	821,236
<b>Total on balance sheet assets</b>	<b>6,210,976</b>	<b>3,449,742</b>	<b>3,446,081</b>	<b>6,803,899</b>	<b>12,012,958</b>	<b>31,923,656</b>
Irrevocable commitments to extend credit	-	-	-	382,945	456,483	839,428
Derivatives	1,714,912	970,660	1,684,366	484,223	-	4,854,161
<b>Total off balance sheet assets</b>	<b>1,714,912</b>	<b>970,660</b>	<b>1,684,366</b>	<b>867,168</b>	<b>456,483</b>	<b>5,693,589</b>
<b>Total assets</b>	<b>7,925,888</b>	<b>4,420,402</b>	<b>5,130,447</b>	<b>7,671,067</b>	<b>12,469,441</b>	<b>37,617,245</b>
Future interest cash inflows	85,862	197,370	855,922	2,983,467	2,221,642	6,344,263
Deposits from banks	1,252,259	1,009,691	166,047	620,000	-	3,047,997
Customers' deposits and certificates of deposit	1,830,171	2,192,582	4,344,925	8,855,364	3,669,597	20,892,639
Euro medium term notes	-	-	-	1,235,364	-	1,235,364
Other liabilities & taxation	499,441	376,269	568,075	31,803	2,416	1,478,004
Subordinated liabilities	-	-	-	68,000	-	68,000
Shareholders' funds	-	-	-	-	5,201,652	5,201,652
<b>Total liabilities and equity</b>	<b>3,581,871</b>	<b>3,578,542</b>	<b>5,079,047</b>	<b>10,810,531</b>	<b>8,873,665</b>	<b>31,923,656</b>
Irrevocable commitments to extend credit	75,088	231,122	346,431	186,787	-	839,428
Derivatives	1,711,114	967,644	1,676,335	481,296	-	4,836,389
<b>Total off balance sheet Liabilities</b>	<b>1,786,202</b>	<b>1,198,766</b>	<b>2,022,766</b>	<b>668,083</b>	<b>-</b>	<b>5,675,817</b>
<b>Total liabilities</b>	<b>5,368,073</b>	<b>4,777,308</b>	<b>7,101,813</b>	<b>11,478,614</b>	<b>8,873,665</b>	<b>37,599,473</b>
Future interest cash outflows	27,515	63,590	149,635	524,605	9,012	774,357
Gap (total assets - total liabilities)	2,557,815	(356,906)	(1,971,366)	(3,807,547)	3,595,776	17,772
Cumulative gap	2,557,815	2,200,909	229,543	(3,578,004)	17,772	

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3. Liquidity risk (continued)**

**42.3.2 Exposure to liquidity risk (continued)**

	On demand or within one month RO 000's	Two to three months RO 000's	Four months to 12 months RO 000's	One to five years RO 000's	More than five years RO 000's	Total RO 000's
As at 31 December 2018						
Cash and balances with Central Banks	1,085,194	22,485	55,528	100,330	43,219	1,306,756
Due from banks	135,796	128,005	174,862	37,380	-	476,043
Loans and advances	1,397,278	514,268	862,832	2,184,667	3,979,870	8,938,915
Investments	453,796	100,331	27,833	367,045	320,577	1,269,582
Property and equipment and other assets	80,985	81,430	59,907	2,277	72,144	296,743
Total on balance sheet assets	3,153,049	846,519	1,180,962	2,691,699	4,415,810	12,288,039
Irrevocable commitments to extend credit	-	-	-	336,998	224,932	561,930
Derivatives	745,219	383,622	528,833	118,883	-	1,776,557
Total off balance sheet assets	745,219	383,622	528,833	455,881	224,932	2,338,487
Total assets	3,898,268	1,230,141	1,709,795	3,147,580	4,640,742	14,626,526
Future interest cash inflows	37,342	79,590	326,571	1,164,148	840,097	2,447,748
Deposits from banks	389,773	249,118	68,921	244,066	-	951,878
Customers' deposits	1,356,406	716,035	1,789,029	3,232,261	1,368,954	8,462,685
Euro medium term notes	-	-	-	429,608	-	429,608
Other liabilities and taxation	186,645	103,621	183,305	2,303	982	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	-	-	-	-	1,927,742	1,927,742
Total liabilities and equity	1,932,824	1,068,774	2,041,255	3,947,508	3,297,678	12,288,039
Irrevocable commitments to extend credit	82,391	94,533	246,708	138,298	-	561,930
Derivatives	724,594	385,102	524,723	139,110	-	1,773,529
Total off balance sheet Liabilities	806,985	479,635	771,431	277,408	-	2,335,459
Total liabilities	2,739,809	1,548,409	2,812,686	4,224,916	3,297,678	14,623,498
Future interest cash outflows	12,630	24,086	71,205	269,391	51,129	428,441
Gap (total assets - total liabilities)	1,158,459	(318,268)	(1,102,891)	(1,077,336)	1,343,064	3,028
Cumulative gap	1,158,459	840,191	262,700	(1,340,036)	3,028	

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3. Liquidity risk (continued)**

**42.3.2 Exposure to liquidity risk (continued)**

	On demand or within one month US \$ 000's	Two to three months US \$ 000's	Four months to 12 months US \$ 000's	One to five years US \$ 000's	More than five years US \$ 000's	Total US \$ 000's
Cash and balances with Central Banks	2,818,686	58,403	144,229	260,597	112,257	3,394,172
Due from banks	352,716	332,481	454,187	97,091	-	1,236,475
Loans and advances	3,629,293	1,335,760	2,241,122	5,674,460	10,337,325	23,217,960
Investments	1,178,690	260,599	72,294	953,364	832,668	3,297,615
Property and equipment and other assets	210,351	211,506	155,603	5,914	187,387	770,761
Total on balance sheet assets	<u>8,189,736</u>	<u>2,198,749</u>	<u>3,067,435</u>	<u>6,991,426</u>	<u>11,469,637</u>	<u>31,916,983</u>
Irrevocable commitments to extend credit	-	-	-	875,319	584,239	1,459,558
Derivatives	<u>1,935,634</u>	<u>996,421</u>	<u>1,373,592</u>	<u>308,787</u>	-	<u>4,614,434</u>
Total off balance sheet assets	<u>1,935,634</u>	<u>996,421</u>	<u>1,373,592</u>	<u>1,184,106</u>	<u>584,239</u>	<u>6,073,992</u>
Total assets	<u>10,125,370</u>	<u>3,195,170</u>	<u>4,441,027</u>	<u>8,175,532</u>	<u>12,053,876</u>	<u>37,990,975</u>
Future interest cash inflows	<u>96,992</u>	<u>206,727</u>	<u>848,236</u>	<u>3,023,761</u>	<u>2,182,070</u>	<u>6,357,786</u>
Deposits from banks	1,012,397	647,060	179,016	633,938	-	2,472,411
Customers' deposits and certificates of deposit	3,523,132	1,859,831	4,646,829	8,395,483	3,555,725	21,981,000
Euro medium term notes	-	-	-	1,115,865	-	1,115,865
Other liabilities & taxation	484,791	269,145	476,117	5,982	2,551	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	-	-	-	-	5,007,121	5,007,121
Total liabilities and equity	<u>5,020,320</u>	<u>2,776,036</u>	<u>5,301,962</u>	<u>10,253,268</u>	<u>8,565,397</u>	<u>31,916,983</u>
Irrevocable commitments to extend credit	214,003	245,540	640,800	359,216	-	1,459,559
Derivatives	<u>1,882,062</u>	<u>1,000,265</u>	<u>1,362,917</u>	<u>361,325</u>	-	<u>4,606,569</u>
Total off balance sheet Liabilities	<u>2,096,065</u>	<u>1,245,805</u>	<u>2,003,717</u>	<u>720,541</u>	-	<u>6,066,128</u>
Total liabilities	<u>7,116,385</u>	<u>4,021,841</u>	<u>7,305,679</u>	<u>10,973,809</u>	<u>8,565,397</u>	<u>37,983,111</u>
Future interest cash outflows	<u>32,805</u>	<u>62,561</u>	<u>184,948</u>	<u>699,717</u>	<u>132,803</u>	<u>1,112,834</u>
Gap (total assets - total liabilities)	<u>3,008,985</u>	<u>(826,671)</u>	<u>(2,864,652)</u>	<u>(2,798,277)</u>	<u>3,488,479</u>	<u>7,864</u>
Cumulative gap	<u>3,008,985</u>	<u>2,182,314</u>	<u>(682,338)</u>	<u>(3,480,615)</u>	<u>7,864</u>	

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.3 Liquidity risk (continued)**

**42.3.2 Exposure to liquidity risk (continued)**

Interest cash flows shown in the above tables represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

As on the reporting date, deposits from Ministries and other Government organisations represents 31.7 percent of the total customer deposits / Islamic customer deposits (2018: 31.9 percent).

**42.4 Market risk**

**42.4.1 Management of market risks**

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not enter into trading positions in commodities and derivatives. Limits and all internal / external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Group are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

**42.4.2 Foreign exchange risk**

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Group is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35 percent of its net worth as against the regulatory limit of 40 percent of net worth.

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.2 Foreign exchange risk (continued)**

As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2018 US\$ 000's	2019 US\$ 000's		2019 RO 000's	2018 RO 000's
10,132	<b>48,517</b>	UAE Dirham	<b>18,679</b>	3,901
205,691	<b>201,044</b>	US Dollar	<b>77,402</b>	79,191
34,161	<b>82,756</b>	Saudi Riyal	<b>31,861</b>	13,152
8,418	<b>9,797</b>	Qatari Riyal	<b>3,772</b>	3,241
6,553	<b>5,956</b>	Pakistani Rupee	<b>2,293</b>	2,523
7,190	<b>6,371</b>	Indian Rupee	<b>2,453</b>	2,768
51,304	<b>16,304</b>	Kuwait Dinar	<b>6,277</b>	19,752
83,829	<b>87,055</b>	Bahraini Dinar	<b>33,516</b>	32,274
44,431	<b>2,681</b>	Others	<b>1,032</b>	17,106
<b>451,709</b>	<b>460,481</b>		<b>177,285</b>	<b>173,908</b>

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas branches, subsidiary and significant investment in entity of equivalent to RO 60 million (2018: RO 73 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have (other than Kuwaiti Dinar) fixed parity with Omani Rial unless the peg is changed.

**Exposure and sensitivity analysis:**

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices as at 31 December with all other variables held constant.

Non-parity foreign currency net assets	2019		2018	
	% of change in the currency price (+/-)	Change in profit and equity (+/-) RO'000	% of change in the currency price (+/-)	Change in profit and equity (+/-) RO'000
Indian Rupee	10%	245	10%	277
Pakistani Rupee	10%	229	10%	252
Kuwaiti Dinar	10%	628	10%	1,975
Others	10%	103	10%	1,711



**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.3 Investment price risk**

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectorial limits are defined in various policies enabling proper risk management of the Group's investments. The Group's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular intervals to ensure that unrealised losses, if any, on account of reduction in the market value of the investments below their cost remain within the acceptable parameters defined in the Group's Investment Policy.

**Exposure and sensitivity analysis**

The Group analyses price sensitivity of the equity portfolio as follows:

- (a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.
- (b) For the international quoted equity portfolio, based on the individual security market price movement.

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2019 was 1.11 (2018: 1.09). Thus, a +/- 5% change in the value of MSM30 index may result in 5.55% (2018: 5.46%) change in the value of Group's quoted local equity portfolio, amounting to RO 1.828 million (2018: 2.573 million) change in the unrealised gain recognised in the investment income / statement of other comprehensive income for the year based on the classification of the portfolio.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/- 5% change in the market price of the respective securities would result in change in value of the portfolio of RO 3.79 million (2018: RO 3.70 million) and corresponding increase or decrease in the unrealised gain recognised in the investment income / statement of other comprehensive income based on the classification of the portfolio.

**42.4.4 Interest rate risk management**

Interest rate risk is the risk of adverse impact on the Group's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Group while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the Asset Liability Management Committee (ALCO). The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

**BANK MUSCAT SAOG**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.4 Interest rate risk management (continued)**

	Effective annual interest rate %	Within one month RO000's	Months 2 to 3 RO000's	Months 4 to 12 RO000's	Year 1 to 5 RO000's	Over 5 years RO000's	Non- interest sensitive RO000's	Total RO000's
<b>As of 31 December 2019</b>								
Cash and balances with Central Banks	0-0.5	129,142	2,526	2,511	-	-	647,576	781,755
Due from banks	2.58	249,360	359,094	204,018	30,824	25,000	1,508	869,804
Loans and advances	5.09	1,292,794	1,258,598	1,144,820	2,874,392	2,302,610	4,827	8,878,041
Investments	2.63	317,384	131,656	189,039	288,056	416,697	102,000	1,444,832
Property and equipment and other assets	None	-	-	-	-	-	316,176	316,176
<b>Total</b>		<b>1,988,680</b>	<b>1,751,874</b>	<b>1,540,388</b>	<b>3,193,272</b>	<b>2,744,307</b>	<b>1,072,087</b>	<b>12,290,608</b>
Derivatives		872,674	559,995	672,712	664,936	167,476	-	2,937,793
<b>Total assets</b>		<b>2,861,354</b>	<b>2,311,869</b>	<b>2,213,100</b>	<b>3,858,208</b>	<b>2,911,783</b>	<b>1,072,087</b>	<b>15,228,401</b>
Deposits from banks	3.03	479,062	388,731	63,928	238,700	-	3,058	1,173,479
Customers' deposits	1.80	266,543	459,842	4,128,583	1,742,207	120,847	1,325,644	8,043,666
Euro medium term notes / Sukuk	4.72	-	-	-	475,615	-	-	475,615
Other liabilities and taxation	None	-	-	-	-	-	569,032	569,032
Subordinated liabilities	6.31	-	-	26,180	-	-	-	26,180
Perpetual Tier I capital	5.50	-	-	-	130,000	-	-	130,000
Shareholders' funds	None	-	-	-	-	-	1,872,636	1,872,636
<b>Total</b>		<b>745,605</b>	<b>848,573</b>	<b>4,218,691</b>	<b>2,586,522</b>	<b>120,847</b>	<b>3,770,370</b>	<b>12,290,608</b>
Derivatives		881,041	549,001	885,810	444,196	170,903	-	2,930,951
<b>Total liabilities</b>		<b>1,626,646</b>	<b>1,397,574</b>	<b>5,104,501</b>	<b>3,030,718</b>	<b>291,750</b>	<b>3,770,370</b>	<b>15,221,559</b>
Total interest rate sensitivity gap		1,234,708	914,295	(2,891,401)	827,490	2,620,033	(2,698,283)	6,842
<b>Cumulative interest rate sensitivity gap</b>		<b>1,234,708</b>	<b>2,149,003</b>	<b>(742,398)</b>	<b>85,092</b>	<b>2,705,125</b>	<b>6,842</b>	
<b>(US\$ 000's)</b>		<b>3,207,034</b>	<b>5,581,826</b>	<b>(1,928,306)</b>	<b>221,018</b>	<b>7,026,299</b>	<b>17,772</b>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)**

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.4 Interest rate risk management (continued)**

	Effective annual interest rate %	Within one month RO000's	Months 2 to 3 RO000's	Months 4 to 12 RO000's	Year 1 to 5 RO000's	Over 5 years RO000's	Non-interest sensitive RO000's	Total RO000's
As of 31 December 2018								
Cash and balances with Central Banks	0-0.5	767,187	3,158	3,137	-	-	533,274	1,306,756
Due from banks	2.35	134,456	128,004	171,782	37,730	-	4,071	476,043
Loans and advances	4.86	1,573,355	1,055,102	1,226,653	2,834,318	2,238,931	10,556	8,938,915
Investments	2.50	365,613	98,000	39,276	364,046	288,800	113,847	1,269,582
Property, equipment, software and Other assets	None	-	-	-	-	-	296,743	296,743
Total		2,840,611	1,284,264	1,440,848	3,236,094	2,527,731	958,491	12,288,039
Derivatives		911,162	538,048	396,016	517,804	184,352	-	2,547,382
Total assets		3,751,773	1,822,312	1,836,864	3,753,898	2,712,083	958,491	14,835,421
Deposits from banks	2.74	376,356	249,119	68,921	244,066	-	13,416	951,878
Customers' deposits	1.53	963,105	300,928	4,180,176	1,645,913	124,466	1,248,097	8,462,685
Euro medium term notes / Sukuk	4.86	-	-	-	429,608	-	-	429,608
Other liabilities and taxation	None	-	-	-	-	-	476,856	476,856
Subordinated liabilities and Mandatory								
Convertible bonds	5.84	-	-	39,270	-	-	-	39,270
Perpetual Tier I capital	5.50	-	-	-	130,000	-	-	130,000
Shareholders' funds	None	-	-	-	-	-	1,797,742	1,797,742
Total		1,339,461	550,047	4,288,367	2,449,587	124,466	3,536,111	12,288,039
Derivatives		920,175	539,528	354,734	545,565	184,352	-	2,544,354
Total liabilities		2,259,636	1,089,575	4,643,101	2,995,152	308,818	3,536,111	14,832,393
Total interest rate sensitivity gap		1,492,137	732,737	(2,806,237)	758,746	2,403,265	(2,577,620)	3,028
Cumulative interest rate sensitivity gap		1,492,137	2,224,874	(581,363)	177,383	2,580,648	3,028	
(US\$ 000's)		3,875,681	5,778,894	(1,510,034)	460,735	6,702,982	7,865	

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.4. Interest rate risk management (continued)**

- (i) The repricing profile is based on the remaining period to the next interest repricing date.
- (ii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyse the magnitude of portfolio changes necessary to alter the existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile.

Economic Value of Equity (EVE) is the present value of all asset cash flows subtracted by the present value of all liability cash flows. By calculating the EVE the Group is able to show the effect of different interest rate changes on its total capital. This is a key tool that allows Group to prepare against constantly changing interest rates. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

**Impact on Net Interest income**

	<b>+200 bps RO 000's</b>	<b>-200 bps RO 000's</b>	<b>+100 bps RO 000's</b>	<b>-100 bps RO 000's</b>	<b>+50 bps RO'000's</b>	<b>-50 bps RO 000's</b>
<b>2019</b>						
As at 31 December	<b>18,700</b>	<b>(12,750)</b>	<b>10,387</b>	<b>(3,504)</b>	<b>5,576</b>	<b>2,367</b>
Average for the period	<b>18,368</b>	<b>(17,417)</b>	<b>11,238</b>	<b>(4,659)</b>	<b>5,812</b>	<b>858</b>
Maximum for the period	<b>22,712</b>	<b>(20,782)</b>	<b>12,747</b>	<b>(6,330)</b>	<b>6,514</b>	<b>2,367</b>
Minimum for the period	<b>13,560</b>	<b>(12,750)</b>	<b>9,715</b>	<b>(2,582)</b>	<b>5,097</b>	<b>(1,429)</b>
<b>2018</b>						
As at 31 December	19,739	(18,238)	10,994	(5,268)	5,957	1,605
Average for the period	20,387	(18,053)	12,000	(5,521)	6,999	1,348
Maximum for the period	37,191	(20,310)	27,231	(6,620)	21,490	2,270
Minimum for the period	14,769	(13,931)	8,617	(4,752)	4,682	(365)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.4 Market risk (continued)**

**42.4.4. Interest rate risk management (continued)**

<b>Impact on Economic Value</b>	<b>+200 bps RO 000's</b>	<b>-200 bps RO 000's</b>	<b>+100 bps RO 000's</b>	<b>-100 bps RO 000's</b>	<b>+50 bps RO 000's</b>	<b>-50 bps RO 000's</b>
<b>2019</b>						
As at 31 December	(237,000)	350,580	(87,413)	106,036	(104,070)	106,905
Average for the period	(224,866)	343,878	(80,416)	106,311	(99,057)	64,852
Maximum for the period	(237,744)	368,911	(87,823)	122,277	(104,070)	106,905
Minimum for the period	(211,576)	317,946	(72,775)	94,669	(94,920)	(3,329)
<b>2018</b>						
As at 31 December	(216,216)	368,139	(92,207)	136,324	(93,819)	98,487
Average for the period	(205,655)	358,958	(85,686)	135,334	(90,384)	100,525
Maximum for the period	(224,585)	368,139	(96,241)	139,390	(95,870)	105,522
Minimum for the period	(183,914)	345,621	(74,833)	130,171	(84,689)	81,325
<b>Impact on Net Interest income</b>	<b>+200 bps US\$ '000</b>	<b>-200 bps US\$ '000</b>	<b>+100 bps US\$ '000</b>	<b>-100 bps US\$ '000</b>	<b>+50 bps US\$ '000</b>	<b>-50 bps US\$ '000</b>
<b>2019</b>						
As at 31 December	48,572	(33,118)	26,980	(9,102)	14,483	6,147
Average for the period	47,710	(45,240)	29,189	(12,102)	15,096	2,229
Maximum for the period	58,992	(53,978)	33,109	(16,441)	16,919	6,147
Minimum for the period	35,222	(33,118)	25,233	(6,707)	13,239	(3,713)
<b>2018</b>						
As at 31 December	51,271	(47,371)	28,556	(13,683)	15,472	4,168
Average for the period	52,953	(46,891)	31,169	(14,339)	18,179	3,501
Maximum for the period	96,601	(52,753)	70,731	(17,194)	55,818	5,897
Minimum for the period	38,362	(36,186)	22,381	(12,343)	12,162	(948)
<b>Impact on Economic Value</b>	<b>+200 bps US\$ 000's</b>	<b>-200 bps US\$ 000's</b>	<b>+100 bps US\$ 000's</b>	<b>-100 bps US\$ 000's</b>	<b>+50 bps US\$ 000's</b>	<b>-50 bps US\$ 000's</b>
<b>2019</b>						
As at 31 December	(615,585)	910,597	(227,048)	275,418	(270,312)	277,674
Average for the period	(584,068)	893,189	(208,872)	276,132	(257,291)	168,446
Maximum for the period	(617,516)	958,210	(228,113)	317,603	(270,312)	277,674
Minimum for the period	(549,548)	825,833	(189,026)	245,893	(246,544)	(8,646)
<b>2018</b>						
As at 31 December	(561,601)	956,205	(239,498)	354,089	(243,686)	255,810
Average for the period	(534,170)	932,360	(222,561)	351,517	(234,763)	261,104
Maximum for the period	(583,339)	956,205	(249,976)	362,053	(249,014)	274,082
Minimum for the period	(477,700)	897,716	(194,371)	338,107	(219,972)	211,233

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****42. Financial risk management (continued)****42.5 Commodity Price Risk**

As part of its treasury operations, the Group offers commodities hedging facility to its clients. Customers of the Group who are exposed to commodities like Copper, Aluminium, Oil and also Jewellers with exposure to gold prices cover their commodity exposures through the Group. The Group covers all its commodity exposures back-to-back in the interbank market.

The Group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the Group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-market related credit exposures for the Group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers' positions and MTMs on daily basis.

**42.6 Operational risks**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk. Operational risk loss results from deficiencies in information systems, internal controls or uncontrollable external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes.

The Group's risk policy provides the framework to identify, assess, monitor and report operational risks in a consistent and comprehensive manner across the Group. The Operational risk function independently supports business units in the management of operational risks. The main objectives of Operational risk management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To minimize the impact of operational risks events through fully functional IT Disaster recovery system, comprehensive insurance arrangements, up-to-date documentation and effective implementation of Business Continuity Plan;
- To minimise operational losses, increase the efficiency and effectiveness of the available resources.
- To provide operational risk training to new hires as well as regular refresher training for all relevant staff.
- To spread operational risk awareness across the Bank to ensure effective internal controls.

Business units have the primary responsibility of understanding, identifying and managing the operational risks that are inherent in their respective products, activities, processes and systems. Operational risk is controlled through strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. Internal Audit Department independently reviews effectiveness of the Group's internal controls and its ability to minimize the impact of operational risks.

The Management Risk Committee is the primary oversight body for operational risk. The committee is represented by various business and control functions and is responsible for ensuring that the Group has an adequate risk management process that covers identification, evaluation and management of operational risks and formulation of sound, adequate policies pertaining to operational risk management. The responsibility of facilitating the process lies with Operational risk unit in accordance with the Operational risk management framework.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****42. Financial risk management (continued)****42.6 Operational risks (continued)***Business Continuity Management (BCM)*

BCM is the planning, implementation and management to ensure that the Group can continue to operate at least at a pre-determined level following a significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient in potential situations of failure. The Group has put in place Business Continuity Plans (BCP) for each critical department as well as every branch to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continues to strengthen and enhance its existing plans by implementing a robust business continuity framework to be ready to meet 'emergency preparedness'. The Group provides training to its new joiners as well as existing employees through online and onsite training to ensure that everyone is familiar with resumption and business recovery procedures. The Protective Services Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The said committee continuously reviews and agrees to the business continuity strategy. It also ensures that planning and maintenance responsibilities are assigned, understood and implemented across the business. The Group's recovery centre has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure proper functioning of the Business Recovery Centre (BRC), all departments of the Group are required to complete bi-annual testing to ensure that it will operate successfully in times of emergencies.

**42.7 Capital management****42.7.1 Regulatory capital**

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel III's capital requirement, the CBO requires the Parent Company to maintain a minimum of 14.5% ratio of total capital to total risk-weighted assets. The Group's regulatory capital as per Basel III regulations is Grouped into:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;
- Tier II capital, which includes qualifying subordinated liabilities, General loan loss impairment / ECL provision (Stage 1 and 2) and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI after deductions for fifty percent of carrying value of investments in associates;

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed fifty percent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 percent of the total credit risk-weighted assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****42. Financial risk management (continued)****42.7 Capital management (continued)****42.7.2 Capital adequacy**

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximise the shareholders' value through an optimal capital structure that protects the stakeholders' interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the Group assuming higher levels of risk. Hence, with regards to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Group utilises Additional Tier 1 (AT1) and subordinated debt (Tier II Capital) and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

*Basel III regulatory reporting*

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms. The group remains strongly capitalised and is ahead of the transitional phase-in arrangements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.7 Capital management (continued)**

**42.7.2 Capital adequacy (continued)**

The following table sets out the capital adequacy position of the Group:

2018 USD '000	2019 USD '000		2019 RO'000	2018 RO'000
		<b>Common Equity Tier 1 (CET1) capital:</b>		
		<b>Instruments and reserves</b>		
765,561	<b>803,839</b>	Share capital	<b>309,478</b>	294,741
1,380,610	<b>1,380,610</b>	Share premium	<b>531,535</b>	531,535
255,187	<b>267,948</b>	Legal reserve	<b>103,160</b>	98,247
963,605	<b>997,605</b>	General reserve	<b>384,078</b>	370,988
34,000	<b>34,000</b>	Subordinated loan reserve	<b>13,090</b>	13,090
992,840	<b>1,086,156</b>	Retained profit (post proposed cash dividend)	<b>418,170</b>	382,243
<b>4,391,803</b>	<b>4,570,158</b>	<b>Total</b>	<b>1,759,511</b>	1,690,844
		Less: Regulatory adjustments		
(31,531)	<b>(25,849)</b>	Cumulative loss on fair value	<b>(9,952)</b>	(12,139)
-	<b>(88)</b>	Cumulative loss on Cash Flow Hedge	<b>(34)</b>	-
(20,086)	<b>(13,395)</b>	Deferred tax assets	<b>(5,157)</b>	(7,733)
(5,371)	<b>(5,964)</b>	Foreign currency translation reserve	<b>(2,296)</b>	(2,068)
(86,491)	<b>(88,512)</b>	Significant investments in the common stock of banking, financial and insurance entities	<b>(34,077)</b>	(33,299)
(143,479)	<b>(133,808)</b>	Total regulatory adjustments to CET1	<b>(51,516)</b>	(55,239)
<b>4,248,324</b>	<b>4,436,350</b>	<b>Total Common Equity Tier 1 capital (CET1)</b>	<b>1,707,995</b>	1,635,605
<b>337,662</b>	<b>337,662</b>	<b>Additional Tier 1 capital (AT1)</b>	<b>130,000</b>	130,000
<b>4,585,986</b>	<b>4,774,012</b>	<b>Total Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,837,995</b>	1,765,605
		<b>Tier 2 capital: instruments and provisions</b>		
1,398	<b>2,106</b>	Cumulative change in fair value (45%)	<b>811</b>	538
287,438	<b>225,317</b>	General Loan loss impairment	<b>86,747</b>	110,664
27,200	<b>10,200</b>	Subordinated liabilities (net of reserves)	<b>3,927</b>	10,472
-	<b>-</b>	Mandatory convertible Bonds	<b>-</b>	-
<b>316,036</b>	<b>237,623</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>91,485</b>	121,674
		<b>Less: Regulatory adjustments</b>		
-	<b>-</b>	Significant investments in the common stock of banking, financial and insurance entities	<b>-</b>	-
-	<b>-</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	-
<b>316,036</b>	<b>237,623</b>	<b>Tier 2 capital (T2)</b>	<b>91,485</b>	121,674
<b>4,902,022</b>	<b>5,011,635</b>	<b>Total Regulatory Capital (TC = T1 + T2)</b>	<b>1,929,480</b>	1,887,279
<b>25,501,348</b>	<b>25,415,182</b>	<b>Total risk weighted assets</b>	<b>9,784,845</b>	9,818,019
<b>22,995,023</b>	<b>22,848,117</b>	Credit risk weighted assets	<b>8,796,525</b>	8,853,084
<b>429,629</b>	<b>393,613</b>	Market risk weighted assets	<b>151,541</b>	165,407
<b>2,076,696</b>	<b>2,173,452</b>	Operational risk weighted assets	<b>836,779</b>	799,528

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**42. Financial risk management (continued)**

**42.7 Capital management (continued)**

**42.7.2 Capital adequacy (continued)**

2018	2019	Capital ratios: (expressed as a % of total risk weighted assets)	2019	2018
16.66%	17.46%	Common Equity Tier 1	17.46%	16.66%
17.98%	18.78%	Tier 1	18.78%	17.98%
19.22%	19.72%	<b>Total capital</b>	19.72%	19.22%

The total regulatory capital adequacy ratio of 19.72% (2018: 19.22%) is after considering the proposed dividend of 35% Cash and 5% Stock (2018: 35% Cash and 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 20.83% (2018: 20.27%).

*Capital Adequacy as per Basel II reporting for monitoring purposes:*

The following table sets out the capital adequacy position as per Basel II guidelines issued by Central Bank of Oman of the Group for monitoring purposes:

2018 USD 000's	2019 USD 000's		2019 RO 000's	2018 RO 000's
4,629,231	<b>4,818,267</b>	Tier I Capital	<b>1,855,033</b>	1,782,254
313,590	<b>217,166</b>	Tier II Capital	<b>83,609</b>	120,732
4,942,821	<b>5,035,433</b>	<b>Total regulatory capital</b>	<b>1,938,642</b>	1,902,986
		<b>Total risk weighted assets:</b>		
22,995,023	<b>22,848,117</b>	Credit risk	<b>8,796,525</b>	8,853,084
429,629	<b>393,613</b>	Market risk	<b>151,541</b>	165,407
2,076,696	<b>2,173,452</b>	Operational risk	<b>836,779</b>	799,528
25,501,348	<b>25,415,182</b>	<b>Total risk weighted assets</b>	<b>9,784,845</b>	9,818,019
		<b>Capital ratios</b>		
19.38%	<b>19.81%</b>	Total regulatory capital expressed as a % of total risk weighted assets	19.81%	19.38%
18.15%	<b>18.96%</b>	Total Tier I capital expressed as a % of total risk weighted assets	18.96%	18.15%

The total regulatory capital adequacy ratio of 19.81% (2018: 19.38%) is after considering the proposed dividend of 35% Cash and 5% Stock (2018 : 35% Cash and 5% Stock ). The total capital adequacy ratio pre consideration of dividend would be 20.92% (2018: 20.43%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****42. Financial risk management (continued)****42.7 Capital management (continued)****42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):**

Apart from the regulatory capital which is based on the guidelines issued by Central Bank of Oman, the Group has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Group's actual capital adequacy based on advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, Interest Rate Risk on Banking Book (IRRBB) along with the core risks. The purpose of the Group's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to estimate future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Group's risk profile. It will scrutinize the current business model of the Group and may lead to corresponding adjustments if the inherent risk goes beyond the Group's risk appetite. The business plan will be updated at least annually on a rolling basis for forward-looking period of 5 years. On an annual basis, ICAAP is approved by the Board of Directors and then submitted to Central Bank annually. On a quarterly basis, reporting is done to the Board of Directors on the adequacy of capital. The Group believes that its current and foreseen capital supply is suitable to support its business strategy.

The forward looking assessment of capital adequacy has helped the Group to plan ahead for capital management.

**42.7.4 Capital allocation**

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives are taken in to account while allocating capital.

**BANK MUSCAT SAOG****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****43. Fair value information**

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

<b>As of 31 December 2019</b>	<b>Notes</b>	<b>Designated as at FVTPL RO 000's</b>	<b>Designated as at FVOCI RO 000's</b>	<b>Amortised cost RO 000's</b>	<b>Total carrying value RO 000's</b>	<b>Fair Value RO 000's</b>	<b>Level</b>
Cash and balances with Central Bank	5	-	-	781,755	781,755	781,755	3
Due from banks	6	48,755	15,328	805,721	869,804	880,223	2,3
Loans and advances and Islamic financing receivables	7	-	-	8,878,041	8,878,041	9,028,450	3
Investment securities	9	25,934	144,202	1,274,696	1,444,832	1,469,958	1,2,3
Positive fair value of derivatives	38	22,274	-	-	22,274	22,274	2
		<u>96,963</u>	<u>159,530</u>	<u>11,740,213</u>	<u>11,996,706</u>	<u>12,182,660</u>	
Deposits from banks	14	-	-	1,173,479	1,173,479	1,180,261	3
Customers' deposits and Islamic customer deposits	15	-	-	8,043,666	8,043,666	8,068,716	3
Sukuk	16	-	-	90,205	90,205	89,670	1
Euro medium term notes	17	-	-	385,410	385,410	397,081	1
Subordinated liabilities	21	-	-	26,180	26,180	26,180	3
Negative fair value of derivatives	38	18,675	-	-	18,675	18,675	2
		<u>18,675</u>	<u>-</u>	<u>9,718,940</u>	<u>9,737,615</u>	<u>9,780,583</u>	

## BANK MUSCAT SAOG

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 43. Fair value information (continued)

	Notes	Designated as at FVTPL RO 000's	Designated as at FVOCI RO 000's	Amortised cost RO 000's	Total carrying value RO 000's	Fair Value RO 000's	Level
As of 31 December 2018							
Cash and balances with Central Bank	5	-	-	1,306,756	1,306,756	1,306,756	3
Due from banks	6	19,213	11,581	445,249	476,043	479,683	2,3
Loans and advances and Islamic financing receivables	7	-	-	8,938,915	8,938,915	9,037,426	3
Investment securities	9	30,119	154,456	1,085,007	1,269,582	1,283,347	1,2,3
Positive fair value of derivatives	38	18,431	-	-	18,431	18,431	2
		<u>67,763</u>	<u>166,037</u>	<u>11,775,927</u>	<u>12,009,727</u>	<u>12,125,643</u>	
Deposits from banks	14	-	-	951,878	951,878	959,572	3
Customers' deposits and Islamic customer deposits	15	-	-	8,462,685	8,462,685	8,520,259	3
Sukuk	16	-	-	44,608	44,608	40,147	1
Euro medium term notes	17	-	-	385,000	385,000	395,877	1
Subordinated liabilities	21	-	-	39,270	39,270	39,270	3
Negative fair value of derivatives	38	19,456	-	-	19,456	19,456	2
		<u>19,456</u>	<u>-</u>	<u>9,883,441</u>	<u>9,902,897</u>	<u>9,974,581</u>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**43. Fair value information (continued)**

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)  
The following table presents the Group's assets and liabilities that are measured at fair value at 31 December:

<b>2019</b>	<b>Level 1 RO'000s</b>	<b>Level 2 RO'000s</b>	<b>Level 3 RO'000s</b>	<b>Total RO'000s</b>
<b>Assets</b>				
Derivatives	-	22,274	-	22,274
FVTPL Equity	17,140	-	8,794	25,934
FVOCI Equity	81,197	-	3,527	84,724
FVOCI Debt	55,109	-	4,369	59,478
<b>Total Assets</b>	<b>153,446</b>	<b>22,274</b>	<b>16,690</b>	<b>192,410</b>
<b>Liabilities</b>				
Derivatives	-	18,675	-	18,675
<b>2018</b>	<b>Level 1 RO 000's</b>	<b>Level 2 RO 000's</b>	<b>Level 3 RO 000's</b>	<b>Total RO 000's</b>
<b>Assets</b>				
Derivatives	-	18,431	-	18,431
FVTPL Equity	21,307	-	8,812	30,119
FVOCI Equity	81,747	-	10,762	92,509
FVOCI Debt	54,010	-	7,937	61,947
<b>Total assets</b>	<b>157,064</b>	<b>18,431</b>	<b>27,511</b>	<b>203,006</b>
<b>Liabilities</b>				
Derivatives	-	19,456	-	19,456

There are no transfers between levels of fair value measurement hierarchy during the years 2019 and 2018.

A table showing the impact of change in estimates by 5% on the Group's assets and liabilities that are measured at fair value at 31 December, on the other comprehensive income is as follows:

<b>2019</b>	<b>Level 1 RO'000s</b>	<b>Level 2 RO'000s</b>	<b>Level 3 RO'000s</b>	<b>Total RO'000s</b>
<b>Assets</b>				
Derivatives	-	1,114	-	1,114
FVTPL Equity	857	-	440	1,297
FVOCI Debt	4,060	-	176	4,236
FVTPL Equity	2,755	-	218	2,973
<b>Total Assets</b>	<b>7,672</b>	<b>1,114</b>	<b>834</b>	<b>9,620</b>
<b>Liabilities</b>				
Derivatives	-	934	-	934

**43.Fair value information (continued)**

2018	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	922	-	922
FVTPL Equity	1,065	-	441	1,506
FVOCI Debt	4,087	-	538	4,625
FVTPL Equity	2,701	-	397	3,098
Total assets	<u>7,853</u>	<u>922</u>	<u>1,376</u>	<u>10,151</u>
Liabilities				
Derivatives	-	973	-	973

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Group's level 3 investments:

	FVOCI Equity RO 000's	FVOCI Debt RO 000's	FVTPL Equity RO 000's	Total RO 000's
At 1 January 2019	10,762	7,937	8,812	27,511
Realised gain on sale	-	-	218	218
Gain/(loss) from change in fair value	291	374	(119)	546
Additions	-	-	1,044	1,044
Disposals and redemption	(7,526)	(3,600)	(1,154)	(12,280)
Impairment on investments	-	(342)	-	(342)
Exchange differences	-	-	(7)	(7)
<b>At 31 December 2019</b>	<u>3,527</u>	<u>4,369</u>	<u>8,794</u>	<u>16,690</u>

The following table demonstrate the movement of the Group's level 3 investments:

	FVOCI Equity RO 000's	FVOCI Debt RO 000's	FVTPL Equity RO 000's	Total RO 000's
At 1 January 2018	20,647	12,220	425	33,292
IFRS 9 transition adjustments	(8,574)	(1,925)	8,390	(2,109)
Reversal of impairment on investments	-	-	(14)	(14)
Gain/(loss) from change in fair value	(1,366)	80	(420)	(1,706)
Additions	63	-	1,056	1,119
Disposals and redemption	(8)	(2,504)	(629)	(3,141)
Reversal of impairment on investments	-	66	-	66
Exchange differences	-	-	4	4
<b>At 31 December 2018</b>	<u>10,762</u>	<u>7,937</u>	<u>8,812</u>	<u>27,511</u>

As of 31 December 2019, 79% (2018: 86%) of the level 3 equity securities were valued on the basis of fair valuation carried out in accordance with appropriate valuation techniques based on income approach (discounting of cash flows), market approach (using prices or other relevant information generated by market transactions of identical or similar entities), cost approach or a combination thereof. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, using the best information available in the circumstances. These might include banks own data and would consider all information about market participant assumptions that is reasonably available.

As of 31 December 2019, 21% (2018: 14%) of the level 3 equity securities were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers as at 30 September 2019 or at a later date and adjusted for subsequent cash flows till 31 December 2019 or based on net asset values received from independent fund managers as at 30 September 2019 or at a later date.

The debt investments were valued on fair value basis. Valuation is based on Risk adjusted discount rate (yield) considering a reasonable range of estimates. A significant decrease in the credit quality would result in a lower fair value with significant increase in the spread above the risk-free rate and vice-versa. The Group holds adequate provisioning on the above investments as of the reporting date.

#### **43.1 Estimation of fair values**

The following summarises major methods and assumptions used in estimating the fair values of assets and liabilities:

##### **43.1.1 Loans and advances**

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

##### **43.1.2 Investments carried at cost and derivatives**

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

##### **43.1.3 Fair value through OCI and fair value through profit or loss investments**

Fair values for quoted investments are based on quoted bid prices as at the reporting date. Unquoted equity investments are carried at fair values, measured in accordance with appropriate valuation techniques based on income, market, cost approaches or a combination thereof or on the basis of latest available capital accounts statements or net asset values of the investee companies received from independent fund managers and adjusted for subsequent cash flows up to the reporting date.

##### **43.1.4 Bank and customer deposits**

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

##### **43.1.5 Off-balance sheet financial instruments**

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of other assets and other liabilities.

#### **44 Comparative figures**

No material corresponding figures for 2018 included for comparative purposes were reclassified.

Independent Auditors' report - page 1 to 6.



**BANK MUSCAT SAOG - MEETHAQ**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**Principal place of business:**

Building No.120/4, Block No.311  
Street No.62, Airport Heights  
Seeb,  
Sultanate of Oman

**Registered address:**

P.O Box 134  
Ruwi 112  
Sultanate of Oman

**BANK MUSCAT SAOG - MEETHAQ**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

<b>Contents</b>	<b>Page</b>
Independent auditor's report	1
Statement of financial position	2
Statement of comprehensive income	3
Statement of cash flows	4
Statement of changes in owners' equity	5
Statement of sources and uses of charity fund	6
Notes to the financial statements	7 - 50



# Independent auditor's report to the shareholders of bank muscat SAOG

## Report on the carve-out financial statements

We have audited the accompanying carve-out statement of financial position of the Meethaq Islamic Banking Window ('the Window') of bank muscat SAOG ('the Bank') as of 31 December 2019, and the related carve-out statement of comprehensive income, carve-out statement of cash flows and carve-out changes in owner's equity and sources and uses of charity funds for the year then ended. These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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### Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Window as of 31 December 2019, the carve-out results of its operations, cash flows and changes in equity for the period then ended in accordance with the Shari'ah rules and principles as determined by the Shari'ah Board of the Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

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### Other legal and regulatory requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

- a) received all required information and explanations to prepare the report; and
- b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

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### Emphasis of matter

We draw attention to the fact that, as described in note 1, the Window of the Bank is not a separate legal entity. These carve-out financial statements, therefore, represent the Meethaq Islamic Banking business as an Islamic banking Window and not as a separate stand-alone legal entity. Our opinion is not qualified with respect to this matter.

5 March 2020  
Muscat, Sultanate of Oman

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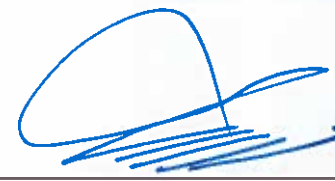
*PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos  
P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408,  
[www.pwc.com/me](http://www.pwc.com/me)*

## BANK MUSCAT SAOG - MEETHAQ

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		<b>ASSETS</b>			
7,145	8,627	Cash		3,321	2,751
411,369	222,136	Balances with Central Bank of Oman		85,522	158,377
54,109	111,771	Due from banks	4	43,032	20,832
141,824	194,514	Murabaha and other receivables	5	74,888	54,602
2,233,128	2,357,491	Musharaka	6	907,634	859,754
293,336	262,387	Ijarah Muntahia Bittamleek	7	101,019	112,934
215,948	213,784	Wakala Bil Istithmar	8	82,307	83,140
187,919	341,210	Investments	9	131,366	72,349
6,701	6,522	Property and equipment	10	2,511	2,580
21,592	25,852	Other assets	11	9,953	8,313
<u>3,573,071</u>	<u>3,744,294</u>	<b>TOTAL ASSETS</b>		<u>1,441,553</u>	<u>1,375,632</u>
		<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNER'S EQUITY</b>			
		<b>LIABILITIES</b>			
510,000	418,571	Due to banks		161,150	196,350
455,696	350,699	Current accounts		135,019	175,443
115,865	234,299	Sukuk	12	90,205	44,608
148,249	71,987	Other liabilities	13	27,715	57,076
<u>1,229,810</u>	<u>1,075,556</u>	<b>TOTAL LIABILITIES</b>		<u>414,089</u>	<u>473,477</u>
		<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	14	<u>899,881</u>	<u>785,036</u>
		<b>OWNER'S EQUITY</b>			
181,818	181,818	Allocated share capital	15	70,000	70,000
126,094	153,881	Retained earnings		59,244	48,546
		Impairment reserve/Reserve for restructured finance		385	765
1,987	1,000	Investment fair value reserve		(2,046)	(2,192)
(5,694)	(5,314)	<b>Total owner's equity</b>		<u>127,583</u>	<u>117,119</u>
<u>304,205</u>	<u>331,385</u>	<b>Total liabilities, equity of investment accountholders and owner's equity</b>		<u>1,441,553</u>	<u>1,375,632</u>
<u>3,573,071</u>	<u>3,744,294</u>				
158,420	81,244	Contingent liabilities and commitments	16	31,279	60,992

These financial statements along with notes and other explanatory information on pages 7 to 50 were authorized for issue on 05/MAR/2020 in accordance with a resolution of the Board of Directors.

 Chairman	 Director	 Chief Executive Officer
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## BANK MUSCAT SAOG - MEETHAQ

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		<b>Income</b>			
151,927	<b>171,288</b>	Income from Islamic finance and investments	17	<b>65,946</b>	58,492
(86,325)	<b>(87,961)</b>	Return on equity of investment accountholders before Meethaq's share as a Mudarib		<b>(33,865)</b>	(33,235)
20,590	<b>11,257</b>	Meethaq's share as a Mudarib		<b>4,334</b>	7,927
(65,735)	<b>(76,704)</b>	<b>Return on equity of investment accountholders</b>		<b>(29,531)</b>	(25,308)
86,192	<b>94,584</b>	Meethaq's share of income as a Mudarib and Rab almal		<b>36,415</b>	33,184
(6,018)	<b>(10,112)</b>	Profit paid on Sukuk		<b>(3,893)</b>	(2,317)
(6,649)	<b>(14,940)</b>	Net profit on due to banks under Wakala		<b>(5,752)</b>	(2,560)
73,525	<b>69,532</b>			<b>26,770</b>	28,307
5,364	<b>8,203</b>	Other income	18	<b>3,158</b>	2,065
78,889	<b>77,735</b>	<b>Net operating income</b>		<b>29,928</b>	30,372
		<b>Operating expenses</b>			
(16,403)	<b>(15,460)</b>	Staff expenses		<b>(5,952)</b>	(6,315)
(4,039)	<b>(3,582)</b>	Occupancy costs		<b>(1,379)</b>	(1,555)
(3,158)	<b>(3,174)</b>	Depreciation	10	<b>(1,222)</b>	(1,216)
(11,564)	<b>(11,860)</b>	Administrative expenses		<b>(4,566)</b>	(4,452)
(35,164)	<b>(34,076)</b>			<b>(13,119)</b>	(13,538)
43,725	<b>43,659</b>	<b>Net income before provisions and taxation</b>		<b>16,809</b>	16,834
(19,068)	<b>(19,452)</b>	Impairment for credit losses	19	<b>(7,489)</b>	(7,341)
(73)	<b>(221)</b>	Impairment for investments	9	<b>(85)</b>	(28)
8,636	<b>8,005</b>	Recoveries from provisions for impairment	19	<b>3,082</b>	3,325
33,220	<b>31,991</b>	<b>Net income before taxation</b>		<b>12,317</b>	12,790
(5,314)	<b>(3,821)</b>	Taxation		<b>(1,471)</b>	(2,046)
27,906	<b>28,170</b>	<b>Net income for the year</b>		<b>10,846</b>	10,744
		<b>Other comprehensive income/(loss) for the year</b>			
545	<b>987</b>	Transferred from reserve for restructured finance		<b>380</b>	210
(784)	<b>(1,371)</b>	Realized Loss on securities measured through Equity		<b>(528)</b>	(302)
(3,756)	<b>379</b>	Changes in fair value on securities measured through Equity		<b>146</b>	(1,446)
(3,995)	<b>(5)</b>	<b>Other Comprehensive loss for the year</b>		<b>(2)</b>	(1,538)
23,911	<b>28,165</b>	<b>Total comprehensive income for the year</b>		<b>10,844</b>	9,206

The notes on pages 7 to 50 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		<b>OPERATING ACTIVITIES</b>			
33,221	31,991	Net income before taxation		12,317	12,790
		<b>Adjustment for:</b>			
3,158	3,174	Depreciation	10	1,222	1,216
73	221	Impairment for investments	9	85	28
19,068	19,452	Impairment for credit losses	19	7,489	7,341
(8,636)	(8,005)	Recoveries from impairment for credit losses	19	(3,082)	(3,325)
(13)	(88)	Gain on sale of investments		(34)	(5)
(1,927)	(1,686)	Dividends received		(649)	(742)
2,049	1,086	Profit equalization reserve	14	418	789
260	179	Investment risk reserve	14	69	100
47,253	46,324	<b>Operating profit before changes in operating assets and liabilities</b>		17,835	18,192
		<b>Net changes in operating assets and liabilities:</b>			
8,696	(52,125)	Murabaha and other receivables		(20,068)	3,348
(230,630)	(136,525)	Musharaka		(52,562)	(88,792)
(68,569)	31,195	Ijarah Muntahia Bittamleek		12,010	(26,399)
(83,158)	2,065	Wakala Bil Istithmar		795	(32,016)
(9,886)	(4,257)	Other assets		(1,639)	(3,806)
(81,548)	(104,997)	Current accounts		(40,424)	(31,396)
-	300,000	Due to banks under Wakala		115,500	-
60,883	(80,083)	Other liabilities		(30,832)	23,440
(356,959)	1,597	<b>Net cash generated from/ (used in) operating activities</b>		615	(137,429)
		<b>INVESTING ACTIVITIES</b>			
1,927	1,686	Dividends received		649	742
(32,974)	(155,244)	Purchase of investments		(59,769)	(12,695)
15,868	831	Proceeds from sale of investments		320	6,109
(2,122)	(2,995)	Addition to property and equipment	10	(1,153)	(817)
(17,301)	(155,722)	<b>Net cash (used in) investing activities</b>		(59,953)	(6,661)
		<b>FINANCING ACTIVITIES</b>			
12,987	-	Allocated capital received		-	5,000
-	118,435	Sukuk issued during the year		45,597	-
77,818	297,029	Equity of investment accountholders		114,356	29,960
90,805	415,464	<b>Net cash generated from financing activities</b>		159,953	34,960
(283,455)	261,339	<b>Net change in cash and cash equivalents</b>		100,615	(109,130)
246,079	(37,376)	Cash and cash equivalents at the beginning of the year		(14,390)	94,740
(37,376)	223,963	<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		86,225	(14,390)
		<b>CASH AND CASH EQUIVALENTS COMPRISE OF:</b>			
7,145	8,627	Cash		3,321	2,751
411,370	222,136	Balances with Central Bank of Oman		85,522	158,377
54,109	111,771	Due from banks		43,032	20,832
(510,000)	(118,571)	Due to banks under Wakala		(45,650)	(196,350)
(37,376)	223,963			86,225	(14,390)

The notes on pages 7 to 43 form an integral part of these financial statements.  
Independent auditor's report – page 1.

**BANK MUSCAT SAOG – MEETHAQ****STATEMENT OF CHANGES IN OWNER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Allocated share capital RO'000	Retained earnings RO'000	Reserve for restructured finance RO'000	Investment fair value reserve RO'000	Total owner's equity RO'000
<b>Balance at 1 January 2019</b>	<b>70,000</b>	<b>48,546</b>	<b>765</b>	<b>(2,192)</b>	<b>117,119</b>
Net income for the year	-	10,846	-	-	10,846
Transferred from Reserve for restructured finance	-	380	(380)	-	-
Cumulative changes in fair value	-	-	-	(382)	(382)
Realized loss on equity type investments	-	(528)	-	528	-
<b>Balance at 31 December 2019 (RO'000)</b>	<b>70,000</b>	<b>59,244</b>	<b>385</b>	<b>(2,046)</b>	<b>127,583</b>
<b>Balance at 31 December 2019 (US\$'000)</b>	<b>181,818</b>	<b>153,881</b>	<b>1,000</b>	<b>(5,314)</b>	<b>331,385</b>
Balance at 1 January 2018	65,000	35,958	975	866	102,799
Impact of adopting IFRS 9 at 1st January 2018	-	1,936	-	(1,612)	324
Capital allocated by the Head office	5,000	-	-	-	5,000
Net income for the year	-	10,744	-	-	10,744
Transferred to/from impairment reserve	-	210	(210)	-	-
Cumulative changes in fair value	-	-	-	(1,748)	(1,748)
Realized gain/(loss) on equity type investments	-	(302)	-	302	-
<b>Balance at 31 December 2018 (RO'000)</b>	<b>70,000</b>	<b>48,546</b>	<b>765</b>	<b>(2,192)</b>	<b>117,119</b>
<b>Balance at 31 December 2018 (US\$'000)</b>	<b>181,818</b>	<b>126,094</b>	<b>1,987</b>	<b>(5,694)</b>	<b>304,205</b>

The notes on pages 7 to 50 form an integral part of these financial statements.

Independent auditor's report – page 1.

## BANK MUSCAT SAOG – MEETHAQ

**STATEMENT OF SOURCES AND USES OF CHARITY FUND  
FOR THE YEAR ENDED 31 DECEMBER 2019**

2018 US\$'000	2019 US\$'000		Notes	2019 RO'000	2018 RO'000
		<b>Sources of charity fund</b>			
46	<b>54</b>	Charity funds at beginning of the year		<b>21</b>	18
49	<b>88</b>	Proceeds of committed charity		<b>34</b>	19
16	<b>39</b>	Dividend purification		<b>15</b>	6
<b>111</b>	<b>181</b>	<b>Total sources of funds during the year</b>		<b>70</b>	43
		<b>Uses of charity fund</b>			
57	<b>70</b>	Distributed to charity organizations		<b>27</b>	22
57	<b>70</b>	Total uses of funds during the year		<b>27</b>	22
		<b>Undistributed charity fund at end of the year</b>			
54	<b>111</b>		13	<b>43</b>	21

The notes on pages 7 to 50 form an integral part of these financial statements.

Independent auditor's report – page 1 .



# **BANK MUSCAT SAOG – MEETHAQ**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **1 Legal status and principal activities**

BANK MUSCAT SAOG (the "Bank" or the "Head office") established "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking licence granted by the Central Bank of Oman ("the CBO") on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities.

Meethaq offers a full range of Islamic banking services and products. The principal activities of Meethaq include: accepting Shari'a compliant customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking investment activities; providing commercial banking services and other investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2019, Meethaq has 20 operating branches in the Sultanate of Oman (2018: 20 operating branches) and its registered address is P.O. Box 134, Ruwi, P C 112, Sultanate of Oman. Meethaq employed 226 employees as of 31 December 2019 (2018: 261 employees).

The window is not a separate legal entity, the separate financial statements of Meethaq has been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework (IBRF) issued by Central Bank of Oman

#### **2 Basis of preparation**

##### **2.1 Statement of compliance**

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Meethaq and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

##### **2.2 Basis of measurement**

The financial statements are prepared under the historical cost basis convention modified to include the application of fair value measurement that are required or allowed by relevant accounting standards.

##### **2.3 Functional and presentation currency**

The financial statements are presented in Rial Omani (RO) which is Meethaq's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

##### **2.4 New Standards, implementations and amendments in existing standards**

###### *(a) New and amended standards and interpretations to relevant to Meethaq :*

The following new standard became effective from 1 January 2019:

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

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**2 Basis of preparation (continued)**

**2.4 New Standards, implementations and amendments in existing standards (continued)**

*(a) New and amended standards and interpretations to relevant to Meethaq (continued)*

Meethaq has applied the standard from its mandatory adoption date, and the impact is immaterial on the financial information of Meethaq.

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by Meethaq:*

FAS 30 – Impairment, credit losses and onerous commitments: this standard provides the principles of accounting and financial reporting for impairment and credit losses on various Islamic financing, investment and other assets of IFIs and related provisions for onerous commitments. The Standard also specifies how impairment and credit losses shall be recognized and when and how they can be reversed (corresponding IFRS is IFRS 9 which Meethaq has applied from 1 January 2018).

Since Meethaq already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 does not have any material financial impacts.

FAS 31- AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption being permitted. The standard is not expected to have a material impact on the financial statements.

FAS 33 Investment in Sukuk, shares and similar instruments was issued in 2019. FAS 33 supersedes the earlier FAS 25 “Investment in Sukuks, shares and similar instruments”. The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment. It defines the key types of instruments of Shari’ah compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The standard is not expected to have a material impact on the financial statements.

FAS 34 Financial reporting for Sukuk-holders- this standard was issued in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted. The standard is not expected to have a material impact on the financial statements.

AAOIFI has also issued FAS 35 "Risk Reserves". The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs / the institutions ). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the FAS 30 “Impairment, Credit losses and onerous commitments” is early adopted by the entity. Meethaq is currently evaluating the impact of this standard.

FAS 32- The objective of this standard is to establish the set out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. Meethaq is currently evaluating the impact of this standard.

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3 Accounting policies**

**3.1 Summary of significant accounting policies**

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

**3.1.1 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, balances with Central bank of Oman, due from/to bank. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**3.1.2 Due from banks**

Due from banks comprise of receivables under Wakala contracts and Nostro balances. Wakala contracts are recognised at fair value of consideration paid less amounts settled, if any. Profits on Wakala balances are received as per the respective agreement. Nostro balances are current accounts of Meethaq with other financial institutions.

**3.1.3 Murabaha receivables**

Murabaha receivables are stated net of deferred profits, amounts written off and provision for impairment, if any.

Murabaha receivables are sales on deferred payment terms. Meethaq arranges a murabaha transaction by buying an asset (which represents the object of the murabaha) and then sells this asset to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. Promise made in the murabaha to the purchase orderer is binding upon the customer.

**3.1.4 Musharaka**

Musharaka contract represents a partnership between Meethaq and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share in an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Meethaq enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Meethaq's Musharaka share by the customer. Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

**3.1.5 Ijarah Muntahia Bittamleek**

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Meethaq assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

**3.1.6 Wakala Bil Istithmar**

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel.

**3.1.7 Sukuk**

Sukuk are the asset backed, Shari'a compliant trust certificates. Musharaka Sukuk are certificates of equal value representing ownership of asset. Sukuk are recognized at amount of proceeds minus issuance cost collected from the investors. Profits are recognized periodically till maturity subject to terms and conditions of issuing documents.

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3 Accounting policies (continued)**

**3.1.8 Investments**

Investments comprise of equity type instruments carried at fair value through equity or statement of income and debt type instruments carried at fair value through equity or at amortised cost.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investment carried at fair value through statement of income, if any.

**Equity/ debt type instruments at fair value through equity**

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Impairment losses on instruments carried at fair value through equity are not reversed through the statement of income.

**Equity/debt type instruments at fair value through statement of income**

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with unrealised gains or losses recognised in the statement of income. All other gains or losses arising from these investments are also recognised in the statement of income.

**Debt-type instruments at amortised cost**

Investments which have fixed or determinable payments and where Meethaq has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognised in the statement of income, when the instruments are de-recognised or impaired.

**3.1.9 Derivative financial instruments**

Meethaq holds derivative financial instruments (Waa'd based) to hedge its foreign currency exposures. However, it does not apply hedge accounting. Hence, foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at reporting date and the resultant gains and losses for the financial year are recognised in the statement of income.

**3.1.10 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation. The cost of additions and major improvements are capitalised. Maintenance and repairs are charged to the statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<b>Years</b>
Furniture, fixtures and equipment	5 - 10
Hardware and software	5 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3 Accounting policies (continued)**

**3.1.11 Due to banks under Wakala**

Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognised at fair value of consideration received less amounts settled, if any. Profits on these accounts are paid as per the respective agreement.

**3.1.12 Current accounts**

Current accounts are funds received under Qard whereby the principal amount is guaranteed to be repaid by Meethaq. These funds are neither entitled to any profit nor bear any losses. Current accounts are stated at fair value of consideration received less amounts settled, if any.

**3.1.13 Equity of investment account holders**

Equity of investment account holders comprises of deposits obtained on the basis of Mudaraba which are invested in Islamic assets. There is no restriction on Meethaq for the use of the equity of investment account holders. Equity of investment account holders is measured at the fair value of the consideration received less amounts settled.

**3.1.14 Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of equity of investment account holders, after allocating the mudarib share, in order to cater against future losses for equity of investment account holders.

**3.1.15 Profit equalisation reserve**

Meethaq appropriates a certain amount in excess of the profit to be distributed to equity of investment account holders before taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment account holders.

**3.1.16 Revenue recognition**

**Murabaha receivables**

Profit on murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised by proportionately allocating the attributable profits over the deferred period whereby each financial period carries its portion of profits irrespective of when the cash is received, net of suspended profit.

**Musharaka**

Income on Musharaka is recognised when the right to receive payment is established or when distribution is made, net of suspended profit.

**Ijarah Muntahia Bittamleek**

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of income.

**Wakala Bil Istithmar**

Wakala profit is usually reliably estimated and is internally accounted for on time-apportioned basis over the Wakala tenure based on the Wakala capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala agreement, otherwise the loss would be borne by the Muwakkil.

**Profit suspension**

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3 Accounting policies (continued)**

**3.1.16 Revenue recognition (continued)**

**Meethaq's share of income from equity of investment account holders (as Rabalmal and Mudarib)**

Income is allocated proportionately between equity of investment account holders and shareholders on the basis of their respective investment in the pool before allocation of the mudarib fees. Meethaq's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements.

**Fees and commission income**

Fees and commission income is recognised when earned.

Commission on letters of credit and letters of guarantee are recognized as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognized when the Islamic Window has fulfilled all its obligations in connection with the related transaction or is amortized over the period of respective financing transaction.

**Investment income**

Income from investments at amortised cost is recognised on a time-proportionate basis based on underlying rate of return. Dividend income is recognised when the Meethaq's right to receive the payment is established.

**3.1.17 Return on equity of investment account holders**

Return on equity of investment account holders is calculated based on the income generated from jointly financed assets after deducting the expenses related to investment pool (pool expenses). Pool expenses include all direct expenses incurred by Meethaq, including specific provisions. Meethaq's "mudarib share of income" is deducted from the investors' share of income before distributing such income.

**3.1.18 Taxation**

Taxation is calculated and paid by the Head office on an overall basis. Taxation expense in the financial statements represents allocation of such taxation to the Meethaq. Deferred tax assets and liabilities are recognised only at head office level.

**3.1.19 Provisions**

Provisions are recognised when Meethaq has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

**3.1.20 De-recognition of financial assets and liabilities**

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

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

**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3 Accounting policies (continued)**

**3.1.20 De-recognition of financial assets and liabilities (continued)**

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

**3.1.21 Identification and measurement of impairment assets**

Loss allowances are recognised 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. Loss allowances are measured at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

Detailed policy is given in note 3.6 of financial statements of bank muscat.

**3.1.22 Earnings prohibited by Shari'a**

Meethaq is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income, if any, is credited to a charity fund where Meethaq uses these funds for social welfare activities.

**3.1.23 Foreign currencies**

Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

**3.1.24 Employees' end of service benefits**

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of income when accrued. Meethaq's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods. This amount is accrued and recognised as an expense in the statement of income.

**3.1.25 Joint and self-financed**

Assets that are jointly owned by Meethaq and the equity of investment account holders are classified under the caption "jointly financed" in the financial statements. Assets that are financed solely by Meethaq, if any, are classified under "self-financed".

**3.1.26 Zakah**

Meethaq is not required to pay Zakah on behalf of shareholders and investment account holders. It is the

## BANK MUSCAT SAOG – MEETHAQ

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 3 Accounting policies (continued)

##### 3.1.26 Zakah (continued)

responsibility of shareholders and investment account holders to pay Zakah.

##### 3.1.27 Offsetting

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

##### 3.1.28 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

##### 3.1.29 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

#### 3.2 Significant accounting judgments and estimates

The preparation of Meethaq's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The most significant use of judgments and estimates is as follows:

##### *(a) Identification and measurement of impairment of financial assets*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

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

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

The following table shows a comparison of the Meethaq's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 2019 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.



**BANK MUSCAT SAOG – MEETHAQ**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**3.2 Significant accounting judgments and estimates (continued)**

*(a) Identification and measurement of impairment of financial assets (continued)*

Sensitivity of impairment estimates	ECL RO 000's 2019	ECL RO 000's 2018	Impact on ECL RO 000's 2019	Impact on ECL RO 000's 2018
ECL on non-impaired financing under IFRS 9	<b>18,116</b>	16,815		
<b>Simulations</b>				
Upside case - 100% weighted	<b>16,717</b>	14,829	<b>(1,399)</b>	(1,986)
Base case - 100% weighted	<b>18,618</b>	17,185	<b>501</b>	369
Downside scenario - 100% weighted	<b>18,847</b>	18,310	<b>731</b>	1,494

*(b) Liquidity*

Meethaq manages its liquidity through consideration of the maturity profile of its assets, liabilities and investment accounts which is set out in the liquidity risk disclosures. This requires judgment when determining the maturity of assets, liabilities and investment accounts with no specific maturities.

*(c) Classification of investments*

Management decides on acquisition of:

- An equity type financial asset, whether it should be carried at fair value through equity or through statement of income, and
- For a debt type financial asset, whether it should be carried at amortised cost or at fair value through statement of income or to be carried at amortized cost

**4 Due from banks**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
45,000	<b>93,571</b>	Due from banks under Wakala	<b>36,025</b>	17,325
9,127	<b>18,270</b>	Nostro current accounts	<b>7,034</b>	3,514
(18)	<b>(70)</b>	Less: Impairment loss allowance	<b>(27)</b>	(7)
<b>54,109</b>	<b>111,771</b>		<b>43,032</b>	20,832

**5 Murabaha and other receivables**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
154,585	<b>205,862</b>	Murabaha receivables - Jointly finance	<b>79,257</b>	59,515
(13,816)	<b>(14,805)</b>	Deferred profit (Note 5.1)	<b>(5,700)</b>	(5,319)
(3,379)	<b>(2,130)</b>	Less: Impairment loss allowance	<b>(820)</b>	(1,301)
<b>137,390</b>	<b>188,927</b>	Net murabaha receivables	<b>72,737</b>	52,895
4,434	<b>5,587</b>	Receivables under Ujrah	<b>2,151</b>	1,707
<b>141,824</b>	<b>194,514</b>		<b>74,888</b>	54,602

Murabaha receivables include RO 17.2 Million (2018: RO 2.3 Million) for unsecured Murabaha receivables.

# BANK MUSCAT SAOG – MEETHAQ

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 5 Murabaha and other receivables (continued)

#### 5.1 Movement in deferred profit

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
(12,673)	(13,816)	Deferred profit opening balance	(5,319)	(4,879)
(134,839)	(164,641)	Murabaha sales during the year	(63,387)	(51,913)
128,000	156,766	Murabaha cost of sales	60,355	49,280
5,696	6,886	Deferred profit transferred to earned profit	2,651	2,193
(13,816)	(14,805)		(5,700)	(5,319)

### 6 Musharaka

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
2,274,949	2,412,930	Musharaka - Jointly financed	928,978	875,855
(41,821)	(55,439)	Less: Impairment loss allowance	(21,344)	(16,101)
2,233,128	2,357,491		907,634	859,754

### 7 Ijarah Muntahia Bittamleek

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
303,209	272,013	Cost, net of accumulated depreciation - Jointly financed	104,725	116,735
(9,873)	(9,626)	Less: Impairment loss allowance	(3,706)	(3,801)
293,336	262,387		101,019	112,934

### 8 Wakala Bil Istithmar

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
216,405	214,340	Wakala Bil Istithmar - Jointly financed	82,521	83,316
(457)	(556)	Less: Impairment loss allowance	(214)	(176)
215,948	213,784		82,307	83,140

### 9 Investments

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
22,816	20,462	<b>Equity type investments at fair value through equity</b>		
		Shares - Jointly financed	7,878	8,784
1,317	2,073	<b>Equity type investments at fair value through statement of income</b>		
		Shares - Jointly financed	798	507
3,132	3,662	<b>Debt type investment at fair value through equity</b>		
		Sukuk - Jointly financed	1,410	1,206
160,831	315,410	<b>Debt type investments at amortised cost</b>		
188,096	341,607	Sukuk - Jointly financed	121,433	61,920
(177)	(397)	Impairment for investments	(153)	(68)
187,919	341,210	<b>Investments (net)</b>	131,366	72,349

**BANK MUSCAT SAOG – MEETHAQ****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****9 Investments (continued)**

The movement in investment securities is summarized as follows:

	2019		
	Equity type investment RO'000	Debt type investment RO'000	Total RO'000
At 1 January 2019	9,291	63,058	72,349
Additions	92	59,677	59,769
Disposal and redemption	(320)	-	(320)
Gain/(loss) from change in fair value	180	-	180
Impairment losses	(40)	(45)	(85)
Realized loss	(527)	-	(527)
<b>At 31 December 2019 (RO'000)</b>	<b>8,676</b>	<b>122,690</b>	<b>131,366</b>
<b>As 31 December 2019 (US\$'000)</b>	<b>22,535</b>	<b>318,675</b>	<b>341,210</b>

	2018		
	Equity type investment RO'000	Debt type investment RO'000	Total RO'000
At 1 January 2018	8,262	59,273	67,535
Impact of adopting IFRS 9	1,795	(40)	1,755
Transfers	1000	(1,000)	-
Additions	2,697	10,000	12,697
Disposal and redemption	(1,109)	(5,000)	(6,109)
Loss from change in fair value	(3,351)	(145)	(3,496)
Impairment losses	-	(28)	(28)
Amortization of discount / premium	-	(2)	(2)
Realized loss	(3)	-	(3)
<b>At 31 December 2018 (RO'000)</b>	<b>9,291</b>	<b>63,058</b>	<b>72,349</b>
<b>As 31 December 2018 (US\$'000)</b>	<b>24,132</b>	<b>163,787</b>	<b>187,919</b>

The movement in impairment of investment securities is summarised as follows:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
4,662	177	At 1 January	68	1,795
(4,558)	-	Impact of adopting IFRS 9	-	(1,755)
73	221	Provided during the year	85	28
<b>177</b>	<b>398</b>	<b>At 31 December</b>	<b>153</b>	<b>68</b>

Equity type investments at fair value through equity is carried at fair value and includes a mark to market loss of RO 2.06 Million (2018: Loss of 2.192 million).

**BANK MUSCAT SAOG – MEETHAQ****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****10 Property and equipment**

	<b>2019</b>			
	<b>Furniture and Fixtures RO'000</b>	<b>Equipment RO'000</b>	<b>Hardware and software RO'000</b>	<b>Total RO'000</b>
<b>Cost:</b>				
At 1 January 2019	2,829	789	3,311	6,929
Additions	36	26	1,091	1,153
<b>At 31 December 2019</b>	<b>2,865</b>	<b>815</b>	<b>4,402</b>	<b>8,082</b>
<b>Accumulated depreciation:</b>				
At 1 January 2019	1,899	588	1,862	4,349
Provided during the year	439	115	668	1,222
<b>At 31 December 2019</b>	<b>2,338</b>	<b>703</b>	<b>2,530</b>	<b>5,571</b>
<b>Net book values:</b>				
<b>At 31 December 2019 (RO'000)</b>	<b>527</b>	<b>112</b>	<b>1,872</b>	<b>2,511</b>
<b>At 31 December 2019 (US\$'000)</b>	<b>1,369</b>	<b>291</b>	<b>4,862</b>	<b>6,522</b>

	<b>2018</b>			
	<b>Furniture and Fixtures RO'000</b>	<b>Equipment RO'000</b>	<b>Hardware and software RO'000</b>	<b>Total RO'000</b>
<b>Cost:</b>				
At 1 January 2018	2,656	741	2,715	6,112
Additions	173	48	596	817
Disposals	-	-	-	-
<b>At 31 December 2018</b>	<b>2,829</b>	<b>789</b>	<b>3,311</b>	<b>6,929</b>
<b>Accumulated depreciation:</b>				
At 1 January 2018	1,388	435	1,310	3,133
Provided during the year	511	153	552	1,216
Disposals	-	-	-	-
<b>At 31 December 2018</b>	<b>1,899</b>	<b>588</b>	<b>1,862</b>	<b>4,349</b>
<b>Net book values:</b>				
<b>At 31 December 2018 (RO'000)</b>	<b>930</b>	<b>201</b>	<b>1,449</b>	<b>2,580</b>
<b>At 31 December 2018 (US\$'000)</b>	<b>2,415</b>	<b>522</b>	<b>3,764</b>	<b>6,701</b>

**11 Other assets**

<b>2018 US\$'000</b>	<b>2019 US\$'000</b>		<b>2019 RO'000</b>	<b>2018 RO'000</b>
17,831	<b>19,993</b>	Profit receivable	<b>7,697</b>	6,865
2,184	<b>4,753</b>	Prepayments	<b>1,830</b>	841
1,577	<b>1,106</b>	Others	<b>426</b>	607
<b>21,592</b>	<b>25,852</b>		<b>9,953</b>	<b>8,313</b>

## BANK MUSCAT SAOG – MEETHAQ

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 12 Sukuk

Meethaq -Islamic Banking Window of Bank Muscat S.A.O.G (Meethaq) started its Sukuk Al Musharaka Certificates programme in June 2017. An SPV was formed for this purpose (Meethaq Sukuk Company LLC) which is the issuer and trustee of Sukuk program.

As part of the program, the first series of certificates was issued in June 2017 amounting to RO 44.6 Million (face value RO 1.000 per certificate) and has a tenor of five years through a sharia'a compliant financing arrangement. The second series of certificates was issued in May 2019 amounting to RO 45.6 Million (face value RO 1.000 per certificate) and has a tenor of five years. The profit on Sukuk is payable bi-annually and it is listed in Muscat Securities Market.

Listed Sukuk - Muscat Securities Market

	Expected Annual Profit Rate	Maturity	2019 RO'000	2018 RO'000
Sukuk Issued by Meethaq (First issuance)	5.00%	June-2022	44,608	44,608
Sukuk Issued by Meethaq (Second issuance)	5.50%	May-2024	45,597	-
			<b>90,205</b>	<b>44,608</b>

#### 13 Other liabilities

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
37,623	37,762	Profit payable	14,538	14,485
12,564	5,119	Provision for taxation	1,971	4,837
98,062	29,106	Others	11,206	37,754
<b>148,249</b>	<b>71,987</b>		<b>27,715</b>	<b>57,076</b>

Others include charity payable of RO 43K (2018 - RO 21K ) which has been accumulated during the year.

Meethaq is not a separate taxable entity. The tax is calculated and paid on an overall basis by the head office. Based on the effective tax rate, Head office has allocated a taxation provision to Meethaq. During the year, RO 4.3 Million has been paid to head office towards payment of prior years tax dues (2018: NIL).

#### 14 Equity of investment account holders

Equity of investment account holders ('IAH') is commingled with Meethaq's funds and utilised in the business of Meethaq according to the weights of each type of fund. These weights are declared by Meethaq at the beginning of each month. Mudarib expenses are charged to the pool which include all direct expenses incurred by Meethaq, including impairment provisions. Meethaq's effective share in profits as Mudarib for the period was 12.80% (2018: 23.85%). The rate of return on each type of investment account is disclosed by Meethaq on a monthly basis. As of 31 December, the analysis of equity of investment account holders is as follows:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
377,756	560,117	Savings accounts	215,645	145,436
1,534,377	1,631,797	Fixed term accounts	628,242	590,735
121,694	138,945	Other deposits	53,494	46,852
<b>2,033,827</b>	<b>2,330,859</b>	<b>Total</b>	<b>897,381</b>	<b>783,023</b>
4,569	5,655	Profit equalization reserve (note 14.1)	2,177	1,759
660	839	Investment risk reserve (note 14.2)	323	254
<b>2,039,056</b>	<b>2,337,353</b>		<b>899,881</b>	<b>785,036</b>

**BANK MUSCAT SAOG – MEETHAQ****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)****14 Equity of investment account holders (continued)****14.1 Movement in profit equalization reserve**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
2,519	4,569	Balance as at 1 January	1,759	970
2,049	1,086	Apportioned during the year	418	789
-	-	Amount utilised during the year	-	-
4,568	5,655	Balance at 31 December	2,177	1,759

**14.2 Movement in investment risk reserve**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
400	660	Balance as at 1 January	254	154
260	179	Apportioned during the year	69	100
-	-	Amount utilised during the year	-	-
660	839	Balance at 31 December	323	254

**15 Allocated share capital**

In 2019, No further capital was injected by Head Office (2018- RO 5 million).

**16 Contingencies and commitments**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
57,384	18,221	Guarantees	7,015	22,093
101,036	63,023	Letters of credit	24,264	38,899
158,420	81,244		31,279	60,992

**17 Income from Islamic finance and investments**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
5,696	6,886	Murabaha receivables	2,651	2,193
119,091	130,109	Musharaka	50,092	45,850
13,384	16,475	Ijarah Muntahia Bittamleek	6,343	5,153
5,060	8,691	Wakala Bil Istithmar	3,346	1,948
-	49	Istisna	19	-
8,696	9,078	Investments	3,495	3,348
151,927	171,288		65,946	58,492

**18 Other income**

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
2,574	2,649	Fee and commission	1,020	991
878	2,496	Foreign exchange gain - net	961	338
1,026	1,055	Handling commission	406	395
886	2,003	Service fee and other	771	341
5,364	8,203		3,158	2,065

# BANK MUSCAT SAOG – MEETHAQ

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

### 19 Provision for impairment

Movement in provision for impairment for Islamic financing is analysed below:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
46,254	55,530	At 1 January	21,379	17,808
(1,288)	-	Impact of re-measurement on transition to IFRS 9	-	(496)
18,683	19,668	Impairment for credit losses	7,572	7,193
(8,636)	(8,005)	Recoveries from impairment for credit losses	(3,082)	(3,325)
517	558	Transfer from memorandum portfolio	215	199
55,530	67,751	At 31 December	26,084	21,379

Details of credit impairment charged in income statement is set out below:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
18,684	19,668	Impairment for Islamic financing	7,572	7,193
384	(268)	Impairment (Reversal) for un-funded exposure	(103)	148
-	52	Impairment for due from banks	20	-
19,068	19,452		7,489	7,341

### 20 Segmental information

The activities of Meethaq are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. Further, Meethaq operates solely in the Sultanate of Oman, therefore, no geographical segment information is presented.

### 21 Related party transactions

Related parties comprise of the Head office, directors and key management personnel of Meethaq and the Head office, close members of their families, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Bank, members of Shari'a Supervisory Board (SSB) and external auditors.

The significant balances with related parties at 31 December 2019 were as follows:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
		<b>Statement of financial position</b>		
358,683	93,571	Due to banks- affiliates	36,025	138,093
12,564	5,119	Other liabilities	1,971	4,837
371,247	98,690		37,996	142,930

The transactions with the related parties included in the statement of income for the year ended 31 December 2019 and 2018 are as follows:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
		<b>Statement of income</b>		
2,691	7,906	Profit on due to banks	3,044	1,036
236	236	Remuneration and expense reimbursements of Sharia Supervisory Board (SSB)	91	91
2,927	8,142		3,135	1,127

## BANK MUSCAT SAOG – MEETHAQ

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 22 Derivative financial instruments

	Positive	Negative	Notional	Notional amounts by term to maturity		
	fair value RO'000	fair Value RO'000	amount total RO'000	within 3 months RO'000	4-12 months RO'000	> 12 months
31 December 2019						
Forward purchase contracts	-	3	98,273	82,775	15,498	-
Forward sales contracts	-	-	98,176	82,776	15,400	-
Total	-	3	196,449	165,551	30,898	-
Total US\$	-	9	510,258	430,003	80,255	-
31 December 2018						
Forward purchase contracts	-	88	70,347	41,251	29,096	-
Forward sales contracts	125	-	70,100	41,225	28,875	-
Total	125	88	140,447	82,476	57,971	-
Total US\$	325	229	364,797	214,223	150,574	-

#### 23 Risk management

Meethaq's risk management is centralised at the level of Head office. It is a process whereby the Head office identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that Meethaq operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximising the risk adjusted returns. The overall risk management philosophy of the Bank is disclosed in the consolidated financial statements of the Bank. Specific disclosures pertaining to the following risks, for which Meethaq is exposed, are given below:

##### (a) Liquidity risk

Liquidity risk is the risk that Meethaq will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Meethaq Asset Liability sub-committee (MALCO) of the Bank manages the liquidity position of Meethaq. In order to ensure that Meethaq meets its financial obligations as and when they fall due, cash flow positions are closely monitored. If required, Meethaq, being a window operation of the Bank, obtains funding from the Head office.

The table below summarizes the maturity profile of Meethaq's assets, liabilities and investment accounts as of 31 December 2019 based on expected periods to cash conversion from the statement of financial position date:



## BANK MUSCAT SAOG – MEETHAQ

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

## 23 Risk management (continued)

## (a) Liquidity risk

31 December 2019	On demand or within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Total RO'000
<b>Assets</b>					
Cash and balances with					
Central Bank of Oman	58,994	8,540	13,876	7,433	88,843
Due from banks	43,032	-	-	-	43,032
Murabaha and other					
receivables	14,398	32,051	24,110	4,329	74,888
Musharaka	65,452	47,814	291,390	502,978	907,634
Ijarah Muntahia Bittamleek	1,031	3,093	57,838	39,057	101,019
Wakala Bil Istithmar	2,478	53,294	8,709	17,826	82,307
Investments	5,730	50,000	33,378	42,258	131,366
Property and equipment	-	-	-	2,511	2,511
Other assets	9,953	-	-	-	9,953
<b>Total assets</b>	<b>201,068</b>	<b>194,792</b>	<b>429,301</b>	<b>616,392</b>	<b>1,441,553</b>
<b>Liabilities, equity of investment account holders and owner's equity</b>					
Due to banks under Wakala	45,650	-	115,500	-	161,150
Current accounts	53,981	47,272	-	33,766	135,019
Sukuk	-	-	90,205	-	90,205
Other liabilities	22,236	5,479	-	-	27,715
<b>Total liabilities</b>	<b>121,867</b>	<b>52,751</b>	<b>205,705</b>	<b>33,766</b>	<b>414,089</b>
Equity of investment					
accountholders	93,144	206,711	412,677	187,349	899,881
Total owner's equity	-	-	-	127,583	127,583
<b>Total liabilities, equity of investment account holders and owner's equity</b>	<b>215,011</b>	<b>259,462</b>	<b>618,382</b>	<b>348,698</b>	<b>1,441,553</b>
<b>Net gap</b>	<b>(13,943)</b>	<b>(64,670)</b>	<b>(189,081)</b>	<b>267,694</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(13,943)</b>	<b>(78,613)</b>	<b>(267,694)</b>	<b>-</b>	<b>-</b>

# **BANK MUSCAT SAOG – MEETHAQ**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

### **23 Risk management (continued)**

#### *(a) Liquidity risk (continued)*

<b>31 December 2019</b>	<b>On demand or within 3 months US\$'000</b>	<b>4 to 12 months US\$'000</b>	<b>1 to 5 years US\$'000</b>	<b>More than 5 years US\$'000</b>	<b>Total US\$'000</b>
<b>Assets</b>					
Cash and balances with Central Bank of Oman	153,233	22,182	36,042	19,306	230,763
Due from banks	111,771	-	-	-	111,771
Murabaha and other receivables	37,398	83,249	62,623	11,244	194,514
Musharaka	170,006	124,192	756,857	1,306,436	2,357,491
Ijarah Muntahia Bittamleek	2,677	8,034	150,229	101,447	262,387
Wakala Bil Istithmar	6,436	138,426	22,621	46,301	213,784
Investments	14,883	129,870	86,696	109,761	341,210
Property and equipment	-	-	-	6,522	6,522
Other assets	25,852	-	-	-	25,852
<b>Total assets</b>	<b>522,256</b>	<b>505,953</b>	<b>1,115,068</b>	<b>1,601,017</b>	<b>3,744,294</b>
<b>Liabilities, equity of investment account holders and owner's equity</b>					
Due to banks under Wakala	118,571	-	300,000	-	418,571
Current accounts	140,211	122,785	-	87,703	350,699
Sukuk	-	-	234,299	-	234,299
Other liabilities	57,756	14,231	-	-	71,987
<b>Total liabilities</b>	<b>316,538</b>	<b>137,016</b>	<b>534,299</b>	<b>87,703</b>	<b>1,075,556</b>
Equity of investment accountholders	241,932	536,912	1,071,888	486,621	2,337,353
Total owner's equity	-	-	-	331,385	331,385
<b>Total liabilities, equity of investment account holders and owner's equity</b>	<b>558,470</b>	<b>673,928</b>	<b>1,606,187</b>	<b>905,709</b>	<b>3,744,294</b>
<b>Net gap</b>	<b>(36,214)</b>	<b>(167,975)</b>	<b>(491,119)</b>	<b>695,308</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(36,214)</b>	<b>(204,189)</b>	<b>(695,308)</b>	<b>-</b>	<b>-</b>

# **BANK MUSCAT SAOG – MEETHAQ**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

### **23 Risk management (continued)**

#### *(a) Liquidity risk (continued)*

31 December 2018	On demand or within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Total RO'000
<b>Assets</b>					
Cash and balances with Central Bank of Oman	133,120	8,800	12,834	6,374	161,128
Due from banks	20,832	-	-	-	20,832
Murabaha and other receivables	6,917	18,960	14,626	14,099	54,602
Musharaka	35,673	45,711	301,210	477,160	859,754
Ijarah Muntahia Bittamleek	1,636	8,346	74,619	28,333	112,934
Wakala Bil Istithmar	55,530	885	5,768	20,957	83,140
Investments	6,198	-	64,803	1,348	72,349
Property and equipment	-	-	-	2,580	2,580
Other assets	8,313	-	-	-	8,313
<b>Total assets</b>	<b>268,219</b>	<b>82,702</b>	<b>473,860</b>	<b>550,851</b>	<b>1,375,632</b>
<b>Liabilities, equity of investment account holders and owner's equity</b>					
Due to banks under Wakala	196,350	-	-	-	196,350
Current accounts	70,177	61,405	-	43,861	175,443
Sukuk	-	-	44,608	-	44,608
Other liabilities	48,502	8,574	-	-	57,076
<b>Total liabilities</b>	<b>315,029</b>	<b>69,979</b>	<b>44,608</b>	<b>43,861</b>	<b>473,477</b>
Equity of investment accountholders	75,779	194,491	373,210	141,556	785,036
<b>Total owner's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,119</b>	<b>117,119</b>
<b>Total liabilities, equity of investment account holders and owner's equity</b>	<b>390,808</b>	<b>264,470</b>	<b>417,818</b>	<b>302,536</b>	<b>1,375,632</b>
<b>Net gap</b>	<b>(122,589)</b>	<b>(181,768)</b>	<b>56,042</b>	<b>248,315</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(122,589)</b>	<b>(304,357)</b>	<b>(248,315)</b>	<b>-</b>	<b>-</b>

## BANK MUSCAT SAOG – MEETHAQ

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 23 Risk management (continued)

##### (a) Liquidity risk (continues)

31 December 2018	On demand or within 3 months US\$'000	4 to 12 months US\$'000	1 to 5 years US\$'000	More than 5 years US\$'000	Total US\$'000
<b>Assets</b>					
Cash and balances with Central Bank of Oman	345,766	22,857	33,335	16,556	418,514
Due from banks	54,109	-	-	-	54,109
Murabaha and other receivables	17,966	49,247	37,990	36,621	141,824
Musharaka	92,657	118,730	782,364	1,239,377	2,233,128
Ijarah Muntahia Bittamleek	4,250	21,678	193,816	73,592	293,336
Wakala Bil Istithmar	144,233	2,299	14,982	54,434	215,948
Investments	16,099	-	168,319	3,501	187,919
Property and equipment	-	-	-	6,701	6,701
Other assets	21,592	-	-	-	21,592
<b>Total assets</b>	<b>696,672</b>	<b>214,811</b>	<b>1,230,806</b>	<b>1,430,782</b>	<b>3,573,071</b>
<b>Liabilities, equity of investment account holders and owner's equity</b>					
Due to banks under Wakala	510,000	-	-	-	510,000
Current accounts	182,278	159,493	-	113,925	455,696
Sukuk	-	-	115,865	-	115,865
Other liabilities	125,979	22,270	-	-	148,249
<b>Total liabilities</b>	<b>818,257</b>	<b>181,763</b>	<b>115,865</b>	<b>113,925</b>	<b>1,229,810</b>
Equity of investment accountholders	196,829	505,172	969,377	367,678	2,039,056
<b>Total owner's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304,205</b>	<b>304,205</b>
<b>Total liabilities, equity of investment account holders and owner's equity</b>	<b>1,015,086</b>	<b>686,935</b>	<b>1,085,242</b>	<b>785,808</b>	<b>3,573,071</b>
<b>Net gap</b>	<b>(318,414)</b>	<b>(472,124)</b>	<b>145,564</b>	<b>644,974</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(318,414)</b>	<b>(790,538)</b>	<b>(644,974)</b>	<b>-</b>	<b>-</b>

##### (b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

#### Profit rate risk

Profit rate risk is the risk that Meethaq will incur a financial loss as a result of mismatch in the profit rate on Meethaq's assets and liabilities.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Meethaq is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Meethaq's results do not allow Meethaq to distribute profits in line with the market rates. To cater against DCR, Meethaq creates profit equalisation reserve as disclosed in note 14.

## BANK MUSCAT SAOG – MEETHAQ

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

#### 23 Risk management (continued)

##### (b) Market risk (continued)

##### Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. A 10% change in equity indices will have an impact of RO 0.79 Million on the equity of Meethaq (2018 - RO 0.88 million).

Effective profit rates on profit bearing assets, liabilities and equity of investment account holders as of 31 December 2019 and 2018 are as follows:

	2019	2018
<b>Assets:</b>		
Financing	5.23%	5.10%
Due from bank	1.11%	1.01%
Investments	4.03%	3.99%
<b>Liabilities:</b>		
Due to banks under Wakala	3.39%	2.51%
Meethaq Sukuk	5.37%	5.00%
Equity of Investment Account Holders	2.97%	2.63%

##### Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure that they are maintained within established approved limits. The following table summarises the exposure by currency as of 31 December 2019.

	2019		
	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	228,900	224,353	4,546
Euro	209	47	162
Great Britain Pound	50	-	50
UAE Dirham	177	147	30
Others	452	-	452

	2018		
	Assets RO'000	Liabilities RO'000	Net RO'000
US Dollars	320,704	294,632	26,072
Euro	1,835	1,887	(52)
Great Britain Pound	14	-	14
UAE Dirham	139	163	(24)
Others	102	-	102

##### Foreign currency risk sensitivity analysis

A 5% change in foreign exchange rates, with all other variables held constant, will have an impact of RO 0.26 Million on Meethaq's statement of income (2018 - RO 1.3 Million).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk*

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. Meethaq credit risk is managed by monitoring credit exposures, continually assessing the creditworthiness of counterparties, and by entering into collateral agreements in the form of mortgages, pledge of assets and personal guarantees.

Meethaq classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: Financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified as Stage 1. When a Credit Facility is first recognised, the Meethaq recognizes a loss allowance based on 12 months ECL.
- Stage 2: Financial instruments having Significant Increase in Credit Risk (“SICR”) since origination will be classified under Stage 2 (if not impaired). When a Credit Facility has shown a significant increase in credit risk since origination, Meethaq records a loss allowance for the life time (LT) ECL; and
- Stage 3: All Credit Facilities that are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or profit is overdue by more than 90 days. Besides quantitative and qualitative criteria are also applied for assigning stage 3. In such cases, Meethaq records a loss allowance for the LT ECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt type investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

<b>31 December 2019</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b><u>Gross Exposure</u></b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Due from banks	42,525	534	-	43,059
Islamic Financing	848,431	328,583	14,918	1,191,932
Investments	121,865	978	-	122,843
<b>Total Funded Gross Exposure</b>	<b>1,012,821</b>	<b>330,095</b>	<b>14,918</b>	<b>1,357,834</b>
Letters of credit/Guarantees	23,734	7,545	-	31,279
Financing commitments/Unutilized limits	4,429	61,182	-	65,611
<b>Total Gross Exposure</b>	<b>1,040,984</b>	<b>398,822</b>	<b>14,918</b>	<b>1,454,724</b>
<b><u>Impairment</u></b>				
Due from banks	26	1	-	27
Islamic Financing	2,492	15,624	7,968	26,084
Investments	115	38	-	153
<b>Total Funded Impairment</b>	<b>2,633</b>	<b>15,663</b>	<b>7,968</b>	<b>26,264</b>
Letters of credit/Guarantees	14	7	-	21
Financing commitments/Unutilized limits	12	177	-	189
<b>Total Impairment</b>	<b>2,659</b>	<b>15,847</b>	<b>7,968</b>	<b>26,474</b>
<b><u>Net Exposure</u></b>				
Due from banks	42,499	533	-	43,032
Islamic Financing	845,939	312,959	6,950	1,165,848
Investments	121,750	940	-	122,690
<b>Total Funded Net Exposure</b>	<b>1,010,188</b>	<b>314,432</b>	<b>6,950</b>	<b>1,331,570</b>
Letters of credit/Guarantees	23,720	7,538	-	31,258
Financing commitments/Unutilized limits	4,417	61,005	-	65,422
<b>Total Net Exposure</b>	<b>1,038,325</b>	<b>382,975</b>	<b>6,950</b>	<b>1,428,250</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

31 December 2018 <u>Gross Exposure</u>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Central Bank Balances	103,950	-	-	103,950
Due from banks	20,272	567	-	20,839
Islamic Financing	855,738	265,256	10,815	1,131,809
Investments	62,255	871	-	63,126
Total Funded Gross Exposure	1,042,215	266,694	10,815	1,319,724
Letters of credit/Guarantees	28,877	31,083	1,032	60,992
Financing commitments/Unutilized limits	2,908	47,465	-	50,373
Total Gross Exposure	1,074,000	345,242	11,847	1,431,089
<u>Impairment</u>				
Central Bank Balances	-	-	-	-
Due from banks	5	2	-	7
Islamic Financing	2,197	14,275	4,907	21,379
Investments	68	-	-	68
Total Funded Impairment	2,270	14,277	4,907	21,454
Letters of credit/Guarantees	8	42	45	95
Financing commitments/Unutilized limits	8	210	-	218
Total Impairment	2,286	14,529	4,952	21,767
<u>Net Exposure</u>				
Central Bank Balances	103,950	-	-	103,950
Due from banks	20,267	565	-	20,832
Islamic Financing	853,541	250,981	5,908	1,110,430
Investments	62,187	871	-	63,058
Total Funded Net Exposure	1,039,945	252,417	5,908	1,298,270
Letters of credit/Guarantees	28,869	31,041	987	60,897
Financing commitments/Unutilized limits	2,900	47,255	-	50,155
Total Net Exposure	1,071,714	330,713	6,895	1,409,322

Stage 1: 73% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination (2018- 75%).

Stage 2: 26% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9 (2018- 24%).

Stage 3: 1% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets (2018- 1%).

**Amounts arising from ECL**

The gross exposure of the financial assets as at 31 December 2019 along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

<b>31 December 19</b>	<b>Stage 1 RO'000</b>	<b>Stage 2 RO'000</b>	<b>Stage 3 RO'000</b>	<b>Total RO'000</b>
<i>Due from banks</i>				
High grade	42,886	173	-	43,059
	42,886	173	-	43,059

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

(d) *Credit risk (continued)*

	Stage1 RO'000	Stage2 RO'000	Stage3 RO'000	Total RO'000
<i>Due from banks</i>				-
<b>Opening Balance</b>	<b>20,839</b>	-	-	<b>20,839</b>
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(114)	114	-	-
- Transfer to Stage 3	-	-	-	-
	(114)	114	-	-
Re-measurement of outstanding	3,669	59	-	3,728
Financial assets originated during the year	36,385	-	-	36,385
Financial assets matured during the year	(17,893)	-	-	(17,893)
	22,161	59	-	22,220
<b>Closing Balance</b>	<b>42,886</b>	<b>173</b>	-	<b>40,059</b>

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<i>31 December 18</i>				
<i>Due from Banks</i>				
High grade	20,725	-	-	20,725
standard grade	114	-	-	114
	20,839	-	-	20,839
<i>Due from Banks</i>				-
Opening balance	27,085	-	-	27,085
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
	-	-	-	-
Re-measurement of outstanding	1,554	-	-	1,554
Financial assets originated during the year	14,733	567	-	15,300
Financial assets matured during the year	(23,100)	-	-	(23,100)
	(6,813)	567	-	(6,246)
<b>Closing Balance</b>	<b>20,272</b>	<b>567</b>	-	<b>20,839</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

	Stage 1	Stage 2	Stage 3	Total
<i>31 December 19</i>	RO'000	RO'000	RO'000	RO'000
<b>Total Islamic financing</b>				
High grade	380,799	34,968	-	415,767
standard grade	324,200	150,678	-	474,878
Satisfactory grade	143,432	142,937	-	286,369
<b>Performing</b>	<b>848,431</b>	<b>328,583</b>	<b>-</b>	<b>1,177,014</b>
Sub standard	-	-	5,810	5,810
Doubtful	-	-	5,369	5,369
Loss	-	-	3,739	3,739
<b>Non-Performing</b>	<b>-</b>	<b>-</b>	<b>14,918</b>	<b>14,918</b>
	<b>848,431</b>	<b>328,583</b>	<b>14,918</b>	<b>1,191,932</b>
<b>Total Islamic financing</b>				-
<b>Opening balance</b>	<b>855,738</b>	<b>265,256</b>	<b>10,815</b>	<b>1,131,809</b>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	5,292	(4,846)	(446)	-
- Transfer to Stage 2	(165,873)	167,105	(1,231)	-
- Transfer to Stage 3	(8,416)	(1,110)	9,526	-
	(168,997)	161,149	7,849	-
Re-measurement of outstanding	(38,022)	(28,385)	(1,065)	(67,472)
Financial assets originated during the year	341,299	-	-	341,299
Financial assets matured during the year	(141,587)	(69,437)	(2,681)	(213,705)
	<b>161,690</b>	<b>(97,822)</b>	<b>(3,746)</b>	<b>60,122</b>
<b>Closing Balance</b>	<b>848,431</b>	<b>328,583</b>	<b>14,918</b>	<b>1,191,932</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

	Stage 1	Stage 2	Stage 3	Total
<i>31 December 18</i>	RO'000	RO'000	RO'000	RO'000
Total Islamic financing				
High grade	406,692	39,399	-	446,091
standard grade	243,299	142,747	-	386,046
Satisfactory grade	205,747	83,110	-	288,857
Performing	855,738	265,256	-	1,120,994
Sub standard	-	-	6,781	6,781
Doubtful	-	-	1,805	1,805
Loss	-	-	2,229	2,229
Non-Performing	-	-	10,815	10,815
	855,738	265,256	10,815	1,131,809
Total Islamic financing				-
Opening balance	836,126	145,810	6,057	987,993
<u>Transfers between stages:</u>				
- Transfer to Stage 1	7,471	(6,827)	(644)	-
- Transfer to Stage 2	(47,629)	48,604	(975)	-
- Transfer to Stage 3	(2,877)	(3,904)	6,781	-
	(43,035)	37,873	5,162	-
Re-measurement of outstanding	(35,456)	6,220	(979)	(30,215)
Financial assets originated during the year	162,375	87,137	1,496	251,008
Financial assets matured during the year	(64,272)	(11,784)	(921)	(76,977)
	62,647	81,573	(404)	143,816
Closing Balance	855,738	265,256	10,815	1,131,809

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

	Stage1	Stage2	Stage3	Total
<i>31 December 19</i>	RO'000	RO'000	RO'000	RO'000
<b>Retail financing</b>				
High grade	288,229	24	-	288,253
standard grade	203,576	238	-	203,814
Satisfactory grade	36,773	1,794	-	38,567
<b>Performing</b>	<u>528,578</u>	<u>2,056</u>	<u>-</u>	<u>530,634</u>
Sub standard	-	-	530	530
Doubtful	-	-	918	918
Loss	-	-	2,411	2,411
<b>Non-Performing</b>	<u>-</u>	<u>-</u>	<u>3,859</u>	<u>3,859</u>
	<u>528,578</u>	<u>2,056</u>	<u>3,859</u>	<u>534,493</u>
	Stage1	Stage2	Stage3	Total
<b>Retail financing</b>	RO'000	RO'000	RO'000	RO'000
<b>Opening balance</b>	522,633	2,769	3,001	528,403
<b>Transfers between stages:</b>				
- Transfer to Stage 1	1,465	(1,193)	(272)	-
- Transfer to Stage 2	(1,456)	1,455	-	-
- Transfer to Stage 3	(1,195)	(617)	1,812	-
	<u>(1,186)</u>	<u>(355)</u>	<u>1,540</u>	<u>-</u>
Re-measurement of outstanding	(26,700)	(102)	(378)	(27,180)
Financial assets originated during the year	60,271	-	-	60,271
Financial assets matured during the year	(26,440)	(257)	(304)	(27,001)
	<u>7,131</u>	<u>(359)</u>	<u>(682)</u>	<u>6,090</u>
<b>Closing Balance</b>	<u>528,578</u>	<u>2,056</u>	<u>3,859</u>	<u>534,493</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

<i>31 December 18</i>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Retail financing				
High grade	316,885	25	-	316,910
standard grade	174,593	565	-	175,158
Satisfactory grade	31,155	2,179	-	33,334
Performing	522,633	2,769	-	525,402
Sub standard	-	-	503	503
Doubtful	-	-	1,222	1,222
Loss	-	-	1,276	1,276
Non-Performing	-	-	3,001	3,001
	522,633	2,769	3,001	528,403
Retail financing				
Opening balance	497,558	2,192	1,425	501,175
<u>Transfers between stages:</u>				
- Transfer to Stage 1	1,147	(943)	(204)	-
- Transfer to Stage 2	(1,938)	2,242	(304)	-
- Transfer to Stage 3	(765)	(544)	1,309	-
	(1,556)	755	801	-
Re-measurement of outstanding	(18,575)	(314)	(62)	(18,951)
Financial assets originated during the year	72,710	222	932	73,864
Financial assets matured during the year	(27,504)	(86)	(95)	(27,685)
	26,631	(178)	775	27,228
Closing Balance	522,633	2,769	3,001	528,403

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

	Stage 1	Stage 2	Stage 3	Total
<i>31 December 19</i>	RO'000	RO'000	RO'000	RO'000
<i>Corporate financing</i>				
High grade	92,570	34,944	-	127,514
standard grade	120,624	150,440	-	271,064
Satisfactory grade	106,659	141,143	-	247,802
<b>Performing</b>	<b>319,853</b>	<b>326,527</b>	<b>-</b>	<b>646,380</b>
Sub standard	-	-	5,280	5,280
Doubtful	-	-	4,451	4,451
Loss	-	-	1,328	1,328
<b>Non-Performing</b>	<b>-</b>	<b>-</b>	<b>11,059</b>	<b>11,059</b>
	<b>319,853</b>	<b>326,527</b>	<b>11,059</b>	<b>657,439</b>

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
<i>Corporate financing</i>				
<b>Opening balance</b>	<b>333,105</b>	<b>262,487</b>	<b>7,814</b>	<b>603,406</b>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	3,827	(3,653)	(174)	-
- Transfer to Stage 2	(164,417)	165,649	(1,232)	-
- Transfer to Stage 3	(7,221)	(493)	7,714	-
	(167,811)	161,503	6,308	-
Re-measurement of outstanding	(11,322)	(28,283)	(686)	(40,291)
Financial assets originated during the year	281,028	-	-	281,028
Financial assets matured during the year	(115,147)	(69,180)	(2,377)	(186,704)
	154,559	(97,463)	(3,063)	54,033
<b>Closing Balance</b>	<b>319,853</b>	<b>326,527</b>	<b>11,059</b>	<b>657,439</b>

	Stage 1	Stage 2	Stage 3	Total
<i>31 December 18</i>	RO'000	RO'000	RO'000	RO'000
<i>Corporate financing</i>				
High grade	89,807	39,374	-	129,181
standard grade	68,706	142,182	-	210,888
Satisfactory grade	174,592	80,931	-	255,523
<b>Performing</b>	<b>333,105</b>	<b>262,487</b>	<b>-</b>	<b>595,592</b>
Sub standard	-	-	6,278	6,278
Doubtful	-	-	583	583
Loss	-	-	953	953
<b>Non-Performing</b>	<b>-</b>	<b>-</b>	<b>7,814</b>	<b>7,814</b>
	<b>333,105</b>	<b>262,487</b>	<b>7,814</b>	<b>603,406</b>
<i>Corporate financing</i>				
<b>Opening balance</b>	<b>338,568</b>	<b>143,618</b>	<b>4,632</b>	<b>486,818</b>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	6,324	(5,884)	(440)	-
- Transfer to Stage 2	(45,691)	46,362	(671)	-
- Transfer to Stage 3	(2,112)	(3,360)	5,472	-
	(41,479)	37,118	4,361	-
Re-measurement of outstanding	(16,881)	6,534	(917)	(11,264)
Financial assets originated during the year	89,665	86,915	564	177,144
Financial assets matured during the year	(36,768)	(11,698)	(826)	(49,292)
	36,016	81,751	(1,179)	116,588
<b>Closing Balance</b>	<b>333,105</b>	<b>262,487</b>	<b>7,814</b>	<b>603,406</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

<i>31 December 19</i>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<i>Investments</i>				
High grade	-	978	-	978
standard grade	56,920	-	-	56,920
Satisfactory grade	64,945	-	-	64,945
<b>Performing</b>	<b>121,865</b>	<b>978</b>	<b>-</b>	<b>122,843</b>
	<b>121,865</b>	<b>978</b>	<b>-</b>	<b>122,843</b>

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<i>Investments</i>				
<b>Opening balance</b>	<b>62,255</b>	<b>871</b>	<b>-</b>	<b>63,126</b>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	56	107	-	163
Financial assets originated during the year	59,554	-	-	59,554
Financial assets matured during the year	-	-	-	-
	<b>59,610</b>	<b>107</b>	<b>-</b>	<b>59,717</b>
<b>Closing Balance</b>	<b>121,865</b>	<b>978</b>	<b>-</b>	<b>122,843</b>

<i>31 December 18</i>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<i>Investments</i>				
High grade	49,995	871	-	50,866
standard grade	1,925	-	-	1,925
Satisfactory grade	10,335	-	-	10,335
	<b>62,255</b>	<b>871</b>	<b>-</b>	<b>63,126</b>
<i>Investments</i>				
<b>Opening balance</b>	<b>57,308</b>	<b>964</b>	<b>-</b>	<b>58,272</b>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(46)	(93)	-	(139)
Financial assets originated during the year	10,000	-	-	10,000
Financial assets matured during the year	(5,007)	-	-	(5,007)
	<b>4,947</b>	<b>(93)</b>	<b>-</b>	<b>4,854</b>
<b>Closing Balance</b>	<b>62,255</b>	<b>871</b>	<b>-</b>	<b>63,126</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

<i>31 December 19</i>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<b>Letters of credit/Guarantees</b>				
High grade	7,911	5,538	-	13,449
standard grade	15,821	1,864	-	17,685
Satisfactory grade	2	143	-	145
	<u>23,734</u>	<u>7,545</u>	<u>-</u>	<u>31,279</u>
	<u>Stage 1</u> <u>RO'000</u>	<u>Stage 2</u> <u>RO'000</u>	<u>Stage 3</u> <u>RO'000</u>	<u>Total</u> <u>RO'000</u>
<b>Letters of credit/Guarantees</b>				
Opening balance	29,971	30,809	212	60,992
<b>Transfers between stages:</b>				
- Transfer to Stage 1	2,197	(2,197)	-	-
- Transfer to Stage 2	(10,128)	10,145	(17)	-
- Transfer to Stage 3	-	-	-	-
	<u>(7,931)</u>	<u>7,948</u>	<u>(17)</u>	<u>-</u>
Re-measurement of outstanding	(8,467)	(15,337)	(39)	(23,843)
Financial assets originated during the year	15,839	-	-	15,839
Financial assets matured during the year	<u>(5,678)</u>	<u>(15,875)</u>	<u>(156)</u>	<u>(21,709)</u>
	<u>1,694</u>	<u>(31,212)</u>	<u>(195)</u>	<u>(29,713)</u>
<b>Closing Balance</b>	<u>23,734</u>	<u>7,545</u>	<u>-</u>	<u>31,279</u>

<i>31 December 18</i>	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<b>Letters of credit/Guarantees</b>				
High grade	9,987	20,890	-	30,877
standard grade	19,978	9,812	-	29,790
Satisfactory grade	6	107	-	113
	<u>29,971</u>	<u>30,809</u>	<u>-</u>	<u>60,780</u>
Sub standard	-	-	-	-
Doubtful	-	-	173	173
Loss	-	-	39	39
<b>Non-Performing</b>	<u>-</u>	<u>-</u>	<u>212</u>	<u>212</u>
	<u>29,971</u>	<u>30,809</u>	<u>212</u>	<u>60,992</u>
<b>Transfers between stages:</b>				
- Transfer to Stage 1	14	(14)	-	-
- Transfer to Stage 2	(5,406)	5,406	-	-
- Transfer to Stage 3	(118)	(11)	129	-
	<u>(5,510)</u>	<u>5,381</u>	<u>129</u>	<u>-</u>
Re-measurement of outstanding	(198)	(5,038)	(23)	(5,259)
Financial assets originated during the year	29,067	25,014	106	54,187
Financial assets matured during the year	<u>(10,427)</u>	<u>(1,442)</u>	<u>(188)</u>	<u>(12,057)</u>
	<u>18,442</u>	<u>18,534</u>	<u>(105)</u>	<u>36,871</u>
<b>Closing Balance</b>	<u>29,971</u>	<u>30,809</u>	<u>212</u>	<u>60,992</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<b>31 December 19</b>				
<b>Financing commitments/Unutilized limits</b>				
High grade	1,072	46,940	-	48,012
standard grade	3,357	10,158	-	13,515
Satisfactory grade	-	4,084	-	4,084
	<u>4,429</u>	<u>61,182</u>	<u>-</u>	<u>65,611</u>
<b>Financing commitments/Unutilized limits</b>				
<b>Opening balance</b>	2,908	47,465	-	50,373
<b>Transfers between stages:</b>				
- Transfer to Stage 1	3,023	(3,023)	-	-
- Transfer to Stage 2	(1,734)	1,734	-	-
- Transfer to Stage 3	-	(13)	13	-
	<u>1,289</u>	<u>(1,302)</u>	<u>13</u>	<u>-</u>
Re-measurement of outstanding	189	15,019	(13)	15,195
Financial assets originated during the year	43	-	-	43
Financial assets matured during the year	-	-	-	-
	<u>232</u>	<u>15,019</u>	<u>(13)</u>	<u>15,238</u>
<b>Closing Balance</b>	<u>4,429</u>	<u>61,182</u>	<u>-</u>	<u>65,611</u>

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<b>31 December 18</b>				
<b>Financing commitments/Unutilized limits</b>				
High grade	105	16,438	-	16,543
standard grade	2,803	27,731	-	30,534
Satisfactory grade	-	3,296	-	3,296
	<u>2,908</u>	<u>47,465</u>	<u>-</u>	<u>50,373</u>
<b>Financing commitments/Unutilized limits</b>				
<b>Opening balance</b>	17,078	18,914	-	35,992
<b>Transfers between stages:</b>				
- Transfer to Stage 1	820	(820)	-	-
- Transfer to Stage 2	(15,447)	15,447	-	-
- Transfer to Stage 3	-	(30)	30	-
	<u>(14,627)</u>	<u>14,597</u>	<u>30</u>	<u>-</u>
Re-measurement of outstanding	246	13,094	(30)	13,310
Financial assets originated during the year	906	862	-	1,768
Financial assets matured during the year	(695)	(2)	-	(697)
	<u>457</u>	<u>13,954</u>	<u>(30)</u>	<u>14,381</u>
<b>Closing Balance</b>	<u>2,908</u>	<u>47,465</u>	<u>-</u>	<u>50,373</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

**Loss Allowance**

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for Total Islamic Financing

	2019			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance (as per IFRS 9)	2,197	14,275	4,907	21,379
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	55	(55)	-	-
- Transfer to Stage 2	(6,145)	6,145	-	-
- Transfer to Stage 3	(9)	(31)	40	-
	<u>(6,099)</u>	<u>6,059</u>	<u>40</u>	<u>-</u>
<b><u>Impairment charged to income statement for:</u></b>				
-Re-measurement of impairment allowances	187	(3,677)	5,931	2,441
- Financial assets originated during the period	6,633	-	-	6,633
- Financial assets matured during the period	(426)	(1,076)	-	(1,502)
	<u>6,394</u>	<u>(4,753)</u>	<u>5,933</u>	<u>7,572</u>
Recoveries from impairment for credit losses	-	-	(3,082)	(3,082)
Profit reserve charged to profit income	-	43	172	215
<b>Closing Balance</b>	<b><u>2,492</u></b>	<b><u>15,624</u></b>	<b><u>7,968</u></b>	<b><u>26,084</u></b>

	2018			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance (as per IFRS 9)	2,012	12,790	2,510	17,312
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	5,666	(5,666)	-	-
- Transfer to Stage 2	(636)	636	-	-
- Transfer to Stage 3	(1)	(395)	396	-
	<u>5,029</u>	<u>(5,425)</u>	<u>396</u>	<u>-</u>
<b><u>Impairment charged to income statement for:</u></b>				
- Re-measurement of impairment allowances	(5,253)	4,722	5,136	4,605
- Financial assets originated during the period	495	2,210	-	2,705
- Financial assets matured during the period	(86)	(42)	-	(128)
	<u>(4,844)</u>	<u>6,890</u>	<u>5,136</u>	<u>7,182</u>
Recoveries from impairment for credit losses	-	-	(3,325)	(3,325)
Profit reserve charged to profit income	-	20	190	210
<b>Closing Balance</b>	<b><u>2,197</u></b>	<b><u>14,275</u></b>	<b><u>4,907</u></b>	<b><u>21,379</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for Corporate Islamic Financing:

	2019			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
<b><u>Transfers between stages:</u></b>				
Opening Balance	1,341	14,182	2,866	18,389
- Transfer to Stage 1	38	(38)	-	-
- Transfer to Stage 2	(6,126)	6,126	-	-
- Transfer to Stage 3	(4)	(11)	15	-
	(6,092)	6,077	15	-
<b><u>Impairment charged to income statement for:</u></b>				
- Re-measurement of impairment allowances	180	(3,727)	4,356	809
- Financial assets originated during the period	6,426	-	-	6,426
- Financial assets matured during the period	(366)	(1,029)	-	(1,395)
	6,240	(4,756)	4,356	5,840
Recoveries from impairment for credit losses	-	-	(2,423)	(2,423)
Profit reserve charged to profit income	-	43	137	178
Closing Balance	1,489	15,546	4,951	21,986

	2018			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance (as per IFRS 9)	1,221	12,714	1,374	15,309
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	90	(90)	-	-
- Transfer to Stage 2	(134)	134	-	-
- Transfer to Stage 3	(6)	(65)	71	-
	(50)	(21)	71	-
<b><u>Impairment charged to income statement for:</u></b>				
Re-measurement of impairment allowances	(71)	(584)	4,040	3,385
Financial assets originated during the period	313	2,198	-	2,511
Financial assets matured during the period	(72)	(145)	-	(217)
	170	1,469	4,040	5,679
Recoveries from impairment for credit losses	-	-	(2,707)	(2,707)
Profit reserve charged to profit income	-	20	88	108
Closing Balance	1,341	14,182	2,866	18,389

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

The following tables shows reconciliations from the opening to the closing balance of the loss allowance for retail Islamic Financing:

	2019			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance (as per IFRS 9)	856	93	2,041	2,990
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	17	(17)	-	-
- Transfer to Stage 2	(19)	19	-	-
- Transfer to Stage 3	(5)	(20)	25	-
	(7)	(18)	25	-
<b><u>Impairment charged to income statement for:</u></b>				
Re-measurement of impairment allowances	7	50	1,575	1,632
Financial assets originated during the period	207	-	-	207
Financial assets matured during the period	(60)	(47)	-	(107)
	154	3	1,575	1,732
Recoveries from impairment for credit losses	-	-	(659)	(659)
Profit reserve charged to profit income	-	-	35	35
<b>Closing Balance</b>	<b>1,003</b>	<b>78</b>	<b>3,017</b>	<b>4,098</b>

	2018			
	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Opening balance (as per IFRS 9)	791	76	1,136	2,003
<b><u>Transfers between stages:</u></b>				
- Transfer to Stage 1	27	(27)	-	-
- Transfer to Stage 2	(8)	8	-	-
- Transfer to Stage 3	(5)	(26)	31	-
	14	(45)	31	-
<b><u>Impairment charged to income statement for:</u></b>				
Re-measurement of impairment allowances	(62)	68	1,390	1,396
Financial assets originated during the period	171	3	-	174
Financial assets matured during the period	(58)	(9)	-	(67)
	51	62	1,390	1,503
Recoveries from impairment for credit losses	-	-	(618)	(618)
Profit reserve charged to profit income	-	-	102	102
<b>Closing Balance</b>	<b>856</b>	<b>93</b>	<b>2,041</b>	<b>2,990</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

*Amounts arising from ECL (continued)*

31 December 19

Asset classification as per CBO Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and Provision held	Net carrying amount	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8	9
<b>Standard</b>	Stage 1	848,430	12,133	2,491	(9,642)	845,939	-	-
	Stage 2	165,308	3,306	7,459	4,153	157,849	-	-
	Stage 3	-	-	-	-	-	-	-
<b>Sub Total</b>		<b>1,013,738</b>	<b>15,439</b>	<b>9,950</b>	<b>(5,489)</b>	<b>1,003,788</b>	<b>-</b>	<b>-</b>
<b>Special Mention</b>	Stage 1	-	-	-	-	-	-	-
	Stage 2	163,275	1,637	8,166	6,529	155,109	-	-
	Stage 3	-	-	-	-	-	-	-
<b>Sub Total</b>		<b>163,275</b>	<b>1,637</b>	<b>8,166</b>	<b>6,529</b>	<b>155,109</b>	<b>-</b>	<b>-</b>
<b>Substandard</b>	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	5,810	1,477	1,477	-	4,333	37	37
<b>Sub Total</b>		<b>5,810</b>	<b>1,477</b>	<b>1,477</b>	<b>-</b>	<b>4,333</b>	<b>37</b>	<b>37</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(c) Credit risk (continued)*

*Amounts arising from ECL (continued)*

**31 December 19**

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 (7)=(3)-(5)	Profit recognized as per IFRS 9 8	Reserve profit as per CBO norms 9
	Stage 1	-	-	-	-	-	-	-
<b>Doubtful</b>	Stage 2	-	-	-	-	-	-	-
	Stage 3	5,369	2,759	2,759	-	2,610	149	149
<b>Sub Total</b>		<b>5,369</b>	<b>2,759</b>	<b>2,759</b>	<b>-</b>	<b>2,610</b>	<b>149</b>	<b>149</b>
	Stage 1	-	-	-	-	-	-	-
<b>Loss</b>	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,740	3,732	3,732	-	8	299	299
<b>Sub Total</b>		<b>3,740</b>	<b>3,732</b>	<b>3,732</b>	<b>-</b>	<b>8</b>	<b>299</b>	<b>299</b>
	Stage 1	192,553	-	167	167	192,386	-	-
<b>Other items not covered under CBO circular BM 977 and related instructions</b>	Stage 2	70,239	-	223	223	70,016	-	-
	Stage 3	-	-	-	-	-	-	-
<b>Sub Total</b>		<b>262,792</b>	<b>-</b>	<b>390</b>	<b>390</b>	<b>262,402</b>	<b>-</b>	<b>-</b>
	Stage 1	1,040,983	12,133	2,658	(9,475)	1,038,325	-	-
<b>Total</b>	Stage 2	398,822	4,943	15,848	10,905	382,974	-	-
	Stage 3	14,919	7,968	7,968	-	6,951	485	485
		<b>1,454,724</b>	<b>25,045</b>	<b>26,474</b>	<b>1,429</b>	<b>1,428,250</b>	<b>485</b>	<b>485</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

(c) Credit risk (continued)

*Amounts arising from ECL (continued)*

Comparison of provision held as per IFRS 9 and required as per CBO norms - as at 31 December 2018

Asset classification as per CBO Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and Provision held	Net carrying amount	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8	9
Standard	Stage 1	855,738	12,812	2,197	(10,615)	853,541	-	-
	Stage 2	173,562	2,680	10,336	7,656	163,226	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		1,029,300	15,492	12,533	(2,959)	1,016,767	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	91,694	927	3,939	3,012	87,755	-	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		91,694	927	3,939	3,012	87,755	-	-
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	6,782	1,763	1,763	-	5,019	86	86
Sub Total		6,782	1,763	1,763	-	5,019	86	86
doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	1,803	914	914	-	889	79	79
Sub Total		1,803	914	914	-	889	79	79
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,230	2,230	2,230	-	-	161	161
Sub Total		2,230	2,230	2,230	-	-	161	161
Other items not covered under BM 977	Stage 1	219,080	-	89	89	218,991	-	-
	Stage 2	79,987	-	254	254	79,733	-	-
	Stage 3	213	-	45	45	168	-	-
Sub Total		299,280	-	388	388	298,892	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

(c) *Credit risk (continued)*

*Amounts arising from ECL (continued)*

Comparison of provision held as per IFRS 9 and required as per CBO norms - as at 31 December 2018

Asset classification as per CBO Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and Provision held	Net carrying amount	Profit recognized as per IFRS 9	Reserve profit as per CBO norms
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8	9
Total	Stage 1	1,074,818	12,812	2,286	(10,526)	1,072,532	-	-
	Stage 2	345,243	3,607	14,529	10,922	330,714	-	-
	Stage 3	11,028	4,907	4,952	45	6,076	326	326
		1,431,089	21,326	21,767	441	1,409,322	326	326

	As per CBO norms		AS per IFRS 9		Difference	
	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000
Impairment loss charged to profit and loss account	4,492	4,044	4,492	4,044	-	-
Provisions required as per CBO norms/held as per IFRS 9	25,045	21,326	26,474	21,767	1,429	441
Gross NPL ratio	1.25%	0.96%	1.25%	0.96%	-	-
Net NPL ratio	0.58%	0.52%	0.58%	0.52%	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

(c) Credit risk (continued)

**Amounts arising from ECL (continued)**

Concentration of Credit Risk

The table below analyses the concentration of financial assets by various sectors

	Due from banks		Islamic Financing		Debt type securities		Financing commitments & Guarantees issued	
	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000
Gross amount/ Commitments & Guarantees	<b>43,059</b>	20,832	<b>1,191,932</b>	1,131,809	<b>122,843</b>	63,126	<b>96,890</b>	111,365
<b>Concentration by sector</b>								
<b>Corporate:</b>								
Services	-	-	<b>131,010</b>	138,732	-	-	<b>7,078</b>	-
Mining and quarrying	-	-	<b>22,923</b>	21,285	-	-	-	-
Manufacture	-	-	<b>159,158</b>	81,186	-	-	<b>46,541</b>	60,925
Wholesale and retail trade	-	-	<b>20,116</b>	20,981	-	-	<b>1,510</b>	20,061
Import trade	-	-	<b>252</b>	293	-	-	<b>933</b>	28
Utilities	-	-	-	-	-	-	<b>48</b>	-
Transport & Communication	-	-	<b>146,120</b>	195,652	-	-	-	400
Construction & related activities	-	-	<b>177,860</b>	145,275	-	-	<b>30,709</b>	3,615
Agriculture and allied activities	-	-	-	-	-	-	-	-
Others	-	-	-	-	<b>12,465</b>	12,260	<b>10,071</b>	22,751
<b>Sovereign:</b>								
Government	-	-	-	-	<b>110,378</b>	50,866	-	3,585
Financial institutions	<b>43,059</b>	20,832	-	-	-	-	-	-
<b>Retail:</b>								
Personal and housing finance	-	-	<b>534,493</b>	528,405	-	-	-	-
<b>Gross amount</b>	<b>43,059</b>	20,832	<b>1,191,932</b>	1,131,809	<b>122,843</b>	63,126	<b>96,890</b>	111,365
<b>Expected credit losses(ECL)</b>	<b>(27)</b>	(7)	<b>(26,084)</b>	(21,379)	<b>(153)</b>	(68)	<b>(210)</b>	(313)
<b>Net carrying amount</b>	<b>43,032</b>	20,825	<b>1,165,848</b>	1,110,430	<b>122,690</b>	63,058	<b>96,680</b>	111,052



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**23 Risk management (continued)**

*(d) Operational risk*

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events that will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Grouping Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

As the management of all other risks, operational risk for Meethaq is managed centrally at the Head office level. The detailed operational risk management approach is disclosed in the consolidated financial statements of Bank.

**24 Capital management**

Central Bank of Oman (CBO), sets and monitors capital requirements for the Bank as whole as well as individually for Meethaq being a window operation. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Meethaq. The regulatory capital of Meethaq is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office;
- Tier II capital, which includes stage 1 and 60% of stage 2 provision as calculated under IFRS 9 subject to ceiling of 1.25% of credit risk weighted assets and also not exceeding the amount of Tier II capital as of 31 Dec 2017

The following table sets out the capital adequacy position of Meethaq:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
301,747	330,008	<b>Tier I Capital</b>	127,053	116,173
21,660	21,607	<b>Tier II Capital</b>	8,319	8,339
323,407	351,615	<b>Total regulatory capital</b>	135,372	124,512
		<b>Risk weighted assets (RWA)</b>		
2,109,578	2,286,208	Credit risk	880,190	812,187
70,310	30,165	Market risk	11,613	27,069
134,110	137,838	Operational Risk	53,068	51,633
2,313,998	2,454,211	<b>Total RWA</b>	944,871	890,889
		<b>Capital ratios</b>		
13.98%	14.33%	<b>Total capital as a % of total RWA</b>	14.33%	13.98%
13.04%	13.45%	<b>Total tier I capital as a % of total RWA</b>	13.45%	13.04%

**25 Fair value of assets and liabilities**

Following is an overview of carrying value of financial assets and liabilities held by Meethaq as of reporting date which, in the opinion of the management, are not materially different from the fair value:

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**25 Fair value of assets and liabilities (continued)**

**31 December 2019**

Carrying amount US\$'000	Fair value US\$'000		Carrying amount RO'000	Fair value RO'000
		<b>Assets:</b>		
111,771	111,771	Due from banks	43,032	43,032
194,514	194,514	Murabaha and other receivables	74,888	74,888
2,357,491	2,357,491	Musharaka	907,634	907,634
262,387	262,387	Ijarah Muntahia Bittamleek	101,019	101,019
213,784	213,784	Wakala Bil Istithmar	82,307	82,307
341,210	341,210	Investments	131,366	131,366
19,993	19,993	Other assets	7,697	7,697
<u>3,501,150</u>	<u>3,501,150</u>	<b>Total</b>	<u>1,347,943</u>	<u>1,347,943</u>
		<b>Liabilities:</b>		
418,571	418,571	Due to banks	161,150	161,150
350,699	350,699	Current accounts	135,019	135,019
34,225	34,226	Other liabilities	13,177	13,177
234,299	234,299	Sukuk	90,205	90,205
2,337,353	2,337,353	Equity of Investment Account Holders	899,881	899,881
<u>3,375,147</u>	<u>3,375,148</u>	<b>Total</b>	<u>1,299,432</u>	<u>1,299,432</u>

**31 December 2018**

Carrying amount US\$'000	Fair value US\$'000		Carrying amount RO'000	Fair value RO'000
		<b>Assets:</b>		
54,109	54,109	Due from banks	20,832	20,832
141,824	141,824	Murabaha and other receivables	54,602	54,602
2,233,128	2,233,128	Musharaka	859,754	859,754
293,336	293,336	Ijarah Muntahia Bittamleek	112,934	112,934
215,948	215,948	Wakala Bil Istithmar	83,140	83,140
187,919	187,919	Investments	72,349	72,349
17,831	17,831	Other assets	6,865	6,865
<u>3,144,095</u>	<u>3,144,095</u>	<b>Total</b>	<u>1,210,476</u>	<u>1,210,476</u>
		<b>Liabilities:</b>		
510,000	510,000	Due to banks under Wakala	196,350	196,350
455,696	455,696	Current accounts	175,443	175,443
110,626	110,626	Other liabilities	42,591	42,591
115,865	115,865	Sukuk	44,608	44,608
2,039,056	2,039,055	Equity of Investment Account Holders	785,036	785,036
<u>3,231,243</u>	<u>3,231,242</u>	<b>Total</b>	<u>1,244,028</u>	<u>1,244,028</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**25 Fair value of assets and liabilities (continued)**

**Fair value hierarchy**

Fair values of quoted securities/sukuks are derived from quoted market prices in active markets, if available. For unquoted securities/sukuks, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Meethaq uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2019:

**31 December 2019**

	<b>Level 1 RO'000</b>	<b>Level 3 RO'000</b>	<b>Total RO'000</b>
<b>Investments carried at fair value through equity</b>			
Quoted securities	<b>7,614</b>	-	<b>7,614</b>
Unquoted securities	-	<b>1,672</b>	<b>1,672</b>
<b>Investments carried at fair value through P&amp;L</b>			
Quoted securities	-	<b>259</b>	<b>259</b>
Unquoted securities	-	<b>539</b>	<b>539</b>
	<b>7,614</b>	<b>2,470</b>	<b>10,084</b>

**31 December 2018**

	<b>Level 1 RO'000</b>	<b>Level 3 RO'000</b>	<b>Total RO'000</b>
<b>Investments carried at fair value through equity</b>			
Quoted securities	<b>8,316</b>	-	<b>8,316</b>
Unquoted securities	-	<b>1,672</b>	<b>1,672</b>
<b>Investments carried at fair value through P&amp;L</b>			
quoted securities	-	<b>507</b>	<b>507</b>
	<b>8,316</b>	<b>2,179</b>	<b>10,495</b>

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

Level 3 equity securities are valued on the basis of fair valuation provided by investment managers.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)**

**27 Fiduciary activities**

These activities consist of investment management activities conducted under Wakalah agreements (Non-Discretionary) with the customers. The aggregate amounts of funds managed are as follows:

2018 US\$'000	2019 US\$'000		2019 RO'000	2018 RO'000
37,205	<b>53,200</b>	Funds under management	<b>20,482</b>	14,324

**28 Comparative figures**

Certain corresponding figures for 2018 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and do not affect previously reported net income or owners' equity.

Independent auditor's report – page 1.